

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, 2021

OR

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

For the transition period from to

Commission File No. 001-31332

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

20321 Valencia Circle
Lake Forest, CA 92630
(Address of principal executive offices, zip code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

Securities registered pursuant to Section 12(b) of the Exchange Act: None

The number of common shares outstanding as of November 15, 2021 was 914,449,957.

LIQUIDMETAL TECHNOLOGIES, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2021

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, 2020 entitled “Risk Factors,” as well as the following risks and uncertainties:

- 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;
- Challenges associated with having products manufactured from our alloys and the use of third parties for manufacturing;
- 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;
- Potential difficulties associated with protecting or expanding our intellectual property position; and
- Economic and business uncertainties relating to the COVID-19 pandemic.

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.

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PART I
FINANCIAL INFORMATION

Item 1 – Financial Statements

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,233	\$ 1,514
Restricted cash	5	5
Investments in debt securities- short term	11,631	14,720
Trade accounts receivable, net of allowance for doubtful accounts	353	271
Inventory	22	43
Prepaid expenses and other current assets	597	465
Total current assets	\$ 17,841	\$ 17,018
Investments in debt securities- long term	10,398	12,768
Property and equipment, net	8,375	8,614
Patents and trademarks, net	112	158
Other assets	293	251
Total assets	\$ 37,019	\$ 38,809
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 194	\$ 205
Accrued liabilities	917	315
Deferred revenue	41	-
Total current liabilities	\$ 1,152	\$ 520
Long-term liabilities		
Other long-term liabilities	899	899
Total liabilities	\$ 2,051	\$ 1,419
Shareholders' equity:		
Preferred Stock, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	-	-
Common stock, \$0.001 par value; 1,100,000,000 shares authorized; 914,449,957 and 914,449,957 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	914	914
Warrants	18,179	18,179
Additional paid-in capital	287,585	287,183
Accumulated deficit	(271,644)	(268,926)
Accumulated other comprehensive income	11	116
Non-controlling interest in subsidiary	(77)	(76)
Total shareholders' equity	\$ 34,968	\$ 37,390
Total liabilities and shareholders' equity	\$ 37,019	\$ 38,809

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue				
Products	\$ 406	\$ 288	\$ 700	\$ 367
Licensing and royalties	-	39	21	64
Total revenue	\$ 406	\$ 327	\$ 721	\$ 431
Cost of sales				
	319	171	528	242
Gross profit	\$ 87	\$ 156	\$ 193	\$ 189
Operating expenses				
Selling, marketing, general and administrative	1,643	1,096	3,372	2,953
Research and development	14	30	74	86
Gain on disposal of long-lived assets	-	-	-	(35)
Total operating expenses	\$ 1,657	\$ 1,126	\$ 3,446	\$ 3,004
Operating loss	(1,570)	(970)	(3,253)	(2,815)
Other income				
Lease income	132	132	396	352
Interest and investment income	35	61	138	297
Loss before income taxes	\$ (1,403)	\$ (777)	\$ (2,719)	\$ (2,166)
Income taxes				
	-	-	-	-
Net loss	\$ (1,403)	\$ (777)	\$ (2,719)	\$ (2,166)
Net loss attributable to non-controlling interest				
	-	1	1	1
Net loss attributable to Liquidmetal Technologies shareholders	\$ (1,403)	\$ (776)	\$ (2,718)	\$ (2,165)
Per common share basic and diluted:				
Net loss per common share attributable to Liquidmetal Technologies shareholders, basic and diluted				
	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Number of weighted average shares - basic and diluted				
	914,449,957	914,449,957	914,449,957	914,449,957

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

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

	<u>For the Three Months</u> <u>Ended September 30,</u>		<u>For the Nine Months</u> <u>Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net loss	\$ (1,403)	\$ (777)	\$ (2,719)	\$ (2,166)
Other comprehensive loss, net of tax				
Net unrealized gains (losses) on available-for-sale securities	(15)	(48)	(105)	40
Other comprehensive loss income (loss), net of tax	(15)	(48)	(105)	40
Comprehensive loss	<u>\$ (1,418)</u>	<u>\$ (825)</u>	<u>\$ (2,824)</u>	<u>\$ (2,126)</u>
Less: Comprehensive loss attributable to noncontrolling interests	-	1	1	1
Comprehensive loss attributable to Liquidmetal Technologies shareholders	<u>\$ (1,418)</u>	<u>\$ (824)</u>	<u>\$ (2,823)</u>	<u>\$ (2,125)</u>

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)

	For the Nine Months Ended September	
	2021	2020
Operating activities:		
Net loss	\$ (2,719)	\$ (2,166)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	285	303
Realized investment gains	-	(2)
Bad debt expense	-	226
Stock-based compensation	402	256
Gain on disposal of property and equipment	-	(35)
Changes in operating assets and liabilities:		
Trade accounts receivable	(82)	(105)
Inventory	21	(35)
Prepaid expenses and other current assets	(132)	(188)
Other assets and liabilities	(42)	(178)
Accounts payable and accrued liabilities	591	139
Deferred revenue	41	-
Net cash used in operating activities	(1,635)	(1,785)
Investing Activities:		
Purchases of property and equipment	-	(116)
Proceeds from disposal of property and equipment	-	110
Purchases of debt securities	(17,788)	(21,641)
Proceeds from sales of debt securities	23,142	9,327
Net cash provided by (used in) investing activities	5,354	(12,320)
Financing Activities:		
Proceeds from exercise of stock options	-	-
Net cash provided by financing activities	-	-
Net decrease in cash, cash equivalents, and restricted cash	3,719	(14,105)
Cash, cash equivalents, and restricted cash at beginning of period	1,519	19,548
Cash, cash equivalents, and restricted cash at end of period	\$ 5,238	\$ 5,443
Supplemental Schedule of Non-Cash Investing Activities:		
Settlement of contract liability from disposal of property and equipment	-	420

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, 2021 and 2020
(numbers in thousands, except percentages, share and per share data)
(unaudited)

1. Description of Business

Liquidmetal Technologies, Inc. (the “Company”) is a materials technology company that develops and commercializes products made from amorphous alloys. The Company’s family of alloys consists of a variety of bulk alloys and composites that utilize the advantages offered by amorphous alloys technology. The Company designs, develops, and sells products and custom parts 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 believes that the alloys and the molding technologies it employs may result in components, for many applications, 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 often 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 Liquidmetal alloy products to customers who produce medical devices, automotive assemblies, sports and leisure goods, and non-consumer electronic devices, 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, 2021 and September 30, 2020 have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) 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 US GAAP 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, 2021 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2021. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s 2020 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 9, 2021.

Investments in Debt Securities

The Company will invest excess funds to maximize investment yield, while maintaining liquidity and minimizing credit risk. Debt securities are carried at fair value and consist primarily of investments in obligations of the United States Treasury, various U.S. and foreign corporations, and certificates of deposits. The Company classifies its investments in debt securities as available-for-sale with all unrealized gains or losses included as part of other comprehensive income. The Company evaluates its debt securities with unrealized losses on a quarterly basis for potential other-than-temporary impairments in value. As a result of this assessment, the Company did not recognize any other-than-temporary impairment losses considered to be credit related for the three and nine months ended September 30, 2021 and 2020.

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 and restricted cash approximate their carrying value due to their short maturities and are classified as Level 1 instruments within the fair value hierarchy.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2021 and 2020
(numbers in thousands, except percentages, share and per share data)
(unaudited)

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.

As of September 30, 2021, 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:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in debt securities (short-term)	\$ 11,631	\$ 9,458	\$ 2,173	\$ -
Investments in debt securities (long-term)	10,398	200	10,198	-

As of December 31, 2020, 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:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in debt securities (short-term)	\$ 14,720	\$ 8,939	\$ 5,781	\$ -
Investments in debt securities (long-term)	12,768	-	12,768	-

Leases

The Company leases its previous manufacturing facility under a long-term contract, which is accounted for as an operating lease. The lease provides for a fixed base rent and variable payments comprised of reimbursements for property taxes, insurance, utilities, and common area maintenance. The lease has a term of sixty-two months, exclusive of options to renew. In accordance with ASC 842, *Leases*, lease income, which includes escalating rents over the term of the lease, is recorded on a straight-line basis over the expected lease term. The difference between lease income and payments received is recorded as a rent receivable, which is included as a prepaid expense in the consolidated balance sheets. Amounts paid for broker commissions represent prepaid direct lease costs, and will be amortized as an off-set to lease income over the lease term.

Other Recent Pronouncements

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) 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

2019 Restructuring Plan

In July 2019, the Company adopted a restructuring plan pursuant to which the Company elected to wind down its prior manufacturing operations at the Company's Lake Forest, CA facility and proceeded to outsource the manufacture of parts utilizing the Company's technology through its domestic and international manufacturing partners (the "2019 Restructuring Plan"). In connection with the 2019 Restructuring Plan, the Company shifted its business strategy from internal manufacture of parts and products for customers toward the use and reliance of outsourced manufacturers, which will initially be Dongguan Yihao Metals Materials Technology Co., Ltd. ("Yihao"), a China-based company in which our largest beneficial stockholder and Chairman, Professor Lugee Li, has a material, indirect, equity interest.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2021 and 2020
(numbers in thousands, except percentages, share and per share data)
(unaudited)

Manufacturing Facility Purchase

On February 16, 2017, the Company purchased a 41,000 square foot manufacturing facility (the “Facility”) located in Lake Forest, CA, where operations commenced during July 2017. The purchase price for the Facility was \$7,818. As a result of the 2019 Restructuring Plan, the Company has discontinued manufacturing operations in the Facility.

Facility Lease

On January 23, 2020, 20321 Valencia, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company, entered into a lease agreement (the “Facility Lease”) pursuant to which the Company leased to MatterHackers, Inc., a Delaware corporation (“Tenant”), an approximately 32,534 square foot portion of the Facility. The lease term is for 5 years and 2 months and is scheduled to expire on April 30, 2025. The base rent payable under the Facility Lease is \$33 per month initially and is subject to periodic increases up to a maximum of approximately \$54 per month. Tenant will pay approximately 79% of common operating expenses. The Facility Lease has other customary provisions, including provisions relating to default and usage restrictions. The Facility Lease grants to Tenant a right to extend the lease for one additional 60-month period at market rental value.

2016 Purchase Agreement

On March 10, 2016, the Company entered into a Securities Purchase Agreement with Liquidmetal Technology Limited (the “2016 Purchase Agreement”), a Hong Kong company (the “Investor”), which is controlled by the Company’s Chairman, Professor Li. The 2016 Purchase Agreement provided for the purchase by the Investor of a total of 405,000,000 shares of the Company’s common stock for an aggregate purchase price of \$63,400. The transaction occurred in multiple closings, with the Investor having purchased 105,000,000 shares at a purchase price of \$8,400 (or \$0.08 per share) at the initial closing on March 10, 2016 and 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 on October 26, 2016.

In addition to the shares issuable under the 2016 Purchase Agreement, the Company issued to the Investor a warrant to acquire 10,066,809 shares of common stock (of which the right to exercise 2,609,913 of the warrant shares vested on March 10, 2016 and the right to exercise the remaining 7,456,896 warrant shares vested on October 26, 2016 at an exercise price of \$0.07 per share). The warrant will expire on the tenth anniversary of its issuance date.

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 fifth anniversary of the 2016 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.

Eontec License Agreement

On March 10, 2016, in connection with the 2016 Purchase Agreement, the Company and Eontec, entered into the License Agreement pursuant to which the Company and Eontec agreed to cross-license their respective technologies. The Company’s Chairman, Professor Li, is also a major shareholder and Chairman of Eontec.

The License Agreement provides for the cross-license of certain patents, technical information, and trademarks between the Company and Eontec. In particular, the Company granted to Eontec a paid-up, royalty-free, perpetual license 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. In turn, Eontec granted to the Company a paid-up, royalty-free, perpetual license 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 of the Company) in the countries of Brunei, Cambodia, China (P.R.C and R.O.C.), East Timor, Indonesia, Japan, Laos, Malaysia, Myanmar, 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.

Beyond the License Agreement, the Company collaborates with Eontec, and its affiliates, to accelerate the commercialization of amorphous alloy technology. This includes but is not limited to developing technologies to reduce the cost of amorphous alloys, working on die cast machine technology platforms to pursue broader markets, sharing knowledge to broaden our intellectual property portfolio, and utilizing Eontec’s volume production capabilities as a third party contract manufacturer.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2021 and 2020
(numbers in thousands, except percentages, share and per share data)
(unaudited)

Eutectix Business Development Agreement

On January 31, 2020, the Company entered into a Business Development Agreement (the “Agreement”) with Eutectix, which provides for collaboration, joint development efforts, and the manufacturing of products based on the Company’s proprietary amorphous metal alloys. Under the Agreement, the Company licensed to Eutectix specified equipment owned by the Company, including two injection molding machines, two diecasting machines, and other machines and equipment, all of which will be used to make product for Company customers and Eutectix customers. The licensed machines and equipment represented substantially all of the machinery and equipment then held by the Company. The Company has also licensed to Eutectix various patents and technical information related to the Company’s proprietary technology. Under the Agreement, Eutectix agreed to pay the Company a royalty of six percent (6%) of the net sales price of licensed products sold by Eutectix, and Eutectix will also manufacture for the Company product ordered by the Company. The Agreement has a term of five years, subject to renewal provisions and the ability of either party to terminate earlier upon specified circumstances.

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 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.

Other License Transactions

The Company’s majority-owned 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 parts and other products used in the sport of golf. The Company owns 79% of the outstanding common stock of Liquidmetal Golf.

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, but non-exclusive as to Apple. 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. Investments in Debt Securities

The following table sets forth amortized cost fair value, and unrealized gains (losses) of investments in debt securities (short-term and long-term):

	Longest Maturity Date	Amortized Cost		Fair Value		Unrealized gains (losses)	
		September 30,	December 31,	September 30,	December 31,	September 30,	December 31,
		2021	2020	2021	2020	2021	2020
U.S. government and agency securities	2022	7,147	-	7,147	-	\$ -	\$ -
Corporate bonds	2024	14,870	26,222	14,882	26,338	12	116
Certificates of deposit	One-year	-	1,150	-	1,150	-	-
		22,017	27,372	22,029	27,488	\$ 12	\$ 116

Income from these investments totaled \$35 and \$138 during the three and nine months ended September 30, 2021, respectively. Income from these investments totaled \$61 and \$187 during the three and nine months ended September 30, 2020, respectively. Such amounts are included as a portion of interest and investment income on the Company’s consolidated statements of operations.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2021 and 2020
(numbers in thousands, except percentages, share and per share data)
(unaudited)

Based on the Company's review of its debt securities that are individually in an unrealized loss position at September 30, 2021, it determined that the losses were primarily the result current economic factors, impacting all global debt and equity markets, that are the result of the global COVID-19 pandemic. The impact to the Company's investment portfolio is considered to be temporary, rather than a deterioration of overall credit quality. As of September 30, 2021, all investments are current on their schedule interest and dividend payments. The Company does not intend to sell and it is not more likely than not that the Company will be required to sell these securities prior to recovering their amortized cost. As such, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2021.

5. Trade Accounts Receivable

Trade accounts receivable were comprised of the following:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Trade accounts receivable	\$ 353	\$ 505
Less: Allowance for doubtful accounts	-	(234)
Trade accounts receivable	<u>\$ 353</u>	<u>\$ 271</u>

During the nine months ended September 30, 2021, the Company formally wrote off \$234 in outstanding receivables against allowances for doubtful accounts taken in prior periods. The write-off followed the Company's normal process in evaluating future collectability of accounts receivable and resulted in no impact within the Company's consolidated statement of operations.

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets totaled \$597 and \$465 as of September 30, 2021 and December 31, 2020, respectively. Included within these totals are the following:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Prepaid service invoices	\$ 65	\$ 76
Prepaid insurance premiums	364	233
Prepaid lease costs and receivables- short term	25	21
Interest and other receivables	143	135
Total	<u>\$ 597</u>	<u>\$ 465</u>

As of September 30, 2021, prepaid lease costs and receivables- short term are comprised of \$19 in prepaid broker commissions that are expected to be amortized within the next twelve months and \$6 in receivables for allocated utility costs.

7. Inventory

Inventory totaled \$22 and \$43 as of September 30, 2021 and December 31, 2020, respectively. Included within these totals are the following:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Work in progress	\$ 18	\$ -
Finished goods	4	43
Total	<u>\$ 22</u>	<u>\$ 43</u>

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8. Property and Equipment, net

Property and equipment consist of the following:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Land, building, and improvements	\$ 9,610	\$ 9,610
Machinery and equipment	1,304	1,304
Computer equipment	272	272
Office equipment, furnishings, and improvements	51	51
Total	<u>11,237</u>	<u>11,237</u>
Accumulated depreciation	(2,862)	(2,623)
Total property and equipment, net	<u>\$ 8,375</u>	<u>\$ 8,614</u>

Depreciation expense for three and nine months ended September 30, 2021 was \$79 and \$239, respectively. Depreciation expense for three and nine months ended September 30, 2020 was \$79 and \$240, respectively. Such amounts were included in selling, marketing, general, and administrative expenses within Company's consolidated statements of operations.

During the three and nine months ended September 30, 2020, the Company disposed of certain manufacturing equipment for gross proceeds of \$110. This resulted in a gain on disposal of \$0 and \$35 during the three and nine months ended September 30, 2020. No such sales occurred during the three and nine months ended September 30, 2021.

9. Equipment Held for Sale

The Company previously reclassified \$585 in equipment, planned to be disposed of under the 2019 Restructuring Plan, from property and equipment to equipment held for sale on its consolidated balance sheet. The Company has executed a purchase agreement for the equipment, with a negotiated sales price of \$600. The sale was finalized during the quarter ended June 30, 2020, following delivery and title transfer of the equipment to the buyer. During October 2020, all amounts pertaining to the purchase price were received, thus completing all elements of the purchase agreement for the equipment originally held for sale.

10. Patents and Trademarks, net

Net patents and trademarks totaled \$112 and \$158 as of September 30, 2021 and December 31, 2020, 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 \$12 and \$46 for the three and nine months ended September 30, 2021, respectively. This compares to \$21 and \$63 for the three and nine months ended September 30, 2020, respectively.

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11. Other Assets

Other assets totaled \$293 and \$251 as of September 30, 2021 and December 31, 2020, respectively. Included within these totals are the following:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Utility deposits	\$ 14	\$ 14
Prepaid lease costs and receivables- long term	279	237
Total	<u>\$ 293</u>	<u>\$ 251</u>

As of September 30, 2021, prepaid lease costs and receivables- long term are comprised of \$49 in unamortized prepaid broker commissions that are not expected to be amortized within the next twelve months and \$230 in straight-line rent accruals.

12. Accrued Liabilities

Accrued liabilities totaled \$917 and \$315 as of September 30, 2021 and December 31, 2020, respectively. Included within these totals are the following:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Accrued payroll, vacation, and bonuses	\$ 217	\$ 147
Accrued severance	625	56
Accrued audit fees	75	112
Total	<u>\$ 917</u>	<u>\$ 315</u>

13. Other Long-Term Liabilities

Other long-term liabilities were \$899 as of September 30, 2021 and \$899 as of December 31, 2020, and consisted of \$856 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. Also included in the balance for each period is \$43 in tenant deposits.

14. Stock Compensation Plans

On June 28, 2012, the Company adopted the 2012 Equity Incentive Plan ("2012 Plan"), with the approval of the shareholders, which provides for the grant of stock options to officers, employees, consultants, and directors of the Company and its subsidiaries. The 2012 Plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees and consultants of non-statutory stock options. In addition, the Plan permits the granting of stock appreciation rights, or SARs, with or independently of options, as well as stock bonuses and rights to purchase restricted stock. A total of 30,000,000 shares of the Company's common stock may be granted under the 2012 Plan, and all options granted under the 2012 Plan had exercise prices that were equal to the fair market value on the date of grant. During the three and nine months ended September 30, 2021, the Company granted Mr. Chung an option grant under the Company's 2015 Equity Incentive Plan, as approved by the Board, to purchase up to 7,500,000 shares of Company stock. Under this plan, the Company had outstanding grants of options to purchase 5,609,192 and 5,609,192 shares of the Company's common stock as of September 30, 2021 and December 31, 2020, respectively.

On January 27, 2015, the Company adopted its 2015 Equity Incentive Plan ("2015 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 available for issuance under the 2015 Plan. All options granted under the 2015 Plan had exercise prices that were equal to the fair market value on the dates of grant. During the three and nine months ended September 30, 2021, the Company granted 7,500,000 and 7,500,000 options, respectively, to purchase shares of common stock. Under this plan, the Company had outstanding grants of options to purchase 19,841,667 and 12,341,667 shares of the Company's common stock as of September 30, 2021 and December 31, 2020, respectively.

Stock based compensation expense attributable to these plans was \$195 and \$402 for the three and nine months ended September 30, 2021, respectively. This compares to \$83 and \$256 for the three and nine months ended September 30, 2020, respectively.

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In connection with the separation of former executives, the Company has modified previously granted equity awards to allow for the acceleration of vesting of equity awards, and the extension of the timing to exercise vested awards, following the respective separation dates. Of the \$195 and \$402 stock compensation expense for the three and nine months ended September 30, 2021, respectively, the Company incurred incremental stock-based compensation expense for the modifications of the awards of \$132 and \$132 during the three and nine months ended September 30, 2021, respectively. There were no similar expenses during the three and nine months ended September 30, 2020.

15. Facility Lease

Amounts collected under the facility lease are comprised of base rents and reimbursements for direct facility expenses (property taxes and insurance), common area maintenance, and utilities. Amounts recorded to lease income are comprised of base rents and direct facility expenses, recorded on a straight-line basis over the lease term. Reimbursements for common area maintenance and utility expense are recorded as reductions to like expenses within sales, general, and administrative costs.

The future minimum rents due to the Company under the Facility Lease are as follows:

Year	Base Rents
2021	\$ 119
2022	486
2023	651
2024	699
2025	237
Thereafter	-
	<u>\$ 2,192</u>

16. Consolidated Statements of Changes in Equity

The following table provides the Company's changes in equity for the three months ended September 30, 2021:

	Preferred Shares	Common Shares	Common Stock	Warrants part of Additional Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total
Balance, June 30, 2021	-	914,449,957	\$ 914	\$ 18,179	\$ 287,390	\$ (270,241)	\$ 26	\$ (77)	\$ 36,191
Stock-based compensation					195				195
Net loss						(1,403)			(1,403)
Other comprehensive income							(15)		(15)
Balance, September 30, 2021	-	914,449,957	\$ 914	\$ 18,179	\$ 287,585	\$ (271,644)	\$ 11	\$ (77)	\$ 34,968

The following table provides the Company's changes in equity for the nine months ended September 30, 2021:

	Preferred Shares	Common Shares	Common Stock	Warrants part of Additional Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total
Balance, December 31, 2020	-	914,449,957	\$ 914	\$ 18,179	\$ 287,183	\$ (268,926)	\$ 116	\$ (76)	\$ 37,390
Stock-based compensation					402				402
Net loss						(2,718)		(1)	(2,719)
Other comprehensive loss							(105)		(105)
Balance, September 30, 2021	-	914,449,957	\$ 914	\$ 18,179	\$ 287,585	\$ (271,644)	\$ 11	\$ (77)	\$ 34,968

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The following table provides the Company's changes in equity for the three months ended September 30, 2020:

	Preferred Shares	Common Shares	Common Stock	Warrants part of Additional Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
Balance, June 30, 2020	-	914,449,957	\$ 914	\$ 18,179	\$ 287,005	\$ (267,673)	\$ 90	\$ (75)	\$ 38,440
Stock-based compensation					83				83
Net loss						(776)		(1)	(777)
Other comprehensive income							(48)		(48)
Balance, September 30, 2020	-	914,449,957	\$ 914	\$ 18,179	\$ 287,088	\$ (268,449)	\$ 42	\$ (76)	\$ 37,698

The following table provides the Company's changes in equity for the nine months ended September 30, 2020:

	Preferred Shares	Common Shares	Common Stock	Warrants part of Additional Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total
Balance, December 31, 2019	-	914,449,957	\$ 914	\$ 18,179	\$ 286,832	\$ (266,284)	\$ 2	\$ (75)	\$ 39,568
Stock-based compensation					256				256
Net loss						(2,165)		(1)	(2,166)
Other comprehensive income							40		40
Balance, September 30, 2020	-	914,449,957	\$ 914	\$ 18,179	\$ 287,088	\$ (268,449)	\$ 42	\$ (76)	\$ 37,698

17. Accumulated Other Comprehensive Income (Loss) ("AOCI")

The following table presents a summary of the changes in each component of AOCI for the three months ended September 30, 2021:

	Unrealized gains (losses) on available- for- sale securities		Total
Accumulated other comprehensive income (loss), net of tax, as of June 30, 2021	\$	26	\$ 26
Other comprehensive loss before reclassifications		(15)	(15)
Amounts reclassified from accumulated other comprehensive income (loss)		-	-
Net increase in other comprehensive income (loss)		(15)	(15)
Accumulated other comprehensive income (loss), net of tax, as of September 30, 2021	\$	11	\$ 11

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The following table presents a summary of the changes in each component of AOCI for the nine months ended September 30, 2021:

	Unrealized gains (losses) on available- for- sale securities		Total
Accumulated other comprehensive income (loss), net of tax, as of December 31, 2020	\$	116	\$ 116
Other comprehensive loss before reclassifications		(105)	(105)
Amounts reclassified from accumulated other comprehensive income (loss)		-	-
Net increase in other comprehensive income (loss)		(105)	(105)
Accumulated other comprehensive income (loss), net of tax, as of September 30, 2021	\$	11	\$ 11

The following table presents a summary of the changes in each component of AOCI for the three months ended September 30, 2020:

	Unrealized gains (losses) on available- for- sale securities		Total
Accumulated other comprehensive income (loss), net of tax, as of June 30, 2020	\$	90	\$ 90
Other comprehensive loss before reclassifications		(48)	(48)
Amounts reclassified from accumulated other comprehensive income (loss)		-	-
Net increase in other comprehensive income (loss)		(48)	(48)
Accumulated other comprehensive income (loss), net of tax, as of September 30, 2020	\$	42	\$ 42

The following table presents a summary of the changes in each component of AOCI for the nine months ended September 30, 2020:

	Unrealized gains (losses) on available- for- sale securities		Total
Accumulated other comprehensive income (loss), net of tax, as of December 31, 2019	\$	2	\$ 2
Other comprehensive loss before reclassifications		42	42
Amounts reclassified from accumulated other comprehensive income (loss)		(2)	(2)
Net increase in other comprehensive income (loss)		40	40
Accumulated other comprehensive income (loss), net of tax, as of September 30, 2020	\$	42	\$ 42

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18. 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 applicable period. Diluted EPS reflects the potential dilution of securities that could share in the earnings.

Options to purchase 25,450,859 shares of common stock, at prices ranging from \$0.07 to \$0.38 per share, were outstanding at September 30, 2021, 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 10,066,809 shares of common stock, with a price of \$0.07 per share, outstanding at September 30, 2021, 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.

Options to purchase 18,144,359 shares of common stock, at prices ranging from \$0.07 to \$0.38 per share, were outstanding at September 30, 2020, 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 10,066,809 shares of common stock, with a price of \$0.07 per share, outstanding at September 30, 2020, 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.

19. Related Party Transactions

On March 10, 2016, the Company entered into the 2016 Purchase Agreement with Liquidmetal Technology Limited, providing for the purchase of 405,000,000 shares of the Company’s common stock for an aggregate purchase price of \$63,400. Liquidmetal Technology Limited was a newly formed company owned by 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 major shareholder. Eontec is also an affiliate of Yihao. Yihao is currently the Company’s primary outsourced manufacturer. As of September 30, 2021, Professor Li is a greater-than 5% beneficial owner of the Company and serves as the Company’s Chairman. Equipment and services procured from Eontec, and their affiliates, were \$136 and \$409 during the three and nine months ended September 30, 2021, respectively. Equipment and services procured from Eontec, and their affiliates, were \$146 and \$214 during the three and nine months ended September 30, 2020, respectively.

On July 6, 2021, Professor Li resigned as Chief Executive Officer and President of the Company. Professor Li will maintain his role as Chairman of the Company’s Board of Directors (the “Board”).

On July 6, 2021, the Board appointed Tony Chung, a director of the Company, as the Company’s interim Chief Executive Officer, and in that capacity, he will serve as the Company’s principal executive officer. Mr. Chung is a current member of the Board and will remain a director following the foregoing appointment.

Mr. Chung will receive a base annual salary of \$240,000 and a \$20,000 signing bonus, payable after ninety days of employment. Additionally, Mr. Chung received an option grant under the Company’s 2015 Equity Incentive Plan, as approved by the Board, to purchase up to 7,500,000 shares of Company common stock. The option has an exercise price of \$0.07 per share and will expire 10 years from the date of grant unless it terminates earlier upon a termination of service. The shares covered by the option will vest in three tranches (“Tranche 1”, “Tranche 2”, and “Tranche 3”). Under Tranche 1, 2,500,000 shares covered by the option will vest after ninety days of employment, although thereafter any shares received from option exercises will be subject to time-based lock-up provisions. Under Tranche 2, 2,500,000 shares covered by the option will vest at the first anniversary of employment. Under Tranche 3, 2,500,000 covered by the option will vest at the second anniversary of employment. Shares received from option exercises under Tranche 2 and Tranche 3 will be subject to a combination of market-price based and time-based lock-up provisions. The terms of the option are subject to the provisions of the 2015 Equity Incentive Plan. Mr. Chung will serve on an “at-will” basis.

On August 30, 2021, the Company and Bruce Bromage, the Company’s Chief Operating Officer, entered into a Separation Agreement and General Release pursuant to which Dr. Bromage agreed to resign as an officer and employee of the Company and the Company and Dr. Bromage agreed to terminate Dr. Bromage’s employment agreement with Dr. Bromage’s employment ending on September 30, 2021 (the “Bromage Separation Agreement”). The Bromage Separation Agreement provides for the payment of severance compensation to Dr. Bromage in the form of a lump sum equal to \$316,285.00 (subject to tax withholdings). In addition, it provides for the accelerated vesting the remaining 2,430,000 unvested stock options held by Dr. Bromage as of the termination date and the extension of the exercise period of his options until the earlier of the second anniversary of the termination date outlined in the Bromage Separation Agreement or the date on which such options would otherwise expire and terminate in accordance with its terms if Dr. Bromage had not resigned. This results in a total of 10,329,692 stock options being exercisable by Dr. Bromage as of the termination date. In connection with the Bromage Separation Agreement, Dr. Bromage granted the Company general releases subject to customary exceptions.

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On August 30, 2021, the Company and Bryce Van, the Company's Vice President- Finance, entered into a Separation Agreement and General Release pursuant to which Mr. Van agreed to resign as an officer and employee of the Company and the Company and Mr. Van agreed to terminate Mr. Van's employment agreement with Mr. Van's employment to end on October 15, 2021 (the "Van Separation Agreement"). The Van Separation Agreement provides for the payment of severance compensation to Mr. Van in the form of a lump sum equal to \$252,889.69 (subject to tax withholdings). In addition, it provides for the extension of the exercise period of his options until the earlier of the second anniversary of the termination date outlined in the Van Separation Agreement or the date on which such options would otherwise expire and terminate in accordance with its terms if Mr. Van had not resigned. This results in a total of 2,046,500 stock options being exercisable by Mr. Van as of the termination date. Under the Van Separation Agreement, Mr. Van agreed to be available to provide assistance to the Company by telephone with no additional consideration for sixty days following the termination date. In connection with the Van Separation Agreement, Mr. Van granted the Company general releases subject to customary exceptions.

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 in Part II herein, under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 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 parts 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. We believe the alloys and the molding technologies we employ can result in components for many applications 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. All of these characteristics are achievable from the molding process, so design engineers often 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.

In July 2019, we adopted a restructuring plan pursuant to which we elected to wind down our manufacturing operations at our Lake Forest, CA facility and proceeded to outsource the manufacture of parts utilizing our technology through domestic and international manufacturing partners (the “2019 Restructuring Plan”). In connection with the 2019 Restructuring Plan, we have shifted our business strategy from internal manufacture of parts and products for customers toward the use and reliance of outsourced manufacturers, which will initially be Dongguan Yihao Metals Materials Technology Co., Ltd. (“Yihao”), a China-based company in which our largest beneficial stockholder and Chairman, Professor Lugee Li, holds a material, indirect, equity interest. We will also seek to develop other manufacturers, both global and domestic, to aid in the further advancement of our technology and operations.

Licensing Transactions

Eontec License Agreement

On March 10, 2016, in connection with the Securities Purchase Agreement (the “2016 Purchase Agreement”) with Liquidmetal Technology Limited, a Hong Kong Company, we entered into a Parallel License Agreement (the “License Agreement”) with DongGuan Eontec Co., Ltd., a Hong Kong corporation (“Eontec”) pursuant to which we each entered into a cross-license of our respective technologies.

The License Agreement provides for the cross-license of certain patents, technical information, and trademarks between us and Eontec. In particular, we granted to Eontec a paid-up, royalty-free, perpetual license to our 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 us a paid-up, royalty-free, perpetual license 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 us to Eontec is exclusive (including to the exclusion of us) in the countries of Brunei, Cambodia, China (P.R.C and R.O.C.), East Timor, Indonesia, Japan, Laos, Malaysia, Myanmar, Philippines, Singapore, South Korea, Thailand, and Vietnam. The license granted by Eontec to us 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.

Beyond the License Agreement, we collaborate with Eontec to accelerate the commercialization of amorphous alloy technology. This includes but is not limited to developing technologies to reduce the cost of amorphous alloys, working on die cast machine technology platforms to pursue broader markets, sharing knowledge to broaden our intellectual property portfolio, and utilizing Eontec's volume production capabilities as a third party contract manufacturer.

Eutectix Business Development Agreement

On January 31, 2020, we entered into a Business Development Agreement (the "Agreement") with Eutectix, LLC, a Delaware limited liability company ("Eutectix"), which provides for collaboration, joint development efforts, and the manufacturing of products based on our proprietary amorphous metal alloys. Under the Agreement, we have agreed to license to Eutectix specified equipment owned by us, including two injection molding machines, the Machines, and other machines and equipment, all of which will be used to make products for our customers and Eutectix customers. The licensed machines and equipment represent substantially all of the machinery and equipment currently held by us. We have also licensed to Eutectix various patents and technical information related to our proprietary technology. Under the Agreement, Eutectix will pay us a royalty of six percent (6%) of the net sales price of licensed products sold by Eutectix, and Eutectix will also manufacture products for us. The Agreement has a term of five years, subject to renewal provisions and the ability of either party to terminate earlier upon specified circumstances.

Apple License Transaction

On August 5, 2010, we entered into a license transaction with Apple pursuant to which (i) we contributed substantially all of our intellectual property assets to a newly organized special-purpose, wholly-owned subsidiary, called Crucible Intellectual Property, LLC ("CIP"), (ii) 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 us 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, we were obligated to contribute, to CIP, all intellectual property developed by us through February 2016. We are also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction.

Other Material License Transactions

Our Liquidmetal Golf subsidiary has the exclusive right and license to utilize our 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. We own 79% of the outstanding common stock of Liquidmetal Golf.

In March 2009, we entered into a license agreement with Swatch Group, Ltd. ("Swatch") under which Swatch was granted a non-exclusive license to our 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 us), but non-exclusive as to Apple. We 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
- Share based compensation

Our Annual Report on Form 10-K for the year ended December 31, 2020 (the “2020 Annual Report”) contains further discussions on our critical accounting policies and estimates.

Results of Operations

Comparison of the three and nine months ended September, 2021 and 2020

	For the three months ended September 30,				For the nine months ended September 30,			
	2021		2020		2021		2020	
	in 000's	% of Revenue	in 000's	% of Revenue	in 000's	% of Revenue	in 000's	% of Revenue
Revenue:								
Products	\$ 406		\$ 288		\$ 700		\$ 367	
Licensing and royalties	-		39		21		64	
Total revenue	406		327		721		431	
Cost of sales	319	79%	171	52%	528	73%	242	56%
Gross profit	87	21%	156	48%	193	27%	189	44%
Selling, marketing, general and administrative	1,643	405%	1,096	335%	3,372	468%	2,953	685%
Research and development	14	3%	30	9%	74	10%	86	20%
Gain on disposal of long-lived assets	-	0%	-	0%	-	0%	(35)	-8%
Total operating expense	1,657		1,126		3,446		3,004	
Operating loss	(1,570)		(970)		(3,253)		(2,815)	
Lease income	132		132		396		352	
Interest and investment income	35		61		138		297	
Net loss	\$ (1,403)		\$ (777)		\$ (2,719)		\$ (2,166)	

Revenue and operating expenses

Revenue. Total revenue increased to \$406 for the three months ended September 30, 2021 from \$288 for the three months ended September 30, 2020. Total revenue increased to \$700 for the nine months ended September 30, 2021 from \$367 for the nine months ended September 30, 2020. The increase for both period was attributable to higher general production shipments of products made by our contract manufacturers and increases in payments under development projects, following the Company’s transition to outsourced manufacturing in 2020.

Cost of sales. Cost of sales was \$319, or 79% of total revenue, for the three months ended September 30, 2021, an increase from \$171, or 52% of total revenue, for the three months ended September 30, 2020. Cost of sales was \$528, or 73% of total revenue, for the nine months ended September 30, 2021, an increase from \$242, or 56% of total revenue, for the nine months ended September 30, 2020. The increase for both periods was attributable to higher products revenue, decline in licensing and royalties revenue, and lower gross profit percentages. If we begin increasing our products revenues with shipments of routine, commercial products and parts through third party contract manufacturers, we expect our cost of sales percentages to decrease, stabilize and be more predictable.

Gross profit. Our gross profit decreased to \$87 for the three month period ended September 30, 2021 from \$156 for the three month period ended September 30, 2020. Our gross profit as a percentage of total revenue, decreased to 21% for the three month period ended September 30, 2021 from 48% for the three month period ended September 30, 2020. Our gross profit increased to \$193 for the nine month period ended September 30, 2021 from \$189 for the nine month period ended September 30, 2020. Our gross profit as a percentage of total revenue, decreased to 27% for the nine month period ended September 30, 2021 from 44% for the nine month period ended September 30, 2020. Early prototype and pre-production orders generally result 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. If we begin increasing our products revenues with shipments of routine, commercial products and parts through future orders to 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 \$1,643 and \$3,372 for the three and nine months ended September 30, 2021, respectively, compared to \$1,096 and \$2,953 for the three and nine months ended September 30, 2020, respectively. The increase in expenses was primarily attributable to stock base compensation and severance expense according to the Bromage Separation Agreement and the Van Separation Agreement.

Research and development. Research and development expenses were \$14 and \$74 for the three and nine months ended September 30, 2021, respectively, compared to \$30 and \$86 for the three and nine months ended September 30, 2020. We continue to perform research and development of new Liquidmetal alloys and related processing capabilities, albeit on a reduced basis in comparison with prior periods.

Gain on disposal of fixed assets. During the three and nine months ended September 30, 2020, the Company recorded gains on the disposal of fixed assets of \$0 and \$35, respectively. Similar gains were not recorded during the three and nine months ended September 30, 2021.

Operating loss. Operating loss was \$1,403 and \$2,719 for the three and nine months ended September 30, 2021, respectively. This compares to \$777 and \$2,166 for the three and nine months ended September 30, 2020, 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 when we can either (i) increase our revenues with shipments of routine, commercial products and parts through third party contract manufacturers or (ii) obtain significant licensing revenues, we expect to continue to have operating losses for the foreseeable future.

Other income and expenses

Lease income. Lease income relates to straight-line rental income received under the Facility Lease. Such amounts were \$132 and \$396 for the three and nine months ended September 30, 2021, respectively. This compares to \$132 and \$352 for the three and nine months ended September 30, 2020, respectively.

Interest and investment income. Interest and investment income relates to interest earned from our cash deposits and investments in debt securities for the respective periods. Interest and investment income was \$35 and \$138 for the three and nine months ended September 30, 2021, respectively. This compares to interest and investment income of \$61 and \$297 during the three and nine months ended September 30, 2020, respectively. The decrease during 2021 is due continued volatility in corporate debt markets, which is resulting in reduced yields.

Liquidity and Capital Resources

Cash used in operating activities

Cash used in operating activities totaled \$1,635 and \$1,785 for the nine months ended September 30, 2021 and 2020, 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 investing activities totaled \$5,354 and used in investing activities totaled \$12,320 for the nine months ended September 30, 2021 and 2020, respectively. Investing inflows primarily consist of proceeds from the sale of debt securities. Investing outflows primarily consist of purchases of debt securities and capital expenditures for additional building improvements.

Cash provided by financing activities

Cash provided by financing activities totaled \$0 and \$0 for the nine months ended September 30, 2021 and 2020, respectively.

Financing arrangements and outlook

During 2016, we raised a total of \$62,700 through the issuance of 405,000,000 shares of our common stock in multiple closings under the 2016 Purchase Agreement. The Company has a relatively limited history of selling 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 previously required that the Company engage in equity sales under various stock purchase agreements to support its operations and strategic initiatives. As a result of the 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.

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 (our Principal Executive Officer and 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, 2021. Based on their evaluation, our Chief Executive Officer has concluded that our disclosure controls and procedures were effective as of September 30, 2021.

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, 2021 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

None.

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 2020 Annual Report. There have been no material changes from the risk factors previously disclosed in Part I, Item 1A “Risk Factors” in the 2020 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.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

None.

Item 5 – Other Information

None.

Item 6 – Exhibits

The following documents are filed as exhibits to this Report:

<u>Exhibit Number</u>	<u>Description of Document</u>
10.1	Offer Letter Agreement, dated July 6, 2021, between the Company and Tony Chung (incorporated by reference from Exhibit 10.1 to the Form 8-K filed on July 9, 2021))
31.1	Certification of Principal Executive Officer and Principal Financial Officer, Tony Chung, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Principal 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, 2021 (unaudited), formatted in Inline XBRL: (i) Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2021 and 2020, (iii) Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2021 and 2020, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020, and (v) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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 15, 2021

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

CERTIFICATIONS

I, Tony Chung, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liquidmetal Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2021

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

**WRITTEN STATEMENT
PURSUANT TO 18 U.S.C. 1350**

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Chief Executive Officer and Principal Financial Officer of Liquidmetal Technologies, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tony Chung_____

Tony Chung, Chief Executive Officer and Principal Financial Officer

November 15, 2021