UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

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

For the transition period from to

Commission File No. 000-31332

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

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

30452 Esperanza
Rancho Santa Margarita, CA 92688
(address of principal executive office, zip code)

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

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

Securities registered pursuant to Section 12(g) of the Act:

Title of each Class
Common Stock, $0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K o

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

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 30, 2009 was approximately $6,500,357. For purposes of this calculation only, (i) shares of Common Stock are deemed to have a market value of $0.18 per share, the closing price of the Common Stock as reported on the OTC Bulletin Board on June 30, 2009 and (ii) each of the executive officers, directors and persons holding more than 10% of the outstanding Common Stock as of June 30, 2009 is deemed to be an affiliate.

The number of common shares outstanding as of August 20, 2010 was 84,763,339, respectively.

TABLE OF CONTENTS

Page

PART I

Forward-Looking Statements

This annual report on Form 10-K of Liquidmetal Technologies, Inc. contains "forward-looking statements" that may state our management's current expectations, estimates, forecasts, and 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 "believe," "estimate," "project," "expect," "intend," "may," "anticipate," "plans," "seeks," and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or result. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. It is important to note that Liquidmetal Technologies, Inc.'s actual results could differ materially from what is expressed in our forward-looking statements due to the risk factors described in the section of this report entitled "Risk Factors" in Item 1A of this report as well as the following risks and uncertainties:

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

Liquidmetal Technologies, Inc. undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1. Business

In this annual report on Form 10-K, unless the context indicates otherwise, references to "the Company", "Liquidmetal Technologies", "our Company", "we", "us", and similar references refer to Liquidmetal Technologies, Inc. and its subsidiaries.

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 coatings, powders, bulk alloys, and composites that utilize the advantages offered by amorphous alloy technology. We develop, manufacture, and sell products and components from bulk amorphous alloys to customers in various industries, and we also partner with third-party licensees and distributors to develop and commercialize bulk Liquidmetal alloy products. We believe that our proprietary bulk alloys are the only commercially viable bulk amorphous alloys currently available in the marketplace. In addition to our bulk alloys, we market and sell a line of proprietary amorphous alloy-based industrial coatings under the Liquidmetal Armacor™ Coatings brand.

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

Table of Contents

General Corporate Information

We were originally incorporated in California in 1987, and we reincorporated in Delaware in May 2003. Our principal executive offices are located at 30452 Esperanza, Rancho Santa Margarita, California 92688. Our telephone number at that address is (949) 635-2100. Our Internet website address is www.liquidmetal.com and all of our filings with the Securities and Exchange Commission ("SEC") are available free of charge on our website.

Subsidiaries and Other Locations

We currently own and operate a manufacturing facility in Pyongtaek, South Korea, which became operational in the third quarter of 2002. This Korean subsidiary handles our Bulk Liquidmetal alloy business which includes market opportunities to manufacture and sell components made out our bulk alloys. We operate a distribution warehouse division in Huntsville, Texas to handle our Liquidmetal alloy industrial coatings which are used primarily as protective coatings for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants. Lastly, we operate a coatings application business based in Dothan, Alabama used to support our industrial coatings business.

Segments

In April 2002, we began classifying operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys. The Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants. Bulk Liquidmetal alloys include market opportunities to manufacture and sell components made out of our bulk alloys. The expenses incurred by the bulk Liquidmetal alloy segment are manufacturing, research and development costs, and selling expenses associated with identifying and developing market opportunities. Bulk Liquidmetal alloy products can be distinguished from Liquidmetal alloy coatings in that the bulk Liquidmetal alloy can have significant thickness, up to approximately one inch, which allows for their use in a wider variety of applications other than a thin protective coating applied to machinery and equipment. Revenue and expenses associated with research and development services are included in the bulk Liquidmetal alloy segment.

Results of segment operations and assets are included in Note 15 to the Consolidated Financial Statements contained in this Form 10-K.

Our Technology

The performance, processing, and potential cost advantages of Liquidmetal alloys are a function of their unique atomic structure and their proprietary material composition.

Unique Atomic Structure

The atomic structure of Liquidmetal alloys is the fundamental feature that differentiates them from other alloys and metals. In the molten state, the atomic particles of all alloys and metals have an amorphous atomic structure, which means that the atomic particles appear in a completely random structure with no discernible patterns. However, when non-amorphous alloys and metals are cooled to a solid state, their atoms bond together in a repeating pattern of regular and predictable shapes, or crystalline grains. This process is analogous to the way ice forms when water freezes and crystallizes. In non-amorphous metals and alloys, the individual crystalline grains contain naturally occurring structural defects that limit the potential strength and performance characteristics of the material. These defects, known as dislocations, consist of discontinuities or inconsistencies in the patterned atomic structure of each grain. Unlike other alloys and metals, bulk Liquidmetal alloys can retain their amorphous atomic structure throughout the solidification process and therefore do not develop crystalline grains and the associated dislocations. Consequently, bulk Liquidmetal alloys exhibit superior strength and other superior performance characteristics compared to their crystalline counterparts. Our Liquidmetal alloy coatings, in contrast to our bulk alloys, have a crystalline atomic structure when initially applied, but their atomic structure becomes amorphous as the coatings rub against surfaces under force, thus improving their performance over time.

Prior to 1993, commercially viable amorphous alloys could be created only in thin forms, such as coatings, films, or ribbons. However, in 1993, researchers at the California Institute of Technology (Caltech) developed the first commercially viable amorphous alloy in a bulk form. Today, bulk Liquidmetal alloys can be formed into objects that are up to one inch thick, and we are not aware of any other commercially available amorphous alloys that can achieve this thickness. We obtained the exclusive right to commercialize the bulk amorphous alloy through a license agreement with Caltech and have developed the technology to enable the commercialization of the bulk amorphous alloys.

Table of Contents

Proprietary Material Composition

The constituent elements and percentage composition of Liquidmetal alloys are critical to their ability to solidify into an amorphous atomic structure. We have several different alloy compositions that have different constituent elements in varying percentages. These compositions are protected by various patents that we own or exclusively license from third parties, including Caltech. The raw materials that we use in Liquidmetal alloys are readily available and can be purchased from multiple suppliers.

Advantages of Liquidmetal Alloys

Liquidmetal alloys possess a unique combination of performance, processing and cost advantages that we believe makes them superior in many ways to other commercially available materials for a variety of existing and potential future product applications.

Performance Advantages

Our bulk Liquidmetal alloys provide several distinct performance advantages over other materials, and we believe that these advantages make the alloys desirable in applications that require high yield strength, strength-to-weight ratio, elasticity and hardness.

The high yield strength of bulk Liquidmetal alloys means that a high amount of stress must be exerted to create permanent deformation. However, because the yield strength is so high, the yield strength of many of our bulk Liquidmetal alloy compositions is very near their ultimate strength, which is the measure of stress at which total breakage occurs. Therefore, very little additional stress may be required to break an object made of bulk Liquidmetal alloys once the yield strength is exceeded. Although we believe that the yield strength of many of our bulk alloys exceeds the ultimate strength of most other commonly used alloys and metals, our bulk alloys may not be suitable for certain applications, such as pressurized tanks, in which the ability of the material to yield significantly before it breaks is more important than its strength advantage. Additionally, although our bulk alloys show a high resistance to crack initiation because of their very high strength and hardness, certain of our bulk alloys are sensitive to crack propagation under certain long-term, cyclical loading conditions. Crack propagation is the tendency of a crack to grow after it forms. We are currently developing new alloy compositions that have improved material properties to overcome these limitations.

Processing Advantages

The processing of a material generally refers to how a material is shaped, formed, or combined with other materials to create a finished product. Bulk Liquidmetal alloys possess processing characteristics that we believe make them preferable to other materials in a wide variety of applications. In particular, our alloys are amenable to processing options that are similar in many respects to those associated with plastics. For example, we believe that bulk Liquidmetal alloys have superior net-shape casting capabilities as compared to high-strength crystalline metals and alloys. "Net-shape casting" is a type of casting that permits the creation of near-to-net shaped products that reduce costly post-cast processing or machining. Additionally, unlike most metals and alloys, our bulk Liquidmetal alloys are capable of being thermoplastically molded in bulk form. Thermoplastic molding consists of heating a solid piece of material until it is transformed into a moldable state, although at temperatures much lower than the melting temperature, and then introducing it into a mold to form near-to-net shaped products. Accordingly, thermoplastic molding can be beneficial and economical for net shape fabrication of high-strength products.

Bulk Liquidmetal alloys also permit the creation of composite materials that cannot be created with most non-amorphous metals and alloys. A composite is a material that is made from two or more different types of materials. In general, the ability to create composites is beneficial because constituent materials can be combined with one another to optimize the composite's performance characteristics for different applications. In other metals and alloys, the high temperatures required for processing could damage some of the composite's constituent materials and therefore limit their utility. However, the relatively low melting temperatures of bulk Liquidmetal alloys allow mild processing conditions that eliminate or limit damage to the constituent materials when creating composites. In addition to composites, we believe that the processing advantages of Liquidmetal alloys will ultimately allow for a variety of other finished forms, including sheets and extrusions.

Table of Contents

Notwithstanding the foregoing advantages, our bulk Liquidmetal alloys possess certain limitations relative to processing. The beneficial processing features of our bulk alloys are made possible in part by the alloys' relatively low melting temperatures. Although a lower melting temperature is a beneficial characteristic for processing purposes, it renders certain bulk alloy compositions unsuitable for certain high-temperature applications, such as jet engine exhaust components. Additionally, the current one-inch thickness limitation of our zirconium-titanium bulk alloy renders our alloys currently unsuitable for use as structural materials in large-scale applications, such as load-bearing beams in building construction. We are currently engaged in research and development with the goal of developing processing technology and new alloy compositions that will enable our bulk alloys to be formed into thicker objects.

Cost Advantages

Liquidmetal alloys have the potential to provide cost advantages over other high-strength metals and alloys in certain applications. Because bulk Liquidmetal alloy has processing characteristics similar in some respects to plastics, which lends itself to near-to-net shape casting and molding, Liquidmetal alloys can in many cases be shaped efficiently into intricate, engineered products. This capability can eliminate or reduce certain post-casting steps, such as machining and re-forming, and therefore has the potential to significantly reduce processing costs associated with making parts in high volume.

Additionally, because the near-to-net shape processing of Liquidmetal alloys reduces the need for capital-intensive heavy industrial equipment such as that found in foundry and forging operations, Liquidmetal alloys can be processed with a smaller machinery footprint, which allows for more efficient development of facilities and reduced permitting and regulatory costs. We believe that these advantages may allow our customers an opportunity to maintain or improve the performance of their products without a commensurate increase in cost.

Our Strategy

As a result of the experience and knowledge that we have gained through our activities to date, and recognizing that developing and commercializing a revolutionary new technology is an evolutionary process, we are continually modifying our business strategy to enable us to better capitalize on our evolving core strengths and more effectively pursue revenue growth and profitability. The key elements of our strategy include:

- *Identifying and Developing New Applications for Our Liquidmetal Alloy Technology.* We intend to continue to identify and develop new applications that will benefit from the performance, processing, and cost advantages of Liquidmetal alloys.

- *Focusing Our Marketing and Internal Manufacturing Activities on Select Products with Expected Higher Gross-Margins.* We intend to focus our marketing and internal manufacturing activities on select products with anticipated higher gross margins. This strategy is designed to align our product development initiatives with our manufacturing processes and manufacturing cost structure, and to reduce our exposure to more commodity-type product applications that are prone to unpredictable demand and fluctuating pricing. Our focus is primarily on higher-margin products that possess design features that take optimal advantage of our existing and developing manufacturing technology and that command a price commensurate with the performance advantages of our alloys. In addition to our focus on products with higher gross margins, we will continue to engage in prototype manufacturing, both for internally manufactured products and for products that will ultimately be licensed to or manufactured by third parties.

- *Further Developing Our Manufacturing Processes, Capabilities, and Efficiencies for Bulk Liquidmetal Alloys.* We intend to improve and enhance our internal manufacturing processes, capabilities, and efficiencies in order to maintain quality control over products made from bulk Liquidmetal alloys, to focus on improvements to the processing of our alloys, and to protect our intellectual property. As our alloys become more pervasive, however, we expect to enter into additional strategic relationships that would involve the licensing of Liquidmetal technology to third parties for certain market segments.

- *Pursuing Strategic Partnerships In Order to More Rapidly Develop and Commercialize Products*. We intend to actively pursue and support strategic partnerships that will enable us to leverage the resources, strength, and technologies of other companies in order to more rapidly develop and commercialize products. These partnerships may include licensing transactions in which we license full commercial rights to our technology in a specific application area, or they may include transactions of a more limited scope in which, for example, we outsource manufacturing activities or grant distribution rights. We believe that utilizing such a partnering strategy will enable us to reduce our working capital burden, better fund product development efforts, better understand customer adoption practices, leverage the technical and financial resources of our partners, and more effectively handle product design and process challenges. As this partnering strategy evolves, a growing portion of our revenue mix may be comprised of revenue from the provision of product development services, technical support, and engineering services, as well as revenues from royalties on the sale of Liquidmetal alloy products by our partners.

- *Advancing the Liquidmetal® Brand*. We believe that building our corporate brand will foster continued adoption of our technology. Our goal is to position Liquidmetal alloys as a superior substitute for materials currently used in a variety of products across a range of industries. Furthermore, we seek to establish Liquidmetal alloys as an enabling technology that will facilitate the creation of a broad range of commercially viable new products. To enhance industry awareness of our company and increase demand for Liquidmetal alloys, we are reviewing various brand development strategies that could include collaborative advertising and promotional campaigns with select customers, industry conference and trade show appearances, public relations, and other means.

Applications for Liquidmetal Alloys

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

Components for Electronic Products

We produce components for electronic devices using our bulk Liquidmetal alloys and believe that our alloys offer enhanced performance and design benefits for these components in certain applications. Bulk Liquidmetal alloys can be used for various structural components of a cellular phone, including the shield, faceplate, hinge, hinge housings, back plate, side plates, brackets, and the cover on the phones. We initially targeted the electronic casings market because of its potential for high product volumes and branding opportunities; however, unpredictable customer adoption practices, short product model lives, processing limitations, and intense pricing pressures make it very challenging to compete in this high-volume market. Accordingly, we are currently limiting our focus in this market to higher-margin applications that have the potential to benefit from the unique performance characteristics of bulk Liquidmetal alloys. We continue to believe that the high strength-to-weight ratio and elastic limit of bulk Liquidmetal alloys enable the production of stronger and thinner electronic devices as compared to plastic, zinc, and magnesium, and we intend to focus on products that require these design and performance benefits.

Sporting Goods and Leisure Products

We are developing a variety of applications for Liquidmetal alloys in the sporting goods and leisure products area.

In the sporting goods industry, we believe that the high strength, hardness, and elasticity of our bulk alloys have the potential to enhance performance in a variety of products, and we further believe that many sporting goods products are conducive to our internal manufacturing strategy of focusing on high-margin products that meet our design criteria. Substantial opportunities also exist for our amorphous alloy coatings, powders and composites. In 2003, Rawlings Sporting Goods Company launched a new line of baseball and softball bats that utilize a Liquidmetal alloy coating, and HEAD NV Sport launched a new line of HEAD® Liquidmetal® tennis racquets that incorporates Liquidmetal alloy in composite form in their racquet design. In 2005, we have also launched goods that utilize Liquidmetal alloy including skis. Other potential applications for our alloys in this industry include golf clubs, eyewear, fishing, hunting, and other sport products.

In the leisure products category, we believe that bulk Liquidmetal alloys can be used to efficiently produce intricately engineered designs with high-quality finishes, such as premium watchcases, and we further believe that Liquidmetal alloy technology can be used to make high-quality, high-strength jewelry from precious metals. We have successfully produced prototype rings made from an amorphous Liquidmetal platinum alloy that is harder (and hence more scratch resistant) than conventional platinum jewelry.

In order to accelerate the commercialization of Liquidmetal alloys in the jewelry and high-end luxury products market, in June 2003, we entered into an exclusive, ten-year license agreement with LLPG, Inc. (“LLPG”). Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets.

Medical Devices

We are engaged in product development efforts relating to various medical devices that could be made from Liquidmetal alloys. We believe that the unique properties of bulk Liquidmetal alloys provide a combination of performance and cost benefits that could make them a desirable replacement to incumbent materials, such as stainless steel and titanium, currently used in various medical device applications. Our ongoing emphasis has been on surgical instrument applications for Liquidmetal alloys. These include, but are not limited to, specialized blades, orthopedic instruments utilized for implant surgery procedures, dental devices, and general surgery devices. The potential value offered by our alloys is high performance in some cases and cost reduction in others, the latter stemming from the ability of Liquidmetal alloys to be net shape cast into components, thus reducing costs of secondary processing. The status of most components in the prototyping phase is subject to non-disclosure agreements with our customers.

We believe that our future success in the medical device market will be driven largely by strategically aligning ourselves with well-established companies that are uniquely positioned to facilitate the introduction of Liquidmetal alloys into this market, especially as it relates to the unique processing challenges and stringent material qualification requirements that are prevalent in this industry. We also believe that our prospects for success in this market will be enhanced through our focus on optimizing existing alloy compositions and developing new alloy compositions to satisfy the industry’s rigorous material qualification standards.

Industrial Coatings and Powders

We continue to market and sell amorphous alloy industrial coatings and powders under the Liquidmetal Armacor™ Coatings brand name. Liquidmetal alloy coatings are used primarily as a protective coating for industrial machinery and equipment. Since the inception of this business in the late 1980s, our proprietary coatings have demonstrated a high degree of hardness and low coefficient of friction which, when combined with their strong adhesion properties, reduce the wear and consequent failure of the machinery and equipment on which they are used. In contrast to our bulk alloys, we sell Liquidmetal coatings primarily in the form of a wire or powder feedstock that is melted and applied to machinery or equipment through welding or thermal spray processes.

Our Liquidmetal coatings are widely used in the oil drilling industry as a protective coating on drill pipe and casings, and we estimate that our coatings represent a dominant share of annual worldwide sales of hard band coatings for new oil drill pipe. Drilling often places tremendous stress on pipes and casings, especially whenever the drill changes direction. Both the drill pipe and casing experience excessive wear, which leads to higher replacement costs and greater failure rates. Liquidmetal coatings are used to provide a protective coating, or hard band, around the outside of the drill pipe and the inside of casings to reduce wear and failure rates and accordingly reduce operating costs.

Liquidmetal coatings have also been sold into the power generation industry specifically for the purpose of coating boiler tubes in coal-burning power plants in order to extend the lives of these boilers. Boiler tubes are subject to high heat, erosion, and corrosion and often require costly replacement, both in terms of replacement parts and length of downtime for installation. Additionally, residue build-up in boiler tubes of coal burning power plants creates operating inefficiencies. Historic performance and testing of Liquidmetal coatings have demonstrated that our coatings extend the life of these boiler tubes meaningfully beyond their current average life depending on the specific environment. In addition, our coatings have demonstrated the ability to reduce build-up of residue on boiler tubes, helping to improve the efficiencies of the boilers. Historically, we have not concentrated sales efforts on the boiler tube market in a substantial way. However, given the size of the market and potential opportunities for our coatings, we have recently dedicated greater effort to this area.

Going Concern /Liquidity

We have experienced significant cumulative operating losses since our inception. Our net income for the fiscal year ended December 31, 2009 was $0.3 million while our net loss for the fiscal years ended December 31, 2008 and 2007 was $6.6 million, and $5.6 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2009 and 2008, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding.

Table of Contents

On May 1, 2009, we completed a financing transaction (the “Transaction”) whereby aggregate cash of $2.5 million and principal and accrued interest of $20.6 million due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the “Prior Notes”) were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of $5.00 per share, 2,625,002 shares Series A-2 Preferred Stock with an original issue price of $5.00 per share, and $7.5 million of new 8% Senior Secured Convertible Subordinated Notes due January 2011 (the “Exchange Notes”). The Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the “Securities Purchase Agreement”), among the exchanging note holders and investors (collectively, the “Buyers”). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of Series A-1 Preferred Stock at $5.00 per share at any time prior to six months from the closing date (the “Series A-1 Option”). On August 5, 2010, we repaid in full all principal and interest on the Exchange Notes in the amount of $8.2 million, and all security interests on our assets securing such obligations were released and terminated.

On October 30, 2009, we entered into an agreement with various investors to issue 180,000 shares of convertible Series A-1 Preferred Stock for $0.9 million of cash pursuant to the Series A-1 Option.

On May 28, 2010, we issued $2.0 million of 13% Subordinated Promissory Note (“January 2011 Subordinated Note”) due on the earlier date of January 3, 2011 or the date on which all outstanding amounts are due under the Company’s 8% January 2011 Notes. Following the due date, the interest on the January 2011 Subordinated Note shall be 15%. The January 2011 Subordinated Note may be repaid in whole or in part at any time without penalty or premium, but is subordinate in right of payment to the January 2011 Notes and may not be paid until after the January 2011 Notes are paid in full. We may, at our sole discretion, elect to pay all or any portion of the outstanding principal or accrued interest in cash or the Company’s common stock or any combination thereof, at a value equal to the lower of $0.26 per share or the average market price per share for the 10 previous trading days immediately prior to the date the payment is made. As a condition for the January 2011 Subordinated Note, Carlyle Liquid Holdings, LLC, a current stockholder of the Company granted the holder of the January 2011 Subordinated Note a warrant to purchase up to 7,700,000 shares of the Company’s common stock at a price equal to $0.26 per share, which warrant is exercisable for a period of 90-days beginning on the date in which we repay the January 2011 Subordinated Note in cash (if we repay in cash). On August 5, 2010, we repaid in full all principal and accrued interest of $2.0 million on the January 2011 Subordinated Note. In connection with the repayment, on August 10, 2010, we entered into a Subscription Agreement pursuant to which we issued 7,870,307 shares of our common stock for an aggregate price of $2.0 million.

We have approximately $0.3 million of principal and accrued interest outstanding as of December 31, 2009, under the 8% unsecured subordinated notes (the "Bridge Notes"), which were due August 17, 2007. On August 5, 2010, we repaid in full all principal and interest on the Bridge Notes in the amount of $0.3 million.

We have $0.3 million of outstanding loan as of December 31, 2009 under a factoring, loan, and security agreement with a financing company. In June 2009, we received a formal notice of default from the financing company for repayment of the outstanding loan balance and entered into a settlement agreement with the financing company whereby we agreed to repay approximately $0.1 million each month until the outstanding loans and accrued fees have been repaid. As of December 31, 2009, we were unable to pay the $0.1 million monthly payments and were in discussions with the financing company to either extend or enter into another settlement agreement. On August 5, 2010, we repaid in full all principal, interest and fees on the factoring loan in the amount of $0.3 million and all security interests on our assets securing such obligation was released and terminated.

We have outstanding liens on assets by our South Korean subsidiary by various creditors for past-due trade payables totaling $1.3 million, of which $1.1 million is held by creditors in South Korea, as of December 31, 2009. We are currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If we cannot repay the amounts due or obtain a forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in South Korea. Such a foreclosure would have material adverse effect on our operations, financial condition, and results of operations.

Liquidmetal Golf

From 1997 until September 2001, we were engaged in the retail marketing and sale of golf clubs through a majority owned subsidiary, Liquidmetal Golf. The retail business of Liquidmetal Golf was discontinued in September 2001. Although the retail golf club business has been discontinued, Liquidmetal Golf is engaged in the development of golf club components for golf original equipment manufacturers that will integrate these components into their own clubs and then sell them under their respective brand names. Liquidmetal Technologies owns 79% of the outstanding common stock in Liquidmetal Golf.

Table of Contents

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. In consideration of this license, Liquidmetal Golf has issued 4,500,000 shares of Liquidmetal Golf common stock to Liquidmetal Technologies.

Our Intellectual Property

Our intellectual property consists of patents, trade secrets, know-how, and trademarks. Protection of our intellectual property is a strategic priority for our business, and we intend to vigorously protect our patents and other intellectual property. Our intellectual property portfolio includes 50 owned or licensed U.S. patents and numerous patent applications relating to the composition, processing, and application of our alloys, as well as various foreign counterpart patents and patent applications.

Our initial bulk amorphous alloy technology was developed by researchers at the California Institute of Technology ("Caltech"). We have purchased patent rights that provide us with the exclusive right to commercialize the amorphous alloy and other amorphous alloy technology acquired from Caltech through a license agreement ("Caltech License Agreement") with Caltech. In addition to the patents and patent applications that we license from Caltech, we are building a portfolio of our own patents to expand and enhance our technology position. These patents and patent applications primarily relate to various applications of our bulk amorphous alloys, the composition of our coatings and powders, and the processing of our alloys. The patents relating to our coatings expire on various dates until 2020 and the patents relating to our bulk amorphous alloys expire on various dates between 2013 and 2028. Our policy is to seek patent protection for all technology, inventions, and improvements that are of commercial importance to the development of our business, except to the extent that we believe it is advisable to maintain such technology or invention as a trade secret.

In order to protect the confidentiality of our technology, including trade secrets, know-how, and other proprietary technical and business information, we require that all of our employees, consultants, advisors and collaborators enter into confidentiality agreements that prohibit the use or disclosure of information that is deemed confidential. The agreements also obligate our employees, consultants, advisors and collaborators to assign to us developments, discoveries and inventions made by such persons in connection with their work with us.

Research and Development

We are engaged in ongoing research and development programs that are driven by the following key objectives:

- *Enhance Material Processing and Manufacturing Efficiencies.* We plan to continue research and development of processes and compositions that will decrease our cost of making products from Liquidmetal alloys.

- *Optimize Existing Alloys and Develop New Compositions.* We believe that the primary technology driver of our business will continue to be our proprietary alloy compositions. We plan to continue research and development on new alloy compositions to generate a broader class of amorphous alloys with a wider range of specialized performance characteristics. Since 2003, we have successfully expanded our portfolio of bulk amorphous alloys to include additional zirconium-titanium alloys, as well as alloys based on other metals, such as gold and platinum. Although these various compositions are at different stages of development and only a few are currently suitable for commercial use, we believe that a larger alloy portfolio will enable us to increase the attractiveness of our alloys as an alternative to incumbent materials and, in certain cases, drive down product costs. We also believe that our ability to optimize our existing alloy compositions will enable us to better tailor our alloys to our customers' specific application requirements.

- *Develop New Applications.* We will continue the research and development of new applications for Liquidmetal alloys. We believe the range of potential applications will broaden by expanding the forms, compositions, and methods of processing of our alloys.

We conduct our research and development programs internally and also through strategic relationships that we enter into with third parties. Our internal research and development efforts are conducted by a team of 10 scientists and engineers whom we either employ directly or as a consultant.

In addition to our internal research and development efforts, we enter into cooperative research and development relationships with leading academic institutions. We have entered into development relationships with other companies for the purpose of identifying new applications for our alloys and establishing customer relationships with such companies. Some of our product development programs are partially funded by our customers. We are also engaged in negotiations with other potential customers regarding possible product development relationships. Our research and development expenses for the years ended December 31, 2009, 2008 and 2007, were $1.2 million, $1.0 million, and $1.1 million, respectively.

Manufacturing

We currently own and operate a 166,000 square foot manufacturing facility in Pyongtaek, South Korea, which became operational in the third quarter of 2002. We believe that the facility will meet our anticipated manufacturing needs for the foreseeable future, although these needs may change depending upon the actual and forecasted orders we receive for our products. We currently intend to develop supplemental research and development, prototyping and manufacturing capabilities elsewhere, including the United States, for purposes of meeting our long-term manufacturing needs and our customers' requirements.

In June 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy, ("SAGA") a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl ("LSI"), under which LSI is currently acting as a contract manufacturer to our company for the purpose of producing prototypes and certain products in Europe.

In June 2007, we entered into a licensing agreement with Liquidmetal Korea Co. Ltd ("LMK"), a South Korean company, for a 10-year exclusive license to manufacture Liquidmetal alloys for customers whose principal headquarters or major operations are based in South Korea. Subsequent to December 31, 2009, the licensing agreement with LMK was terminated on June 15, 2010.

Raw Materials

Liquidmetal alloy compositions are comprised of many elements, all of which are available commodity products. We believe that each of these raw materials is readily available in sufficient quantities from multiple sources on commercially acceptable terms. However, any substantial increase in the price or interruption in the supply of these materials could have an adverse effect on our profitability.

Customers

During 2009, one customer, Liquidmetal Korea Co. Ltd. ("LMK"), accounted for more than 10% of our revenues from continuing operations. During both of 2008 and 2007, two customers, Grant Prideco and Liquidmetal Korea, accounted for 10% or more of our revenues from continuing operations. We expect that a significant portion of our revenue may continue to be concentrated in a limited number of customers, even as our bulk Liquidmetal alloy business grows.

Competition

We are not aware of any other company or business that manufactures, markets, distributes, or sells bulk amorphous alloys or products made from bulk amorphous alloys. We believe it would be difficult to develop a competitive bulk amorphous alloy without infringing our patents. However, our bulk Liquidmetal alloys face competition from other materials, including metals, alloys, plastics and composites, which are currently used in the commercial applications that we pursue. For example, we face significant competition from plastics and zinc in our electronics components business, and titanium and composites will continue to be used widely in medical devices and sporting goods. Based on our experience with developing products for a variety of customers, we believe that the selection of materials by potential customers will continue to be product-specific in nature, with the decision for each product being driven primarily by the performance needs of the application and secondarily by cost considerations and design flexibility. Because of the relatively high strength of our alloys and the design flexibility of our process, we are most competitive when the customer is seeking a higher strength as well as greater design flexibility than currently available with other materials. However, if currently available materials, such as plastics, are strong enough for the application, our alloys are often not competitive those applications with respect to price. We also believe that our alloys are generally not competitive with the cost of some of the basic metals, such as steel, aluminum or copper, when such basic metals can be used in specific applications, but our alloys are generally more competitive with price on more exotic metals, such as titanium. Our alloys could also face competition from new materials that may be developed in the future, including new materials that could render our alloys obsolete.

Our Liquidmetal alloy coatings face competition from industrial coatings currently manufactured or sold by other companies. At present, the primary competitors of our coatings business are Varco International, Inc. and Arnco Technology Trust, Limited. Although we believe, based on market data gathered by us, that our coatings compete favorably with these companies' products and that we continue to maintain the dominant market share with respect to protective coatings for oil and gas drill pipe and casings, these competitors are larger well-established businesses that have substantially greater financial, marketing, and other resources than we do.

We will also experience indirect competition from the competitors of our customers. Because we will rely on our customers to market and sell finished goods that incorporate our components or products, our success will depend in part on the ability of our customers to effectively market and sell their own products and compete in their respective markets.

Backlog

In our bulk alloy segment, because of the minimal lead-time associated with orders of bulk alloy parts, we generally do not carry a significant backlog. In our coatings segment, we typically ship our coating products shortly after receipt of an order, and our coatings backlog is therefore also insignificant. In both our bulk alloy segment and coatings segment, the backlog as of any particular date gives no indication of actual sales for any succeeding period.

Sales and Marketing

We direct our marketing efforts towards customers that will incorporate our components and products into their finished goods. To that end, we will continue to hire business development personnel who, in conjunction with engineers and scientists, will actively identify potential customers that may be able to benefit from the introduction of Liquidmetal alloys to their products. In some cases, we will develop applications in conjunction with existing or potential customers. By adopting this strategy, we intend to take advantage of the sales and marketing forces and distribution channels of our customers to facilitate the commercialization of our alloys. We also direct business development efforts toward companies who we believe could be viable candidates for potential partnering transactions, such as licensing relationships, distribution arrangements, joint ventures, and the like.

Employees

As of December 31, 2009, we had 52 full-time and 2 part-time employees for a total of 54 employees. As of that date, none of our employees were represented by a labor union. We have not experienced any work stoppages and we consider our employee relations to be favorable.

Governmental Regulation

Medical instruments incorporating our Liquidmetal alloys will be subject to regulation in the United States by the FDA and corresponding state and foreign regulatory agencies. Any orthopedic devices that we develop will be regulated in a similar manner. Medical device manufacturers to whom we intend to sell our products may need to obtain FDA approval before marketing their medical devices that incorporate our products. Medical device manufacturers may need to obtain similar approvals before marketing these medical device products in foreign countries.

Because we intend to sell our medical device products to medical device manufacturers, we do not believe that we will need to obtain FDA approval or similar foreign approvals before selling products to medical device manufacturers. Nonetheless, as a manufacturer of medical device components, we would be subject to quality control and record keeping requirements of FDA and other federal and state statutes and regulations, as well as similar regulations in foreign countries.

The process of obtaining and maintaining required FDA and foreign regulatory approvals for medical devices that incorporate our products could be lengthy, expensive, and uncertain for our customers. Additionally, regulatory agencies can delay or prevent product introductions. Generally, before a medical device manufacturer can market a product incorporating one of our products, our customer must obtain for their finished product marketing clearance through a 510(k) premarket notification or approval of a pre-market approval application, or PMA. The FDA will typically grant a 510(k) clearance if the applicant can establish that the device is substantially equivalent to a predicate device. It generally takes a number of months from the date of a 510(k) submission to obtain clearance, but it may take longer, particularly if a clinical trial is required.

The FDA may find that a 510(k) is not appropriate for a medical device that incorporates our product or that substantial equivalence has not been shown and as a result will require a PMA. A PMA application must be submitted if a proposed medical device does not qualify for a 510(k) pre-market clearance procedure. PMA applications must be supported by valid scientific evidence to demonstrate the safety and effectiveness of the device, typically including the results of clinical trials, bench tests, and laboratory and animal studies. The PMA process can be expensive, uncertain and lengthy, requires detailed and comprehensive data, and generally takes significantly longer than the 510(k) process. Additionally, the FDA may never approve the PMA.

Similar regulations in foreign countries vary significantly from country to country and with respect to the nature of the particular medical device. The time required to obtain these foreign approvals to market our products may be longer or shorter than that required in the United States, and requirements for such approval may differ from FDA requirements.

Environmental Law Compliance

Our manufacturing operations are subject to national, state, and local environmental laws in each of South Korea and the United States. We believe that we are in material compliance with all applicable environmental regulations. While we continue to incur costs to comply with environmental regulations, we do not believe that such costs will have a material effect on our capital expenditures, earnings, or competitive position.

Item 1A. Risk Factors

This report contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on management's current expectations, estimates, forecasts, and projections about the Company and its business. In addition, other written or oral statements which constitute forward-looking statements may be made from time to time by or on behalf of Liquidmetal Technologies, Inc. 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 "believe," "estimate," "project," "expect," "intend," "may," "anticipate," "plans," "seeks," and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or result. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. Liquidmetal Technologies, Inc. undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from what is expressed or forecasted in our forward-looking statements include, but are not limited to, the following:

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

We have experienced significant cumulative operating losses since our inception. Our net income for the fiscal year ended December 31, 2009 was $0.3 million while our net loss for the fiscal years ended December 31, 2008 and 2007 was $6.6 million and $5.6 million, respectively. We had an accumulated deficit of approximately $162.8 million at December 31, 2009. Of this accumulated deficit, $44.5 million was attributable to losses generated by our discontinued equipment manufacturing and retail golf operations. We anticipate that we may continue to incur operating losses for the foreseeable future. Consequently, it is possible that we may never achieve positive earnings and, if we do achieve positive earnings, we may not be able to achieve them on a sustainable basis.

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

We have marketed and sold industrial coatings to distributors in the coatings industry since 1987. Prior to the third quarter of 2002, our experience selling products made from bulk amorphous alloys has been limited to our discontinued retail golf business, which had a different marketing strategy than the one we are currently employing. Therefore, we have a relatively limited history of producing bulk amorphous alloy components and products on a mass-production basis. Furthermore, our ability to produce our products in desired quantities and at commercially reasonable prices is uncertain and is dependent on a variety of factors that are outside of our control, including the nature and design of the component, the customer's specifications, and required delivery timelines.

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

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

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

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

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

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

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

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

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

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

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

For the near future, we expect that a significant portion of our revenue will be concentrated in a limited number of customers. For example, for the years ended December 31, 2009, 2008 and 2007, revenues from two customers, Grant Prideco and Liquidmetal Korea, represented approximately 39%, 19% and 22% respectively, of total revenues from continuing operations. A reduction, delay, or cancellation of orders from one or more of these customers or the loss of one or more customer relationships could significantly reduce our revenue. Unless we establish long-term sales arrangements with these customers, they will have the ability to reduce or discontinue their purchases of our products on short notice.

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

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

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

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

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

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

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

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

Future advances in materials science could render Liquidmetal alloys obsolete.

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

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

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

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

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

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

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

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

We expect that we will continue to manufacture a substantial portion of our initial bulk Liquidmetal alloy products in our South Korean facility and derive a material portion of our revenues from customers in South Korea and revenues from products manufactured by our licensing partner in China. For our fiscal years ended December 31, 2009, 2008 and 2007, approximately 31%, 5% and 27%, of our revenues came from customers located in South Korea, respectively. As a result, our manufacturing operations and financial results are subject to risks of political instability, including the risk of conflict between North Korea and South Korea and tensions between the United States and North Korea. In addition, we anticipate that the trend of foreign customers accounting for a significant portion of our total revenues may continue. Specifically, we expect to continue to derive a significant amount of revenue from sales to customers located in Asia. A downturn in the economies of Asian countries where our products will be sold, particularly South Korea's economy, could materially harm our business.

Table of Contents

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

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

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

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

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

We rely on our suppliers for mold making and manufacture of our bulk amorphous alloy parts.

We have outsourced much of our mold making and manufacturing of our bulk amorphous alloy parts. Therefore, our revenue growth is dependent on our ability to obtain sufficient manufacturing capacity. Our suppliers may allocate their limited capacity to fulfill the production requirements of other customers. In the event of a disruption of the operations of our suppliers, we may not have a secondary manufacturing source immediately available. Such an event could cause significant delays in shipments and may adversely affect our cost of goods sold and our results of operations.

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

We expect to conduct business in various foreign currencies and will be exposed to market risk from changes in foreign currency exchange rates and interest rates. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on our business, results of operations, and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on our operations cannot be accurately predicted. To the extent that the percentage of our non-U.S. dollar revenue derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates will increase further. Moreover, as a result of operating a manufacturing facility in South Korea, a substantial portion of our costs are and will continue to be denominated in the South Korean won. Adverse changes in the exchange rates of the South Korean won to the U.S. dollar will affect our costs of goods sold and operating margins and could result in exchange losses. The average foreign exchange rates for the years ended December 31, 2009, 2008 and 2007 were 1,279, 1,103 and 935 South Korean Won to the U.S. dollar, respectively. The fluctuations in the exchange rates resulted in foreign currency translation gain (loss) of $0.4 million, ($1.8) million and $0.2 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Table of Contents

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

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

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

Our licensed technology comprises several issued United States patents covering the composition and method of manufacturing of the family of Liquidmetal alloys. We also hold several United States and corresponding foreign patents covering the manufacturing processes of Liquidmetal alloys and their use. The patents relating to our coatings have various expiration dates until 2020, and those relating to our bulk amorphous alloys have expiration dates between 2013 and 2028. We continue to hold other coatings related patents; however, if we are unable to protect our proprietary rights prior to the expiration of these patents, we may lose the advantage we have established as being the first to market bulk amorphous alloy products. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and we may encounter significant problems and costs in protecting our proprietary rights in these foreign countries.

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

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

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

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

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

As of December 31, 2009, our long-term debt was $14.1 million, net of debt discount of $3.2 million, including the current portion of such debt. Our long-term debt (including the current portion) includes the following:

- $4.7 million in principal outstanding under the 8% Senior Secured Convertible Notes due January 2011 (the "January 2011 Notes") issued in May 1, 2009;
- $1.4 million in principal outstanding under the Bank Midwest term loan issued in July 2007;

Table of Contents

- $0.1 million in principal outstanding under the Bank Midwest capital loans issued in August 2007 and October 2008;
- $7.6 million in principal outstanding under the C3 Capital Partners Subordinated Promissory Notes due July 2012 issued in July 2007; and
- $0.3 million in principal outstanding under the 8% Unsecured Subordinated Notes issued in 2006 private placements.

As of December 31, 2009, our short-term debt was $0.9 million. Our short-term debt included the following:

- $0.3 million in outstanding advances received under a factoring, loan, and security agreement executed in April 2005, as amended, with a financing company;

- $0.3 million in outstanding advances received under a revolving loan from Bank Midwest issued in July 2007;

- $0.1 in outstanding advances received from John Kang, our former Chairman; and

- $0.2 in outstanding advances received from Ricardo Salas, our Executive Vice President.

The $0.3 million in aggregate principal amount under the 8% Unsecured Subordinated Notes became due in August 2007, and $4.7 million in aggregate principal amount under our January 2011 Notes is due on January 3, 2011.

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

- a significant portion of our cash flow from operations is likely to be dedicated to the payment of the principal of and interest on our indebtedness;

- we may be unable to refinance our indebtedness on terms acceptable to us or at all;

- our cash flow may be insufficient to meet our required principal and interest payments; and

- we may be unable to obtain additional loans as a result of covenants and agreements with existing debt holders.

In addition, our convertible notes and related documents contain restrictive covenants pursuant to which we generally may not incur any indebtedness that would be senior to, or on the same rank as, the convertible notes with respect to payment or security. These covenants may curtail our ability to raise capital in the future or otherwise restrict our ability to enter into a transaction that we believe would be in the best interest of our stockholders.

We are in default under various debt obligations.

We have approximately $0.3 million of principal and accrued interest outstanding as of December 31, 2009, under the 8% unsecured subordinated notes (“Bridge Notes”), which were due August 17, 2007. As of the date of this report, we did not have sufficient funds to repay the Bridge Notes and were in default under the Bridge Notes. On August 5, 2010, we repaid in full all principal and interest on the Bridge Notes in the amount of $0.3 million.

We have $0.3 million of outstanding loan as of December 31, 2009 under a factoring loan, and security agreement with a financing company. As of the date of this report, we did not have sufficient funds to repay the loan and were in default under this loan. On August 5, 2010, we repaid in full all principal and interest on the factoring loan in the amount of $0.3 million and all security interests on our assets securing such obligation was released and terminated.

Table of Contents

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

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

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

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

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

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

In addition, the processing of beryllium, a minor constituent element of some of our alloys, can result in the release of beryllium into the workplace and the environment and in the creation of beryllium oxide as a by-product. Beryllium is classified as a hazardous air pollutant, a toxic substance, a hazardous substance, and a probable human carcinogen under environmental, safety, and health laws, and various acute and chronic health effects may result from exposure to beryllium. We are required to comply with certain regulatory requirements and to obtain a permit from the U.S. Environmental Protection Agency or other government agencies to process beryllium. Our failure to comply with present or future governmental regulations related to the processing of beryllium could result in suspension of manufacturing operations and substantial fines or criminal penalties.

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

The existence of minority stockholders in our Liquidmetal Coatings and Liquidmetal Golf subsidiaries creates potential for conflicts of interest.

We directly own 69.25% of outstanding common membership units of Liquidmetal Coatings, LLC, our subsidiary that has exclusive right over industrial coatings market and 79% of the outstanding capital stock of Liquidmetal Golf, our subsidiary that has the exclusive right to commercialize our technology in the golf market. The remaining 30.75% of Liquidmetal Coatings, LLC common membership units are owned by 4 members and the remaining 21% of

Liquidmetal Golf stock is owned by approximately 95 stockholders of record. As a result, conflicts of interest may develop between us and the minority members of Liquidmetal Coatings and stockholders of Liquidmetal Golf. To the extent that our officers and directors are also officers or directors of Liquidmetal Coatings and Liquidmetal Golf, matters may arise that place the fiduciary duties of these individuals in conflicting positions.

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

During 2009, the highest bid price for our common stock was $0.44 per share, while the lowest bid price during that period was $0.08 per share. The trading price of our common stock could continue to fluctuate widely due to:

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

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

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

The convertible notes issued in our May 1, 2009 financing transaction ("January 2011 Notes") contain "full-ratchet" anti-dilution rights. As a result of these anti-dilution rights, if we issue or grant in the future any rights to purchase any of our common stock, or other security convertible into our common stock, for an effective per share price less than the conversion price then in effect, the conversion price of all unconverted January 2011 Notes will be decreased to equal such lower price. The foregoing adjustments to the conversion price of the January 2011 Notes will not apply to certain exempt issuances, including issuances pursuant to employee stock option plans and strategic transactions.

In addition to the above-described full-ratchet anti-dilution rights, warrants issued under the January 2011 Notes and certain previously issued warrants contain "weighted-average" anti-dilution provisions. As of December 31, 2009, we had warrants to purchase 59,928,242 shares at exercise prices ranging from $0.50 to $1.75 with weighted-average anti-dilution provisions. Under these provisions, if we issue shares in the future for consideration below the conversion or exercise prices then in effect, then (with certain exceptions, including the issuance of stock options) the conversion price for our convertible notes would automatically be reduced (allowing the holders of the notes to receive additional shares of common stock upon conversion) and the exercise price of the warrants would automatically be reduced (with a corresponding increase in the number of shares issuable pursuant to such warrants).

To illustrate the impact of these weighted-average anti-dilution provisions, because of the issuance of the January 2011 Notes in May 2009 and the reduction of the conversion price of certain previously issued warrants, the above-described warrants outstanding as of December 31, 2009 includes an aggregate of 3,214,451 additional shares of our common stock that have become issuable as a result of the operation of these weighted-average anti-dilution provisions. It is also possible that a future triggering of the full-ratchet anti-dilution rights in our January 2010 Notes could result in a corresponding triggering of the above-described weighted-average anti-dilution provisions in the other notes and warrants.

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices and principal research and development offices are located in Rancho Santa Margarita, California and consist of approximately 15,000 square feet. This facility is occupied pursuant to a lease agreement that expires on April 20, 2012.

In Kingwood, Texas, we lease an office for our coatings business segment. This facility, which is approximately 2,715 square feet, is leased through December 31, 2012.

In Huntsville, Texas, we lease a warehouse for our coatings business segment. This facility, which is approximately 4,500 square feet, is leased through August 1, 2012.

In Dothan, Alabama, we lease an application facility for our coatings business segment. This facility, which is approximately 5,000 square feet, is leased through June 30, 2010.

Our principal prototyping and manufacturing facility is in Pyongtaek, South Korea, and consists of approximately 166,000 square feet. We lease the land on which this facility is located, although we own the buildings, fixtures, and all personal property located on the land. The parcel of land consists of approximately four acres and is leased through 2022.

We currently expect that the foregoing facilities will meet our anticipated internal manufacturing, research, warehousing, and administrative needs for the foreseeable future.

Item 3. Legal Proceedings

On August 6, 2010, SAGA, SpA in Padova, Italy, ("SAGA") filed a litigation case against us claiming damages of $3.2 million for payment on a loan and for breach of contract in connection with the formation of LSI, a joint venture between us and SAGA. We are in the process of responding to the claim and working with SAGA to resolve the matter.

Item 4. Submission of Matters to a Vote of Security Holdings

None.

Table of Contents

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is currently quoted on the OTC Bulletin Board under the symbol "LQMT." On April 6, 2010, the last reported sales price of our common stock was $0.10 per share. As of April 6, 2010, we had 267 record holders of our common stock.

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

2009	High	Low
Fourth Quarter	$ 0.21	$ 0.11
Third Quarter	$ 0.22	$ 0.14
Second Quarter	$ 0.44	$ 0.16
First Quarter	$ 0.30	$ 0.08

2008	High	Low
Fourth Quarter	$ 0.33	$ 0.06
Third Quarter	$ 0.57	$ 0.20
Second Quarter	$ 0.75	$ 0.50
First Quarter	$ 0.75	$ 0.53

We have never paid a cash dividend on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future, and we plan to retain our earnings to finance future growth.

Table of Contents

Item 6. Selected Consolidated Financial Data

The following table shows our selected consolidated financial data as of and for the years ended December 31, 2005 through 2009.

	For the Years Ended December 31,				
	2009	2008	2007	2006 (Restated)	2005 (Restated)
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ 14,720	$ 22,083	$ 29,022	$ 27,669	$ 16,365
Cost of sales	9,097	17,131	26,459	22,418	15,129
Gross profit	5,623	4,952	2,563	5,251	1,236
Operating expenses:					
Selling, general and administrative expenses	6,740	6,529	8,921	9,962	8,534
Research and development expenses	1,173	1,022	1,123	950	1,120
Impairment of long-lived assets	1,381	132	—	—	4,487
Total operating expenses	9,294	7,683	10,044	10,912	14,141
Loss before interest, other income, income taxes, non-controlling interest and discontinued operations	(3,671)	(2,731)	(7,481)	(5,661)	(12,905)
Loss from extinguishments of debt	(1,471)	—	(648)	—	(1,247)
Change in value of warrants, gain	9,835	1,890	4,923	279	3,985
Change in value of conversion feature, gain (loss)	1,827	1,987	6,965	(226)	9,118
Other expense	(308)	(17)	—	—	—
Other income	—	429	226	572	—
Interest expense	(5,862)	(7,712)	(9,364)	(9,509)	(6,021)
Interest income	—	3	123	23	17
Gain (loss) before income taxes, minority interest and discontinued operations	350	(6,151)	(5,256)	(14,522)	(7,053)
Income taxes	(168)	—	—	—	—
Income (loss) before non-controlling interest	182	(6,151)	(5,256)	(14,522)	(7,053)
Non-controlling interest	69	(421)	(384)	—	—
Income (loss) from continuing operations	251	(6,572)	(5,640)	(14,522)	(7,053)
Net income (loss)	$ 251	$ (6,572)	$ (5,640)	$ (14,522)	$ (7,053)

Income (loss) per share from continuing operations - basic and diluted	$ 0.01	$ (0.15)	$ (0.13)	$ (0.33)	$ (0.17)
Income (loss) per share from continuing operations - basic	$ 0.01	$ (0.15)	$ (0.13)	$ (0.33)	$ (0.17)
Income (loss) per share from continuing operations - diluted	$ 0.00	$ —	$ —	$ —	$ —
Weighted average common shares - basic	46,084	44,735	44,730	43,809	41,833
Weighted average common shares - diluted	214,429	44,735	44,730	43,809	41,833

	As of December 31,				
	2009	2008	2007	2006	2005 (Restated)
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 151	$ 157	$ 1,180	$ 144	$ 1,392
Working capital (deficiency)	(13,084)	(20,755)	(12,324)	(23,157)	(10,993)
Total assets	10,440	13,240	22,513	22,244	21,563
Long-term debt, including current portion, net of discount	14,054	22,693	20,724	14,705	6,776
Shareholders’ equity (deficiency)	(18,367)	(20,380)	(14,580)	(10,363)	(1,320)

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This management’s discussion and analysis should be read in the conjunction with the condensed consolidated financial statements and notes included elsewhere in this report on Form 10-K.

This management’s discussion and analysis, as well as other sections of this report on Form 10-K, may contain “forward-looking statements” that involve risks and uncertainties, including statements regarding our plans, future events, objectives, expectations, forecasts, or assumptions. 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,” “plans,” “seeks,” and similar 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 caption “Risk Factors” in Item 1A of this report and other risks and uncertainties discussed in filings made with the Securities and Exchange Commission (including risks described in subsequent reports on Form 10-Q, Form 10-K, Form 8-K, and other filings). Liquidmetal Technologies, Inc. disclaims any intention or obligation 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 coatings, powders, bulk alloys, and composites that utilize the advantages offered by amorphous alloy technology. We develop, manufacture, and sell products and components from bulk amorphous alloys to customers in various industries, and we also partner with third-party licensees to develop and commercialize bulk Liquidmetal alloy products. We believe that our proprietary bulk alloys are the only commercially viable bulk amorphous alloys currently available in the marketplace. In addition to our bulk alloys, we market and sell a line of proprietary amorphous alloy-based industrial coatings under the Liquidmetal Armacor™ coatings brand.

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

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

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

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

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

Impairment of Long-Lived Assets consists of a write-down of $1.4 million of our manufacturing facility in Pyongtaek, South Korea. While we have actively marketed the manufacturing facility for ultimate sale, we were unable to sell this facility and determined that the carrying value of the idle equipment exceeded its fair value in the amount of $1.4 million during the fourth quarter of fiscal year 2009.

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

Change in Value of Conversion Feature consists of changes to the fair value of the embedded conversion feature of our senior convertible notes. The embedded conversion feature has been accounted for as a separate derivative instrument in accordance with ASC 815 with a change in fair values reported in earnings. The change in fair values is determined using a Black-Scholes pricing model and fluctuations in our stock price have had the greatest impact on the valuation of outstanding conversion features.

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

On June 26, 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy, ("SAGA") a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl ("LSI"). We also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, we have the option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, we have purchased 19.9% interest in the joint venture. In January 2007 and June 2007, we contributed additional $0.2 million and $0.1 million, respectively, into LSI as additional investment. The contribution did not change our 19.9% interest in LSI. Under the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell to us certain business assets including manufacturing equipment acquired under the joint venture. During the fourth quarter of the year ended December 31, 2009, we wrote-off its investment of $0.3 million in the joint venture due to slower than anticipated growth in the eyewear industry. During the years ended December 31, 2009, 2008 and 2007, we recognized revenues of $0, $0 and $0.1 million, respectively, of Liquidmetal alloys sold to SAGA for use in the joint venture.

On August 6, 2010, SAGA filed a litigation case against us claiming damages of $3.2 million for payment on a loan and for breach of contract in connection with the formation of LSI, a joint venture between us and SAGA. We are in the process of responding to the claim and working with SAGA to resolve the matter.

In a connection to an equipment purchase agreement entered into with Grace Metal, currently Liquidmetal Korea Co., Ltd. ("LMK"), a South Korean corporation, effective June 1, 2007, we discontinued our post-processing operation in Weihai, China and transferred our manufacturing staff and equipment in Weihai to LMK under an amendment to the equipment purchase agreement with LMK. Further, we transferred certain of our manufacturing staff from our South Korean plant to LMK. LMK was formed by an investor group that includes the former director and officer of our company, James Kang, who is also the brother of John Kang, former Chairman of the Board of our company.

On July 24, 2007, we transferred substantially all of the assets of our Liquidmetal alloy industrial coatings business to a newly formed, newly capitalized subsidiary named Liquidmetal Coatings, LLC, a Delaware limited liability company ("LMC"), and LMC assumed substantially all of the liabilities of the coatings business. The transfer included the thermal spray coatings assets and liabilities acquired under a purchase agreement with Foster Wheeler Energy Services in June 2007. We hold a 69.25% ownership interest in LMC. The results of operation of LMC are consolidated and comprise our Liquidmetal alloy industrial coatings segment for financial reporting purposes.

Results of Operations

Comparison of the years ended December 31, 2009 and 2008

Revenue. Revenue decreased $7.4 million to $14.7 million for the twelve months ended December 31, 2009 from $22.1 million for the twelve months ended December 31, 2008. The decrease consisted of $2.7 million decrease in sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of increased reliance on our licensee to market and sell bulk Liquidmetal alloys, a decrease of $3.9 million from sales of our coating products as a result of decrease in demand from oil drilling applications, and a decrease of $0.8 million from our research and development contracts.

Cost of Sales. Cost of sales decreased to $9.1 million, or 62% of revenue, for the twelve months ended December 31, 2009 from $17.1 million, or 78% of revenue, for the twelve months ended December 31, 2008. The decreases were a result of a continued change in revenue mix during the twelve months ended December 31, 2009. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased to $6.7 million, or 46% of revenue, for the twelve months ended December 31, 2009 from $6.5 million, or 30% of revenue, for the twelve months ended December 31, 2008. The increase was primarily a result of an increase in bad debt expense of $1.3 million offset by a decrease in salaries and related benefits expense of $0.4 million, decrease in product warranty expense of $0.2 million, decrease in professional services expense of $0.2 million, decrease in travel expenses of $0.2 million and decrease in depreciation expense of $0.1 million.

Research and Development Expenses. Research and development expenses increased to $1.2 million, or 8% of revenue, for the twelve months ended December 31, 2009 from $1.0 million, or 5% of revenue, for the twelve months ended December 31, 2008. The increase was primarily a result of an increase in salaries and related benefits expenses of $0.1 million and increase in amortization expense of $0.1 million. We continue to perform research and development of new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants to advance the development of Liquidmetal alloys.

Impairment of Long-Lived Assets. Impairment of long-lived assets was $1.4 million or 9% of revenue for the twelve months ended December 31, 2009 from a write-down of our manufacturing facility in Pyongtaek, South Korea. Impairment of long-lived assets was $0.1 million, or 1% of revenue, for the twelve months ended December 31, 2008 from of a write-down of idle equipment held by our South Korean subsidiary, Liquidmetal Technologies Co., Ltd. While we have actively marketed our manufacturing facility and the idle equipment for ultimate sale, we were unable to sell them and determined that their carrying value exceeded their fair value.

Loss from Extinguishments of Debts. Loss from extinguishments of debt increased to $1.5 million, or 10% of revenue, for the twelve months ended December 31, 2009 from $0 for the twelve months ended December 31, 2008. The $1.5 million loss was recognized from the extinguishment of certain of our convertible and subordinated notes during the second quarter of 2009.

Change in Value of Warrants. Change in value of warrants increased to a gain of $9.8 million, or 67% of revenue, during the twelve months ended December 31, 2009 from a gain of $1.9 million, or 9% of revenue, during the twelve months ended December 31, 2008. The change in value of warrants consisted of warrants issued from convertible and subordinated notes funded between 2004 and 2009 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability resulted in gain of $1.8 million, or 12% of revenue, during the twelve months ended December 31, 2009 from a gain of $2.0 million, or 9% of revenue, during the twelve months ended December 31, 2008 primarily as a result of fluctuation in our stock prices.

Other Expense. Other expense increased to $0.3 million for the twelve months ended December 31, 2009 from $17 thousand for the twelve months ended December 31, 2008, primarily from a write-down of our joint venture, Liquidmetal SAGA Italy, srl, with SAGA, SpA .

Other Income. Other income was $0.4 million, or 2% of revenue, for the twelve months ended December 31, 2008, primarily from gain $0.2 million recognized from deferred gain on sale of equipment from 2007 and $0.2 million from write off accounts payables. There was no other income for the twelve months ended December 31, 2009.

Interest Expense. Interest expense was $5.9 million, or 40% of revenue, for the twelve months ended December 31, 2009 and was $7.7 million, or 35% of revenue, for the twelve months ended December 31, 2008. Interest expense consists primarily of debt amortization and interest accrued on outstanding convertible and subordinated notes, borrowings under a factoring, loan, and security agreement, a revolving loan agreement, and the Kookmin loan. The decrease was due to extinguishment of certain of our convertible and subordinated notes during the second quarter of 2009.

Interest Income. Interest income was $3 thousand for the twelve months ended December 31, 2008 from interest earned on cash deposits. There was no interest income for the twelve months ended December 31, 2009.

Comparison of the years ended December 31, 2008 and 2007

Revenue. Revenue decreased $6.9 million to $22.1 million for the twelve months ended December 31, 2008 from $29.0 million for the twelve months ended December 31, 2007. The decrease included $5.0 million decrease in sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of increased reliance on licensees to manufacture and sell bulk Liquidmetal alloy parts and a decrease of $1.9 million from sales of our coating products as a result of decrease in demand from oil drilling applications.

Cost of Sales. Cost of sales decreased to $17.1 million, or 78% of revenue, for the twelve months ended December 31, 2008 from $26.5 million, or 91% of revenue, for the twelve months ended December 31, 2007. The decreases were a result of a change in revenue mix during the twelve months ended December 31, 2008 primarily from increased royalty revenues. We also believe that higher manufacturing volumes and greater mix of higher-margin products in the future will cause the gross profit to improve over time. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased to $6.5 million, or 30% of revenue, for the twelve months ended December 31, 2008 from $8.9 million, or 31% of revenue, for the twelve months ended December 31, 2007. The decrease was primarily a result of decrease in wages and expenses of $0.4 million, decrease in professional and consulting fees of $1.3 million, decrease in bad debt expense of $0.3 million, decrease in depreciation and amortization expense of $0.1 million, and decrease in office and equipment rent expense of $0.1 million.

Research and Development Expenses. Research and development expenses decreased to $1.0 million, or 5% of revenue, for the twelve months ended December 31, 2008 from $1.1 million, or 4% of revenue, for the twelve months ended December 31, 2007. The decrease was primarily due to decrease in wages and related expenses. We continue to perform research and development of new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants to advance the development of Liquidmetal alloys.

Impairment of Long-Lived Assets. Impairment of long-lived assets was $0.1 million, or 1% of revenue, for the twelve months ended December 31, 2008 from of a write-down of idle equipment held by our South Korean subsidiary, Liquidmetal Technologies Co., Ltd. While we have actively marketed the idle equipment for ultimate sale since early 2004, we were unable to sell this equipment and determined that the carrying value of the idle equipment exceeded its fair value in the amount of $0.1 million during the fourth quarter of fiscal year 2008. There was no impairment of long-lived assets recognized during the twelve months ended December 31, 2007.

Loss from Extinguishments of Debts. Loss from extinguishments of debt decreased to $0 for the twelve months ended December 31, 2008 from $0.6 million, or 2% of revenue, for the twelve months ended December 31, 2007. The $0.6 million loss was recognized from the extinguishment of certain of our convertible and subordinated notes in 2007.

Change in Value of Warrants. Change in value of warrants decreased to a gain of $1.9 million, or 9% of revenue, during the twelve months ended December 31, 2008 from a gain of $4.9 million, or 17% of revenue, during the twelve months ended December 31, 2007. The change in value of warrants consisted of warrants issued from convertible notes and subordinated notes funded between 2004 and 2007 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability from our convertible notes funded between 2004 and 2007 resulted in gain of $2.0 million, or 9% of revenue, during the twelve months ended December 31, 2008 from a gain of $7.0 million, or 24% of revenue, during the twelve months ended December 31, 2007 primarily as a result of fluctuation in our stock prices.

Other Expense. Other expense was $17 thousand for the twelve months ended December 31, 2008, primarily from loss on disposal of assets. There was no other expense recognized for the twelve months ended December 31, 2007.

Table of Contents

Other Income. Other income was $0.4 million, or 2% of revenue, for the twelve months ended December 31, 2008, primarily from gain $0.2 million recognized from deferred gain on sale of equipment from 2007 and $0.2 million from write off accounts payables. Other income was $0.2 million, or 1% of revenue, for the twelve months ended December 31, 2007, primarily from gain recognized from sale of equipment.

Interest Expense. Interest expense was $7.7 million, or 35% of revenue, for the twelve months ended December 31, 2008 and was $9.4 million, or 32% of revenue, for the twelve months ended December 31, 2007. Interest expense consists primarily of debt amortization and interest accrued on outstanding convertible and subordinated notes, borrowings under the April 2005 factoring, loan, and security agreement, the Kookmin loan, the Bank Midwest loans, and late registration and late filing fee penalties.

Interest Income. Interest income was $3 thousand for the twelve months ended December 31, 2008 and $0.1 million for the twelve months ended December 31, 2007, from interest earned on cash deposits.

Table of Contents

QUARTERLY RESULTS

The following information presents our unaudited quarterly operating results for 2009 and 2008. The data has been prepared by Liquidmetal Technologies, Inc. on a basis consistent with the Consolidated Financial Statements included elsewhere in this Form 10-K, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof. These operating results are not necessarily indicative of our future performance.

Consolidated Statements of Operations Data:	**For the Three Months Ended**			
	12/31/09	**09/30/09**	**06/30/09**	**03/31/09**
	(In thousands, except per share data) (Unaudited)			
Revenue	$ 3,400	$ 4,209	$ 3,519	$ 3,592
Cost of sales	2,152	2,909	1,895	2,141
Gross profit	1,248	1,300	1,624	1,451
Operating expenses				
Selling, general, and administrative	2,454	1,341	1,357	1,588
Research and development	276	349	301	247
Impairment of long-lived assets	1,381	—	—	—
Total operating expenses	4,111	1,690	1,658	1,835
Loss from operations	(2,863)	(390)	(34)	(384)
Loss from extingquishment of debt	—	—	(1,471)	—
Change in value of warrants, gain (loss)	1,697	2,015	6,249	(126)
Change in value of conversion feature, gain	393	474	930	30
Other expense	(308)	—	—	—
Other income	—	—	—	—

Interest expense	(1,102)	(1,055)	(1,415)	(2,290)
Interest income	—	—	—	—
(Loss) income before income taxes	(2,183)	1,044	4,259	(2,770)
Income Taxes	(48)	(75)	(45)	
Net (loss) income	(2,231)	969	4,214	(2,770)
Net loss (income) attributable to noncontrolling interest	10	39	51	(31)
Net (loss) income attributable to Liquidmetal Technologies, Inc.	(2,221)	1,008	4,265	(2,801)
Other comprhensive income (loss):				
Foreign exhange translation gain (loss)	98	393	336	(413)
Comprehensive (loss) income	$ (2,123)	$ 1,401	$ 4,601	$ (3,214)
Net (loss) income per share basic and diluted:				
Net income (loss) attributable to Liquidmetal Technologies, Inc.	$ (0.05)	$ 0.02	$ 0.09	$ (0.06)
Number of weighted average shares - basic and diluted	47,507	46,595	45,408	44,825

Table of Contents

Consolidated Statements of Operations Data:	For the Three Months Ended 12/31/08	09/30/08	06/30/08	03/31/08
	(In thousands, except per share data) (Unaudited)			
Revenue	$ 4,605	$ 5,041	$ 5,669	$ 6,768
Cost of sales	3,806	3,791	4,633	4,901
Gross profit	799	1,250	1,036	1,867
Operating expenses				
Selling, general, and administrative	1,912	1,417	1,326	1,874
Research and development	207	279	278	258
Impairment of long-lived assets	132	—	—	—
Total operating expenses	2,251	1,696	1,604	2,132
Loss from operations	(1,452)	(446)	(568)	(265)
Change in value of warrants, (loss) gain	(495)	989	1,290	106
Change in value of conversion feature, (loss) gain	(117)	642	1,240	222
Other expense	—	—	—	(17)
Other income	182	—	247	—
Interest expense	(2,432)	(1,860)	(1,717)	(1,703)
Interest income	—	—	1	2
(Loss) income before minority interests	(4,314)	(675)	493	(1,655)
Minority interests	(80)	(115)	(65)	(161)
(Loss) income from operations before income taxes	(4,394)	(790)	428	(1,816)
Income taxes	—	—	—	—
Net (loss) income	(4,394)	(790)	428	(1,816)
Net (loss) income per share from continuing operations - basic and diluted	$ (0.10)	$ (0.02)	$ 0.01	$ (0.04)
Weighted average common shares used to compute (loss) income per share from continuing operations - basic and diluted	44,759	44,726	44,726	44,726

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

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

Our cash (used in) provided by operating activities was ($3.4) million and $0.4 million for the years ended December 31, 2009 and 2008, respectively. Our working capital deficit decreased from $20.8 million at December 31, 2008 to $13.1 million at December 31, 2009. Our working capital deficit decrease of $7.7 million was primarily attributable to a decrease in current portion of long-term debt of $12.8 million, offset by a decrease in trade account receivables, net, of $1.1 million, a decrease in prepaid expenses and other current assets of $0.4 million, an increase of accounts payable and accrued expenses of $0.5 million and an increase in warrant liabilities of $3.3 million.

Our cash used in investing activities was $0.5 million for the year ended December 31, 2009 primarily from purchase of property and equipment and investments in patents and trademarks.

Our cash provided by financing activities was $4.0 million for the year ended December 31, 2009. We paid net $29.0 million in borrowings from a factoring agreement executed in April 2005, a revolving and term loan agreement executed in July 2007, and convertible and subordinated notes, which were offset by $16.6 million proceeds from issuance of convertible subordinated notes, $16.2 million proceeds from issuance of convertible preferred stocks and $0.2 million of contribution to noncontrolling interest.

On May 1, 2009, we completed a financing transaction (the "Transaction") whereby aggregate cash of $2.5 million and principal and accrued interest of $20.6 million due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the "Prior Notes") were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of $5.00 per share, 2,625,002 shares of Series A-2 Preferred Stock with an original issue price of $5.00 per share, and $7.5 million of new 8% Senior Secured Convertible Subordinated Notes due January 2011 (the "Exchange Notes"). Of the $2.5 million aggregate cash purchase price, approximately $0.1 million remains outstanding and is included prepaid expenses and other current assets in the condensed consolidated balance sheet as of December 31, 2009. The Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the "Securities Purchase Agreement"), among the exchanging note holders and investors (collectively, the "Buyers"). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of Series A-1 Preferred Stock at $5.00 per share at any time prior to six months from the closing date (the "Series A-1 Option"). On November 1, 2009, the Company issued $0.4 million of additional Exchange Notes for accrued interest due under the notes in lieu of cash payment.

The Exchange Notes are due January 3, 2011 and bear annual interest rate of 8% with interest payable in October and April in cash or, at our company's option, in the form of additional notes (in which case the interest rate will be 10%). The preferred stocks accrue cumulative dividends at an annual rate of 8%, which is payable semi-annually. Beginning on the second anniversary of the initial issuance, the dividend will increase to 10%. As of December 31, 2009, we have accrued dividends of $0.7 million included in accounts payable and other accrued expenses. The dividends are payable in cash or in kind by the issuance of the company of additional preferred stock, only when and as declared by our Board of Directors. On August 5, 2010, we repaid in full all principal and interest on the Exchange Notes in the amount of $8.2 million and all security interests on our assets securing such obligations were released and terminated.

The Series A-1 Preferred Stock, Series A-2 Preferred Stock, and Exchange Notes are convertible into the company's common stock at conversion price of $0.10, $0.22, and $0.60 per common share, respectively. We issued warrants to purchase 3,125,007 shares and 42,329,407 shares of our company's common stock at an exercise of $0.60 and $0.50 per share to the buyers of the Exchange Notes and preferred stocks, respectively. The warrants will expire in January 2012. The conversion prices and the number of common stock issuable under the preferred stocks, Exchange Notes and warrants are subject to adjustments for anti-dilution purposes.

On October 30, 2009, we entered into an agreement with various investors to issue 180,000 shares of convertible Series A-1 Preferred Stock for $0.9 million of cash pursuant to the Series A-1 Option. Further, we issued warrants to purchase 2,500,000 shares of common stock at an exercise price of $0.50 per share with an expiration date of January 3, 2012.

On May 28, 2010, we issued $2.0 million of 13% Subordinated Promissory Note ("January 2011 Subordinated Note") due on the earlier date of January 3, 2011 or the date on which all outstanding amounts are due under the Company's 8% January 2011 Notes. Following the due date, the interest on the January 2011 Subordinated Note shall be 15%. The January 2011 Subordinated Note may be repaid in whole or in part at any time without penalty or premium, but is subordinate in right of payment to the January 2011 Notes and may not be paid until after the January 2011 Notes are paid in full. We may, at our sole discretion, elect to pay all or any portion of the outstanding principal or accrued interest in cash or the Company's common stock or any combination thereof, at a value equal to the lower of $0.26 per share or the average market price per share for the 10 previous trading days immediately prior to the date the payment is made. As a condition for the January 2011 Subordinated Note,

Table of Contents

Carlyle Liquid Holdings, LLC, a current stockholder of the Company granted the holder of the January 2011 Subordinated Note a warrant to purchase up to 7,700,000 shares of the Company's common stock at a price equal to $0.26 per share, which warrant is exercisable for a period of 90-days beginning on the date in which we repay the January 2011 Subordinated Note in cash (if we repay in cash). On August 5, 2010, we repaid in full all principal and interest on the January 2011 Subordinated Notes in the amount of $2.0 million. In connection with the repayment, on August 10, 2010, we entered into a Subscription Agreement pursuant to which the Company issued 7,870,307 shares of the Company's common stock for an aggregate price of $2.0 million.

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

We have experienced significant cumulative operating losses since our inception. Our net income for the fiscal year ended December 31, 2009 was $0.3 million, while our net loss for the fiscal years ended December 31, 2008 and 2007 was $6.6 million and $5.6 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2008 our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern.

We have approximately $0.3 million of principal and accrued interest outstanding as of December 31, 2009, under the 8% unsecured subordinated notes (the "Bridge Notes"), which were due August 17, 2007. On August 5, 2010, we repaid in full all principal and interest on the Bridge Notes in the amount of $0.3 million.

We have $0.3 million of outstanding loan as of December 31, 2009 under a factoring, loan, and security agreement with a financing company. In June 2009, the Company received a formal notice of default from the financing company for repayment of the outstanding loan balance and has entered into a settlement agreement with the financing company whereby it agreed to repay approximately $0.1 million each month until the outstanding loans and accrued fees have been repaid. As of December 31, 2009, we were unable to pay the $0.1 million monthly payments and were in discussions with the financing company to either extend or enter into another settlement agreement. On August 5, 2010, we repaid in full all principal, interest and fees on the factoring loan in the amount of $0.3 million and all security interests on our assets securing such obligation was released and terminated.

We have outstanding liens on assets by our South Korean subsidiary by various creditors for past-due trade payables totaling $1.3 million, of which $1.1 million is held by creditors in South Korea, as of December 31, 2009. We are currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If we cannot repay the amounts due or obtain a forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in South Korea. Such a foreclosure would have material adverse effect on our operations, financial condition, and results of operations.

Initial Public Offering Proceeds

Pursuant to our Registration Statement on Form S-1 (Registration No. 333-73716), as amended, initially filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002, we closed an initial public offering of 5,000,000 shares of common stock on May 28, 2002, plus an additional 229,000 shares on June 10, 2002 pursuant to an over allotment option, at a price of $15.00 per share (which sale is referred to herein as the "Offering"). The Offering generated aggregate cash proceeds during the second quarter 2002 of $78.4 million. The net proceeds were $70.7 million after deducting underwriting commissions of $5.5 million and other transaction fees of $2.2 million. As of December 31, 2003, we used $70.7 million of net proceeds from the Offering.

Private Placements of Convertible Notes and Bridge Notes

The following private placement of convertible notes and bridge notes are outstanding as of December 31, 2009.

On May 17, 2006, September 21, 2006, and December 1, 2006, we completed a private placement of 8% Unsecured Subordinated Notes in the aggregate principal amount of $4.6 million (the "Bridge Notes"), together with warrants to purchase up to an aggregate of 973,064 shares of our common stock. The Bridge Notes were unsecured and were scheduled to become due on the earlier of August 17, 2007 or the consummation of a follow-on equity or debt offering pursuant to which we receive gross proceeds of at least $6.0 million, but in no event will the Bridge Notes become due any earlier than the payment in full of the previously issued promissory notes, including 7% Senior Secured Notes Due August 2007 (the "August 2007 Notes") and 6% Senior Secured Notes Due July 2007 (the "July 2007 Notes"). As a part of the private placement of the Bridge Notes, we issued warrants to the purchasers of the Bridge Notes giving them the right to purchase up to an aggregate of 890,990 shares of our common stock, and warrants to purchase 82,074 shares of our common stock were issued to the placement agent in the transaction. The warrants have an exercise price of $2.58 per share and will expire on May 17, 2011.

Table of Contents

On May 1, 2009, we completed a financing transaction (the "Transaction") whereby aggregate cash of $2.5 million and principal and accrued interest of $20.6 million due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the "Prior Notes") were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of $5.00 per share, 2,625,002 shares Series A-2 Preferred Stock with an original issue price of $5.00 per share, and $7.5 million of new 8% Senior Secured Convertible Subordinated Notes due January 3, 2011 (the "January 2011 Notes"). The Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the "Securities Purchase Agreement"), among the exchanging note holders and investors (collectively, the "Buyers"). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of Series A-1 Preferred Stock at $5.00 per share at any time prior to six months from the closing date (the "Series A-1 Option").

The January 2011 Notes are convertible at any time at the option of the holder into shares of our common stock at a conversion price of $0.60 per share, subject to adjustment for stock splits, stock dividends, and the like. The January 2011 Notes bear annual interest rate of 8% with interest payable in October and April in cash or, at our option, in the form of additional notes (in which case the interest rate will be 10%). The preferred stocks accrue cumulative dividends at an annual rate of 8%, which is payable semi-annually. Beginning on the second anniversary of the initial issuance, the dividend will increase to 10%. As of December 31, 2009, we have accrued dividends of $0.7 million included in accounts payable and other accrued expenses. The dividends are payable in cash or in kind by the issuance of the company of additional preferred stock, only when and as declared by our Board of Directors. On August 5, 2010, we repaid in full all principal and interest on the Exchange Notes in the amount of $8.2 million and all security interests on our assets securing such obligations were released and terminated.

The Series A-1 Preferred Stock and Series A-2 Preferred Stock are convertible into the company's common stock at conversion price of $0.10 and $0.22 per common share, respectively. As part of the Transaction, we issued warrants to purchase 3,125,007 shares and 42,329,407 shares of our company's common stock at an exercise of $0.60 and $0.50 per share to the buyers of the January 2011 Notes and preferred stocks, respectively. The warrants will expire in January 2012. The conversion prices and the number of common stock issuable under the preferred stocks, Exchange Notes and warrants are subject to adjustments for anti-dilution purposes.

In connection with the Transaction, the Company and the Buyers entered into a Registration Rights Agreement under which the Company is required, upon the written request of the holders of more than fifty percent (50%) of the securities underlying the January 2011 Notes, warrants, and preferred stocks, after 180 days of the closing of the Transaction, to file a registration statement with the SEC covering the resale of the shares of Company's common stock issuable pursuant to the January 2011 Notes, the warrants and the preferred stocks and to use its best efforts to have the registration declared effective at the earliest date (but in no event later than 60 days after filing if there is no SEC review of the registration statement, or 120 days if there is an SEC review). The Company may be required to pay liquidated damages as set forth in the Registration Rights Agreement, if the registration statement is not filed or does not become effective on a timely basis.

On October 30, 2009, we entered into an agreement with various investors, to issue 180,000 shares of convertible Series A-1 Preferred Stock for $0.9 million of cash pursuant to the Series A-1 Option. Further, we issued warrants to purchase 2,500,000 shares of common stock at an exercise price of $0.50 per share with an expiration date of January 3, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

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

On June 26, 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy, ("SAGA") a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl ("LSI"). We also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, we have the option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, we purchased a 19.9% interest in the joint venture. During the years ended December 31, 2009, 2008 and 2007, we recognized revenues of $0, $0 and $0.1 million, respectively, of Liquidmetal alloys sold to SAGA for use in the joint venture. During the fourth quarter of the year ended December 31, 2009, the Company wrote-off its investment of $0.3 million in the joint venture due to slower than anticipated growth in the eyewear industry.

On August 6, 2010, SAGA filed a litigation case against us claiming damages of $3.2 million for payment on a loan and for breach of contract in connection with the formation of LSI. We are in the process of responding to the claim and working with SAGA to resolve the matter.

Table of Contents

CONTRACTUAL OBLIGATIONS

The following table summarizes our company's obligations and commitments as of December 31, 2009:

	Payments Due by Period (in thousands)				
Contractual Cash Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Long-term debt (2)	$ 8,137	$ 259	$ 7,878	$ —	$ —
Long-term debt of majority owned subsidiary (2)	16,353	1,134	7,997	13	—
Short-term debt (3)	589	589	—	—	—
Short-term debt of consolidated subsidiary	307	307	—	—	—
Interest payments (4)	4,455	1,785	1,723	947	—
Operating leases and rents	855	365	490	—	—
Foster Wheeler	53	53	—	—	—
Dongyang	9	9	—	—	—
Nichimen	315	315	—	—	—
Totals (1)	$ 31,073	$ 4,816	$ 18,088	$ 960	$ —

(1) Contractual cash obligations include Long-term debt comprised of $259 of Unsecured Subordinated Notes issued in 2006 and $7,878 of Convertible Unsecured Notes originally issued in 2009; Long-term debt of consolidated subsidiary comprised of $1,430 of Bank Midwest Term Loan, $7,613 of C3 Capital Partners Subordinated Notes, and $102 of Bank Midwest Promissory Notes; Short-term debt comprised of $284 outstanding advances received under factoring, loan, and security agreement, $130 of outstanding advances from John Kang, our former Chairman and $175 of outstanding advances from Ricardo Salas, our Executive Vice President; Short-term debt of consolidated subsidiary comprised of $307 of Bank Midwest revolving loan; future minimum lease payments under capital and operating leases; purchase commitments from consultants; payments due from assets purchased from Foster Wheeler thermal spray coatings business; payments due from our discontinued equipment manufacturing business; and minimum payments due under a distribution agreement.

(2) Does not include accrued and scheduled interest payments of $3,509; and un-amortized cash discount and discounts for conversion feature and warrants of $3,227 of our convertible notes.

(3) Does not include minimum interest and fee payments of $30.

(4) Interest payments include accrued and scheduled payments due on long-term debt and long-term debt of consolidated subsidiary with annual interest rates between 7.43% to 14.00%. Interest payments also include estimated interest on short-term debt and short-term debt of majority owned subsidiary with annual interest rates between 8.48% to 10.00% with expected maturity of approximately 1 year.

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:

- Our earnings and cash flows are subject to fluctuations due to changes in non-U.S. currency exchange rates. We are exposed to non-U.S. exchange rate fluctuations as the financial results of non-U.S. subsidiary in Korea are translated into U.S. dollars. As exchange rates vary, those results, when translated, may vary from expectations and adversely impact overall expected profitability. The cumulative translation effects for subsidiaries using functional currencies other than the U.S. dollar are included in accumulated foreign exchange translation in stockholders' equity. Movements in non-U.S. currency exchange rates may affect our competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors.

- We record an accrual for potential product warranty costs. Due to the lack of historical information for warranty expense related to bulk alloy products, management estimates product warranties as a percentage of bulk alloy product sales earned during the period. In the event in future periods the actual product warranty costs consistently exceed the estimate for product warranty costs, an adjustment would be made and income would decrease in the period of such determination. Likewise, in the event we determine that actual product warranty costs are consistently lower than the estimate for product warranty costs, an adjustment would be made and income would increase in the period of such determination.

- We record an allowance for doubtful accounts as a contra-asset to our trade receivables for estimated uncollectible accounts. Management estimates the amount of potentially uncollectible accounts by reviewing significantly past due customer balances relative to historical information available for those customers. In the event, in future periods, actual uncollectible accounts exceed the estimate for uncollectible accounts, an adjustment would be made and income would decrease in the period of such determination. Likewise, in the event, in future periods, actual uncollectible accounts are lower than the estimate for uncollectible accounts, an adjustment would be made and income would increase in the period of such determination.

- We value inventories at lower of cost or net realizable value. Management has determined net realizable value to be equal to the selling price of the products to be produced and sold less the cost of disposal. In the event, in future periods, the actual selling prices exceed the estimate for selling prices less cost to sell, an adjustment would be made and income would increase in the period of such determination. Likewise, in the event, in future periods, actual selling prices are lower than the estimate for selling prices, an adjustment would be made and income would decrease in the period of such determination.

- We value our assets at lower of cost or fair market value. Management has determined fair market to be equal to the selling price of the assets to be sold less the cost of disposal. In the event, in future periods, actual selling prices are lower than the estimate for selling prices, an adjustment would be made and income would decrease in the period of such determination.

- We record valuation allowances to reduce the deferred tax assets to the amounts estimated to be realized. While we consider taxable income in assessing the need for a valuation allowance, in the event we determine we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment would be made and income increased in the period of such determination. Likewise, in the event we determine we would not be able to realize all or part of our deferred tax assets in the future, an adjustment would be made and charged to income in the period of such determination.

- We account for the warrants and the embedded conversion feature of our senior convertible notes as derivatives in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, and Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. Fair values of warrants and embedded conversion features are measured at each period end using Black-Scholes pricing models and changes in fair value during the period are reported in our earnings

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS 160"). This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of shareholders' equity separate from the parent's equity. In addition, SFAS 160 establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. Accordingly, we will adopt SFAS 160 in 2009. The presentation and disclosure requirements of this standard must be applied retrospectively for all periods presented and will impact how we present and disclose noncontrolling interests and income from noncontrolling interests in our company's consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and

the period of expected cash flows used to measure the fair value of an asset under SFAS 141(R) and other U.S. generally accepted accounting principles FSP 142-3 applies to intangible assets that are acquired individually or with a group of other assets acquired in business combinations and asset acquisitions. FSP 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. We have adopted SFP 142-3 as of January 1, 2009

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1") which clarifies that convertible debt instruments that may be settled in cash or other assets upon conversion are not addressed by APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants." Additionally, FSP APB 14-1 requires an entity to separately account for the liability and equity components of a convertible instrument to reflect an entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 also expands the disclosure requirements regarding convertible debt instrument terms and how the instrument is reflected in an entity's financial statements. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We have adopted APB 14-1 as of January 1, 2009.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS 162 will become effective

60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." We have adopted SFAS 162 as of January 1, 2009.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ("EITF 07-05"). EITF 07-5 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. We have adopted EITF 07-5 as of January 1, 2009.

In June 2008, FASB issued EITF Issue No. 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5" ("EITF 08-4"). The objective of EITF 08-4 is to provide transition guidance for conforming changes made to EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", that result from EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments", and FAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. Early application is permitted. We have adopted EITF 08-4 as of January 1, 2009.

In April 2009, the FASB issued FASB Staff Position No. 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP 141(R)-1"), which amends SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141(R)"). FSP 141(R)-1 applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of SFAS No. 5, Accounting for Contingencies, if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in SFAS 141(R). The provisions of FSP 141(R)-1 that amend SFAS 141(R) are effective for the first annual reporting period beginning on or after December 15, 2008. We adopted FSP 141(R)-1 on January 1, 2009, and the impact of this guidance will depend upon the nature, terms, and size of the acquisitions we consummate.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"), which amends SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. This FSP amends the other-than-temporary guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The provisions of FSP FAS 115-2 and FAS 124-2 that amend SFAS 115 and SFAS 124 are effective for interim and annual reporting periods ending after June 15, 2009. The implementation of this FSP is not expected to affect our consolidated results of operations or financial condition.

In June 2009, the FASB issued SFAS 166, "Accounting for Transfers of Financial Assets," which will be effective for us on January 1, 2010. SFAS 166 removes the concept of a qualifying special-purpose entity (QSPE) from SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", and removes the exception from applying FASB Interpretation 46R, "Consolidation of Variable Interest Entities". This statement also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. We are currently evaluating the impact of adopting this standard on the consolidated financial statements.

Table of Contents

In June 2009, the FASB issued SFAS 167, "Amendments to FASB Interpretation No. 46R," which will be effective for us on January 1, 2010. SFAS 167 requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. We do not expect a material effect from the adoption of this standard on our consolidated financial statements.

In June 2009, the FASB issued SFAS 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162," which was effective for us on September 30, 2009. SFAS 168's objective is to establish the FASB Accounting Standards Codification as the source of authoritative non-governmental accounting principles to be applied in the preparation of financial statements in conformity with US GAAP. Although SFAS 168 does not change GAAP, the adoption of SFAS 168 will impact the Company's consolidated financial statements since all future references to authoritative accounting literature will be in accordance with SFAS 168.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, *Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value*. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. The adoption of this guidance is not expected to have a material 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 our company's present or future consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We are exposed to various market risks in conducting the business of the company, and we anticipate that this exposure will increase as a result of our planned growth. In an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward sales contracts, option contracts, foreign currency exchange contracts, and interest rate swaps. We have not, and do not intend to, engage in the practice of trading derivative securities for profit.

Interest Rates. We are exposed to market risks relating to changes in interest rates. Although we do not currently have any borrowings with variable interest rates, fluctuations in interest rates may have a negative impact to any future borrowings.

Commodity Prices. We are exposed to price risk related to anticipated purchases of certain commodities used as raw materials by our businesses, including titanium and zirconium. Although we do not currently enter into commodity future, forward, and option contracts to manage the fluctuations in prices of anticipated purchases, we may enter into such contacts in the future as our business grows and as our purchases of these raw materials increases.

Foreign Exchange Rates. As a result of our manufacturing presence in South Korea, a substantial portion of our costs will be denominated in South Korean won. Consequently, fluctuations in the exchange rates of the South Korean won to the U.S. dollar will affect our costs of goods sold and operating margins and could result in exchange losses. Although we do not currently enter into foreign exchange hedge transactions, we may do so in the future as our business grows. Fluctuations in exchange rates resulted in foreign currency translation (loss) gains of $0.4 million, ($1.8) million and $0.2 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Item 8. Financial Statements and Supplementary Data

The financial statements required by this item are located in Consolidated Financial Statements in Item 15 of this report. The supplementary financial information required by this item is located under the caption "QUARTERLY RESULTS" in Item 7 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A(T). Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on an evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2009, the end of the period covered by this report, our Chief Executive Officer (Principal Executive officer) and Chief Financial Officer (Principal Financial Officer) have concluded that our disclosure controls and procedures were effective.

Changes in Internal Controls. During the quarter ended December 31, 2009, there was no change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting. The company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the company's receipts and expenditures are being made only in accordance with authorizations of the company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and the related rule of the SEC, management assessed the effectiveness of the company's internal control over financial reporting using the Internal Control-Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the company's internal control over financial reporting was effective as of December 31, 2009. Management has not identified any material weaknesses in the company's internal control over financial reporting as of December 31, 2009.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Set forth below is a table identifying our directors and executive officers as of April 6, 2010:

Name	Age	Position
Larry Buffington	63	Former President and Chief Executive Officer
Tony Chung	40	Chief Financial Officer
Ricardo Salas	46	Executive Vice-President
Abdi Mahamedi	48	Chairman of the Board
Martin Weinstein	75	Vice Chairman of the Board

Robert Biehl	64	Director
Iraj Azarm	70	Director

Larry Buffington was elected by our Board of Directors to serve as the President and Chief Executive Officer in October 2006. Mr. Buffington has been serving as full-time consultant to the Company since July 2006. He is also the president of Buffington Consulting, a consulting firm that Mr. Buffington started in 1997 focusing on the assessment and turnaround of manufacturing operations. Prior to starting Buffington Consulting, Mr. Buffington was the General Manager of the Communications Products Business Unit of Augat, Inc., a public company with worldwide manufacturing operations in communication, automotive and electronic products. Mr. Buffington received a bachelor's degree in Industrial Engineering from Pennsylvania State University in 1969. On August 5, 2010, Mr. Buffington ceased to serve as the Company's President and Chief Executive Officer, although Mr. Buffington will continue to serve as the Chief Executive Officer of the our majority-owned Liquidmetal Coatings subsidiary.

Tony Chung was elected by our Board of Directors to serve as the Chief Financial Officer in December 2008. Mr. Chung most recently served as Chief Financial Officer at BETEK Corporation, a real estate and investment subsidiary of SK Engineering and Construction, and as Chief Financial Officer of Solarcity, a company providing advanced solar technology and installation services. Mr. Chung is a Certified Public Accountant and served eight years at KPMG as an Audit and Consulting Manager for several large multinational companies. He received his B.S. degree in Business Administration from University of California Berkeley's Haas School of Business in 1992. Mr. Chung is also an Attorney at Law and received his J. D. degree from Pacific Coast University School of Law in 2006.

Ricardo Salas began serving as our Executive Vice President on December 1, 2008. He previously served as our Chief Executive Officer and President from December 30, 2005 through October 8, 2006. Mr. Salas also served as a Board member of the Company from April 1995 to May 2003. From January 2000 through June 2005, Mr. Salas served as Chief Executive Officer of iLIANT Corporation, an information technology and outsourcing service firm in the health care industry. He currently serves as a director of VillageEDOCS, a technology company providing software-as-a-service to the financial services, healthcare and various industries. Mr. Salas received a B.A. degree in Economics from Harvard College in 1986.

Abdi Mahamedi has served as a director since May 2009 and became Chairman of the Board in March 2010. Since 1987, Mr. Mahamedi has served as the President and Chief Executive Officer of Carlyle Development Group of Companies ("CDG"), which develops and manages residential and commercial properties in the United States on behalf of investors worldwide. At CDG, Mr. Mahamedi evaluates and supervises all of the investment activities and management personnel. Prior to joining CDG, Mr. Mahamedi founded Emanuel Land Company, a subsidiary of Emanuel & Company, a Wall Street investment banking firm, and served as a managing director for Emanuel Land Company from 1986 to 1987. In 1983, Mr. Mahamedi received his B.S.E. degree in Civil and Structural Engineering from the University of Pennsylvania, and in 1984 he received his M.S.E. degree in Civil and Structural Engineering from the University of Pennsylvania.

Martin Weinstein has served as Vice-Chairman since March 2010. Dr. Weinstein served as the Chairman and Chief Executive Officer of Sequa Corporation, New York, and Chairman of Chromalloy Gas Turbine Corporation, San Antonio, Texas. Chromalloy Gas Turbine Corporation, with sales of approximately $1.3 billion and six thousand employees worldwide, is the world's largest supplier of advanced metallurgical and manufacturing services to the global gas turbine and jet engine industry. He was also a founding stockholder of Tyco Labs, which then became Tyco Corporation, where he served as head of Tyco's

Table of Contents

Material Sciences Department. In December of 2008, Martin Weinstein retired as Vice-Chairman and CEO of Sequa and Chairman of Chromalloy Gas Turbine Corporation where he remains a senior consultant to the company. He is currently the founder/owner of Sheffield Scientific, a company formed to pursue developments in advanced materials and energy. Dr. Weinstein received his ScD in metallurgy from Massachusetts Institute of Technology.

Robert Biehl was re-elected as a director in November 2007. Mr. Biehl has served as a director since 2005. Mr. Biehl founded the Masterplanning Group International and as President, personally consulted over 400 clients and mentored over 2,500 executives and world leaders. Prior to starting Masterplanning Group, Mr. Biehl was an executive staff of World Vision International where he designed and developed the Love Loaf Program, which has raised millions of dollars worldwide. He has also published many books in the area of personal and organizational development. Mr. Biehl received his B.A. degree in Psychology and a Masters Degree in Counseling from Michigan State University.

Iraj Azarm has served as director since April 2009. Since 1987, Mr. Azarm has served as the Comptroller of CDG, where he directs the day to day activities of the company and acts as the liaison for investors and the firm's institutional lenders. In 1963, Mr. Azarm received degrees in Mechanical Engineering and Economics from the University of California at Berkeley.

Change in Directors

In March 2010, Mr. John Kang voluntarily resigned as our company's Chairman of the Board and Director. Mr. Kang served as our Chairman and Director since August 2003.

In March, 2010, Mr. William Scott voluntarily resigned as our company's Director. Mr. Scott served as a Director of our company since May 2009

In March 2010, Mr. Martin Weinstein joined our company's Board as Vice-Chairman.

Change in Principal Financial Officer

On December 1, 2008 Gerald Morrow ceased to be our company's Chief Financial Officer upon appointment of Tony Chung as our Chief Financial Officer by our Board of Directors. Mr. Morrow was previously elected to serve as our Chief Financial Officer on January 13, 2008 by our Board of Directors. Additional information regarding Mr. Chung is set forth above in this Item 10.

On August 5, 2010, the Company appointed Thomas Steipp to serve as the Company's President and Chief Executive Officer. Mr. Steipp was also appointed as a member of the Company's Board of Directors. Upon Mr. Steipp's appointment as the Company's President and Chief Executive Officer, Larry

Buffington ceased to serve as the Company's President and Chief Executive Officer, although Mr. Buffington will continue to serve as the Chief Executive Officer of the Company's majority-owned Liquidmetal Coatings subsidiary.

BOARD OF DIRECTORS

Terms of Directors

Each director serves a term of one-year until the next ensuing annual stockholder meeting or until his successor is duly elected or his earlier resignation or removal.

Audit Committee

Our board of directors has an Audit Committee that is currently comprised of Mr. Biehl. The Audit Committee is responsible for reviewing the independence, qualifications, and activities of our independent certified accountants and our financial policies, control procedures, and accounting staff. The Audit Committee is also responsible for the review of transactions between us and any officer, director, or entity in which an officer or director of our company has a material interest. We do not have an "audit committee financial expert" as defined by the regulations of the Securities and Exchange Commission. The Board of Directors will consider and appoint a financial expert to the Audit Committee in the near future. However, our board of directors has determined that Mr. Biehl is an "independent" director within the meaning of Rule 10A-3(b)(i) under the Securities Exchange Act of 1934. The Audit Committee is governed by a written charter approved by the board of directors.

Table of Contents

Code of Ethics

Our board of directors has adopted a Code of Ethics that is applicable to our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Code of Ethics is attached as Exhibit 14 to our Annual Report on Form 10-K filed on November 10, 2004. In addition, we intend to promptly disclose (1) the nature of any amendment to our Code that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (2) the nature of any waiver, including an implicit waiver, from a provision of our Code that is granted to one of these specified officers, the name of such person who is granted the waiver and the date of the waiver on our website at www.liquidmetal.com in the future. You may also request a copy of the Code by sending the request to information@liquidmetal.com.

Item 11. Executive Compensation

Executive Benefits and Perquisites

Set forth below is information regarding compensation earned by or paid or awarded to the following executive officers of the company during the year ended December 31, 2009: (i) Larry Buffington, our former President and Chief Executive Officer; (ii) Tony Chung, our Chief Financial Officer; (iii) Rick Salas, our Executive Vice-President and (iv) John Kang, our former Chairman of the Board. These persons are hereafter referred to as our "named executive officers." The identification of such named executive officers is determined based on the individual's total compensation for the year ended December 31, 2009, as reported below in the Summary Compensation Table.

Summary Compensation Table

The following table sets forth for each of the named executive officers: (i) the dollar value of base salary and bonus earned during the years ended December 31, 2009 and 2008; (ii) the aggregate grant date fair value of stock and option awards granted during 2009 and 2008, computed in accordance with FASB Accounting Standards Codification ("ASC") Topic 718 (R); (iii) the dollar value of earnings for services pursuant to awards granted during 2009 and 2008 under non-equity incentive plans; (iv) non-qualified deferred compensation earnings during 2009 and 2008; (v) all other compensation for 2009 and 2008; and, finally, (vi) the dollar value of total compensation for 2009 and 2008.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards (1)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Larry Buffington	2009	$ 250,000	—	—	—	—	—	$ 11,436(1)	$ 264,436
	2008	$ 250,000	—	—	—	—	—	$ 9,600(2)	$ 259,600
Tony Chung	2009	$ 160,000	—	—	—	—	—	—	$ 160,000
	2008	$ 12,500	—	—	$ 9,027	—	—	—	$ 21,527
Ricardo Salas	2009	240,000	—	—	—	—	—	—	$ 240,000
	2008	$ 20,000	—	—	—	—	—	$ 220,000(3)	$ 240,000

(1) Amount represents the fair value of stock options granted in 2008 under FASB ASC Topic 718 as discussed in Note 13, "Stock Compensation Plan" to our financial statement included elsewhere in this annual report on Form 10-K.

(2) Amount represents automobile lease payments on use of a company car as well as reimbursements for insurance premiums.

(3) Amount represents compensation earned for consulting services provided to the company from January 2008 through November 2008.

Table of Contents

For a description of the material terms of employment agreements with our named executive officers, see "—Employment Agreements."

Outstanding Equity Awards at 2009 Fiscal Year-End

The following table sets forth information on outstanding option and stock awards held by the named executive officers at December 31, 2009, including the number of shares underlying both exercisable and unexercisable portions of each stock option as well as the exercise price and expiration date of each outstanding option.

	Option Awards						Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Vesting Commencement Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Larry Buffington	200,000	300,000	—	$ 0.772	09/19/2017	09/20/2008(1)	—	—	—	—
Tony Chung	40,000	160,000	—	$ 0.086	11/30/2018	12/01/2009(1)	—	—	—	—
Ricardo Salas	—	—	—	—	—	—	—	—	—	—

(1) The shares underlying this option vest 20% per year starting with the vesting commencement date and thereafter.

Employment Agreements

We have entered into the following employment agreements with the named executive officers identified above.

Larry Buffington. On October 8, 2006 we elected Larry Buffington as our President and Chief Executive Officer who received an initial base salary of $200,000 for serving as President and Chief Executive Officer of our company. Effective January 1, 2007, the Compensation Committee approved an increase in the base salary to $250,000. On July 24, 2007, we transferred substantially all of the assets of its Liquidmetal alloy industrial coatings business to a newly formed, newly capitalized subsidiary named Liquidmetal Coatings, LLC, a Delaware limited liability company ("LMC"), and LMC assumed substantially all of the liabilities of the coatings business, in which we hold a 69.25% ownership interest. In conjunction to the transfer, LMC entered into an employment agreement with Mr. Buffington as its President and Chief Executive Officer. The employment agreement has an initial 5-year term ("Initial Term"), provides for an annual base salary of $250,000 per year with an opportunity for an annual performance bonus of up to 50% of his salary based on meeting certain target goals. In addition, Mr. Buffington has a 10% ownership in LMC which vests evenly over five years. Mr. Buffington's employment will terminate upon the earlier of his death, resignation, disability, or termination by the board of directors for any reason, provided that if his employment is terminated without cause, he will continue to receive the Employee's base salary (as then in effect) through the later of one year after the date of the termination or the end of the Initial Term.

Table of Contents

He will also forfeit the unvested portion of his interest in LMC if he terminates prior to the completion of his five years of employment with LMC. On August 5, 2010, Mr. Buffington ceased to serve as the Company's President and Chief Executive Officer, although Mr. Buffington will continue to serve as the Chief Executive Officer of LMC.

Tony Chung, who was elected as our Chief Financial Officer on December 1, 2008, receives a base salary of $160,000. In connection with the commencement of his employment, Mr. Chung was granted an option to purchase up to 200,000 shares of Company common stock under the Company's 2002 Equity Incentive plan. The option was granted at an exercise price equal to $0.09 per share, which was the fair market value of the Company's common stock on the option grant date, and the option vests to the extent of 40,000 shares on each anniversary of the option grant date beginning in 2009. We and Mr. Chung have not entered into an employment agreement relating to Mr. Chung's employment with us, but we may determine to do so in the future.

Ricardo Salas, who previously served as our Chief Executive Officer and President from December 30, 2005 through October 8, 2006, began serving as our Executive Vice President on December 1, 2008. Mr. Salas will receive an initial base salary of $240,000. We and Mr. Salas have not entered into an employment agreement relating to Mr. Salas' employment with us, but we may determine to do so in the future.

401(k) Savings Plan

We have adopted a tax-qualified employee savings and retirement plan, or 401(k) plan that covers all of our employees. Pursuant to our 401(k) plan, participants may elect to reduce their current compensation, on a pre-tax basis, by up to 15% of their taxable compensation or of the statutorily prescribed annual limit, whichever is lower, and have the amount of the reduction contributed to the 401(k) plan. The 401(k) plan permits us, in our sole discretion, to make additional employer contributions to the 401(k) plan. However, we do not currently make employer contributions to the 401(k) plan and may not do so in the future. As such, contributions by employees or by us to the 401(k) plan, and the income earned on plan contributions, are not taxable to employees until withdrawn from the 401(k) plan, and we can deduct our contributions, if any, at the time they are made.

Pension Benefits

We do not sponsor any qualified or non-qualified defined benefit plans.

Nonqualified Deferred Compensation

We do not maintain any non-qualified defined contribution or deferred compensation plans. The compensation committee, which is comprised solely of "outside directors" as defined for purposes of Section 162(m) of the Code, may elect to provide our officers and other employees with non-qualified defined contribution or deferred compensation benefits if the compensation committee determines that doing so is in our best interests. We sponsor a tax qualified defined contribution 401(k) savings plan.

Potential Payments upon Termination or Change in Control

Potential payments payable to our executive officers upon termination of employment following a change in control of us is discussed under "—Employment Agreements". The compensation committee of our board of directors may, at their discretion, amend or add benefits to these arrangements as they deem advisable.

The table below presents estimate presents estimates of the amounts of compensation payable to each named executive officer upon a change in control and termination of the executive. The amounts shown assume that such a change in control and termination were both effective as of December 31, 2009. The actual amounts to be paid can only be determined at the time of a change in control or executive's termination.

	Larry Buffington		Tony Chung		Ricardo Salas	
Benefit	**Change in Control**	**Termination**	**Change in Control**	**Termination**	**Change in Control**	**Termination**
UNEARNED COMPENSATION (payment contingent on termination)						
Cash Severance (a)	—	$ 896,000	—	—	—	—
Equity						
Unexercisable Options	—	—	—	—	—	—
Benefits						
Health	—	$ 11,593	—	—	—	—
Total	**—**	**$ 907,593**	**—**	**—**	**—**	**—**

(a) For Mr. Buffington, reflects approximately 3.6 times his annual base pay for a termination. Mr. Buffington will receive annual base salary through the later of one year or his initial 5 year term. For Mr. Kang, reflects two times his annual base pay for a change of control or termination.

Director Compensation

The following table sets forth information regarding the compensation received by each of our directors during the year ended December 31, 2009;

Name	**Fees Earned or Paid in Cash**	**Stock Awards**	**Option Awards (1)**	**Non-Equity Incentive Plan Compensation**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings**	**All Other Compensation**	**Total**
Abdi Mahamedi	—	—	—	—	—	—	—
Martin Weinstein	—	—	—	—	—	—	—
Robert Biehl	$ 48,000(2)	—	$ 28,676(3)	—	—	—	$ 76,676
Iraj Azarm	—	—	—	—	—	—	—

(1) Amount represent the fair value of stock options granted in 2009 under FASB ASC Topic 718 as discussed in Note 12, "Stock Compensation Plan", to our consolidated financial statements included in this report on Form 10K.

(2) Amount of fees earned were reinvested into the Company as preferred stocks under a private placement of convertible notes in May, 2009 as discussed in Note 10, "Notes Payable" and Note 19, "Related Party Transactions", to our consolidated financial statements included in this report on Form 10K.

(3) 551,041 shares of options were outstanding as of December 31, 2009. Amount includes fair value of stock options issued for consulting services provided during 2009 totaling $27,509.

Our non-employee directors are entitled to receive certain compensation for their services and are reimbursed for expenses incurred in attending board and committee meetings, as determined by the board of directors.

We also have a 2002 Non-Employee Director Stock Option Plan pursuant to which our non-employee directors are entitled to receive stock options. All options granted under the plan have an exercise price equal to the fair market value of our common stock on the date of the grant. These stock options have a

10-year term, vest, and are exercisable pursuant to an equal 5-year vesting schedule, and remain exercisable for certain periods of time after a person is no longer a director.

No director who is an employee will receive separate compensation for services rendered as a director. However, our employee directors are eligible to participate in our 2002 Equity Incentive Plan.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding the beneficial ownership of our common stock as of April 9, 2010 by:

- each person known by us to be a beneficial owner of more than 5.0% of our outstanding common stock;
- each of our directors;
- each of our named executive officers; and
- all directors and executive officers as a group.

The number and percentage of shares beneficially owned is determined under rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire beneficial ownership of within 60 days of April 9, 2010 through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person has sole voting and investment power with respect to the shares shown as beneficially owned. A total of 47,583,102 shares of our common stock were issued and outstanding as of April 9, 2010. Unless otherwise indicated, the address of all directors and named executive officers is 30452 Esperanza, Rancho Santa Margarita, CA 92688.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
5% Stockholders		
Carlyle Liquid Holdings, LLC 2 Gannett Drive, Suite 201 White Plains, NY 10604	67,798,048	58.8%
Carlyle Liquid, LLC 2 Gannett Drive, Suite 201 White Plains, NY 10604	15,941,309	25.1%
Carlyle Holdings, LLC 2 Gannett Drive, Suite 201 White Plains, NY 10604	3,328,645	6.7%
Jack Chitayat 1836 Camino Del Teatro La Jolla, CA 92037	88,364,591(1)	66.2%
Tjoa Thian Song 16 Raffles Quay #B1-14A Hong Leong Building Singapore 0101	8,508,523(2)	16.3%
John Kang 23211 Pradera Road Coto de Caza, Ca 92679	6,744,973(3)	13.2%
Directors and Named Executive Officers		
Robert Biehl	751,518(4)	1.6%
Iraj Azarm	20,000(5)	*
Abdi Mahamedi	92,567,869(6)	67%
Larry Buffington	330,000(7)	*
Tony Chung	790,000(8)	1.6%
Ricardo Salas	7,879,111(9)	14.5%
All directors and executive officers as a group (6 persons)	102,338,498	69.8%

Table of Contents

* Less than one percent.

(1) Includes:

(a) 660,309 shares issuable pursuant to currently exercisable warrants and 1,320,636 shares issuable pursuant to currently convertible preferred stocks held of record by Atlantic Realty Group, Inc. Mr. Chitayat has the power to direct the voting and disposition of such shares as the president and a sole shareholder of Atlantic Realty Group, Inc.;

(b) 5,313,764 shares issuable pursuant to currently exercisable warrants and 10,627,545 shares issuable pursuant to currently convertible preferred stocks held of record by Carlyle Liquid, LLC. Mr. Chitayat has shared power to direct the voting and disposition of such shares as the sole shareholder of Atlantic Realty Group, Inc., which is a managing member of Carlyle Liquid, LLC. Mr. Chitayat disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in Carlyle Liquid, LLC;

(c) 22,599,343 shares issuable pursuant to currently exercisable warrants and 45,198,705 shares issuable pursuant to currently convertible preferred stocks held of record by Carlyle Liquid Holdings, LLC. Mr. Chitayat has shared power to direct the voting and disposition of such shares as the sole shareholder of Atlantic Realty Group, Inc., which is a managing member of Carlyle Liquid Holdings, LLC. Mr. Chitayat disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in Carlyle Liquid Holdings, LLC;

(d) 100,000 shares issuable pursuant to currently exercisable warrants and held of record by Mr. Chitayat; and

(e) 91,792 shares held of record by a trust established by Mr. Chitayat for his minor children. Mr. Chitayat continues to beneficially own all such shares.

(2) Includes:

(a) 1,500,000 shares issuable pursuant to currently exercisable warrants and 3,000,000 shares issuable pursuant to currently convertible preferred stocks held of record by Mr. Song; and

(b) 3,874,585 of these shares are held of record by a revocable grantor trust established by Mr. Song for himself and his family members. Mr. Song continues to beneficially own all such shares.

(3) Includes:

(a) 500,000 shares issuable pursuant to currently exercisable warrants and 1,000,000 shares issuable pursuant to currently convertible preferred stocks held of record by Mr. Kang;

(b) 1,862,904 shares issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of April 9, 2010. Does not include 300,000 shares that are issuable pursuant to outstanding stock options that are not exercisable currently or within 60 days of April 9, 2010; and

(c) 182,400 shares held by Mr. Kang's minor children.

(4) Includes 531,041 shares issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of April 9, 2010. Does not include 20,000 shares that are issuable pursuant to outstanding stock options that are not exercisable currently or within 60 days of April 9, 2010.

Table of Contents

(5) Does not include 5,313,764 shares issuable pursuant to currently exercisable warrants and 10,627,545 shares issuable pursuant to currently convertible preferred stocks held of record by Carlyle Liquid, LLC. Mr. Azarm is a 7% shareholder of Carlyle Liquid, LLC and do not possess voting or dispositive power over such shares.

(6) Includes:

(a) 1,347,700 shares held of record by Carlyle Holdings, LLC. Mr. Mahamedi has the power to direct the voting and disposition of such shares as the president and a sole shareholder of Carlyle Development Group, Inc, which is a managing member and shareholder of Carlyle Holdings, LLC;

(b) 660,309 shares issuable pursuant to currently exercisable warrants and 1,320,636 shares issuable pursuant to currently convertible preferred stocks held of record by Carlyle Holdings, LLC. Mr. Mahamedi has the power to direct the voting and disposition of such shares as the president and a sole shareholder of Carlyle Development Group, Inc, which is a managing member and shareholder of Carlyle Holdings, LLC;

(c) 5,313,764 shares issuable pursuant to currently exercisable warrants and 10,627,545 shares issuable pursuant to currently convertible preferred stocks held of record by Carlyle Liquid, LLC. Mr. Mahamedi has shared power to direct the voting and disposition of such shares as the sole shareholder of Carlyle Development Group, Inc., which is a managing member of Carlyle Liquid, LLC. Mr. Mahamedi disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in Carlyle Liquid, LLC;

(d) 22,599,343 shares issuable pursuant to currently exercisable warrants and 45,198,705 shares issuable pursuant to currently convertible preferred stocks held of record by Carlyle Liquid Holdings, LLC. Mr. Mahamedi has shared power to direct the voting and disposition of such shares as the sole shareholder of Carlyle Development Group, Inc., which is a managing member of Carlyle Liquid Holdings, LLC. Mr. Mahamedi disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in Carlyle Liquid Holdings, LLC; and

(e) 1,670,617 shares issuable pursuant to currently exercisable warrants and 3,141,250 shares issuable pursuant to currently convertible preferred stocks held of record by Mr. Mahamedi.

(7) Includes 200,000 shares issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of April 9, 2010. Does not include 300,000 shares issuable pursuant to outstanding stock options that are not exercisable currently or within 60 days of April 9, 2010.

(8) Includes:

(a) 250,000 shares issuable pursuant to currently exercisable warrants and 500,000 shares issuable pursuant to currently convertible preferred stocks held of record by Mr. Chung;

(b) Does not include 160,000 shares issuable pursuant to outstanding stock options that are not exercisable currently or within 60 days of April 9, 2010.

(9) Includes:

(a) 2,557,844 shares issuable pursuant to currently exercisable warrants and 4,371,205 shares issuable pursuant to currently convertible preferred stocks held of record by Mr. Salas;

(b) Does not include 3,480,299 shares issuable pursuant to currently exercisable warrants and 6,960,601 shares issuable pursuant to currently convertible preferred stocks held of record by Carlyle Liquid Holdings, LLC. Mr. Salas is a 100% shareholder of Silver Lake Group, LLC which holds a 15.4% share interest in Carlyle Liquid Holdings, LLC. Silver Lake Group, LLC does not possess voting or dispositive power over such shares, and Mr. Salas disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in Silver Lake Group, LLC;

Equity Incentive / Equity Compensation Plans

Our executive officers, directors, and all of our employees are allowed to participate in our equity incentive plans. We believe that providing them with the ability to participate in such plans provides them with a further incentive towards ensuring our success and accomplishing our corporate goals.

Table of Contents

Securities authorized for issuance under equity compensation plans as of December 31, 2009 were as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights [a]	Weighted-average exercise price of outstanding options, warrants, and rights [b]	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a]) [c]
Equity compensation plans approved by stockholders	4,389,882	$ 2.57	8,258,477
Equity compensation plans not approved by stockholders	59,928,242	$ 0.60	—
Total	64,318,124		8,258,477

Equity compensation plans not approved by stockholders consist of:

- Warrants to purchase up to 1,702,403 shares issued on June 13, 2005 with an exercise price of $1.05 per share and an expiration date of June 13, 2010;
- Warrants to purchase up to 5,493,355 shares issued on August 2, 2005 with an exercise price of $1.05 per share and an expiration date of August 2, 2010;
- Warrants to purchase up to 25,000 shares issued on May 17, 2006 with an exercise price of $1.75 per share and an expiration date of May 17, 2009;
- Warrants to purchase up to 741,829 shares issued between May 17, 2006 and December 1, 2006 with an exercise price of $1.05 per share and an expiration date of May 17, 2011;
- Warrants to purchase up to 1,562,531 shares issued between May 17, 2006 and December 1, 2006 with an exercise price of $1.14 per share and an expiration date of May 17, 2011;
- Warrants to purchase up to 42,578,117 shares issued on January 3, 2007 with an exercise price of $0.60 per share and an expiration date of January 3, 2012;
- Warrants to purchase up to 3,125,007 shares issued on January 3, 2007 with an exercise price of $0.50 per share and an expiration date of January 3, 2012;
- Warrants to purchase up to 200,000 shares issued on December 28, 2007 with an exercise price of $0.50 per share and an expiration date of December 28, 2012;
- Warrants to purchase up to 4,500,000 shares issued on October 30, 2009 with an exercise price of $0.50 per share and an expiration date of January 3, 2012.

The number of securities and type of plans available for future issuance of stock options as of December 31, 2009 were as follows:

Plan Name	Options and Warrants for Common Shares Authorized	Exercised	Outstanding	Available
1996 Stock Option Plan	12,903,226	1,974,365	56,960	—
2002 Equity Incentive Plan	10,000,000	—	2,601,523	7,398,477
2002 Non-employee Director Stock Option Plan	1,000,000	—	140,000	860,000
Total Stock Options	23,903,226	1,974,365	2,798,483	8,258,477

Table of Contents

1996 Stock Option Plan

Our 1996 Stock Option Plan provides for the grant of stock options to employees, directors, and consultants of our company and its affiliates. The purpose of the plan is to retain the services of existing employees, directors, and consultants; to secure and retain the services of new employees, directors, and consultants; and to provide incentives for such persons to exert maximum efforts for our success. The 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 nonstatutory stock options. Our board of directors terminated the 1996 Stock Option Plan on April 4, 2002. The termination will not affect any outstanding options under the plan, and all such options will continue to remain outstanding and be governed by the plan.

Options granted under the 1996 Stock Option Plan are generally not transferable by the optionee except by will or the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by the optionee. Options generally must be exercised within 90 days after the optionee's termination for cause, three months following the end of the optionee's status as an employee or consultant, other than for cause or for death or disability, or within six months after the optionee's termination by disability or twelve months following the optionee's termination by death. However, in no event may an option be exercised later than the earlier of the expiration of the term of the option or ten years from the date of the grant of the option or, where an optionee owns stock representing more than 10% of the voting power, five years from the date of the grant of the option in the case of incentive stock options.

As of December 31, 2009, options to purchase 56,960 shares of common stock were outstanding at a weighted average price of $7.02 per share under the 1996 Stock Option Plan. As of December 31, 2009, options to purchase 1,974,365 shares had been issued upon exercise of options under the plan. There were 56,960 options exercisable under the 1996 Stock Option Plan as of December 31, 2009.

2002 Equity Incentive Plan

Our 2002 Equity Incentive Plan, which was adopted by our board of directors and approved by our stockholders in April 2002, provides for the grant of stock options to officers, employees, consultants, and directors of our company and its subsidiaries. The purpose of the plan is to advance the interests of our stockholders by enhancing our ability to attract, retain, and motivate persons who make or are expected to make important contributions to our company and its subsidiaries by providing such persons with equity ownership opportunities and performance-based incentives, thereby better aligning their interests with those of our stockholders. The 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 nonstatutory 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 ten million shares of our common stock may be granted under the plan.

The plan is administered by our board of directors or a committee appointed by our board of directors. All members of such a committee must be a non-employee director and an outside director, as defined in the plan. Subject to the limitations set forth in the plan, the administrator has the authority to select the persons to whom grants are to be made, to designate the number of shares to be covered by each stock award, to determine whether an option is to be an incentive stock option or a nonstatutory stock option, to establish vesting schedules, to specify the option exercise price and the type of consideration to be paid upon exercise, and, subject to some restrictions, to specify other terms of stock awards.

The administrator establishes the option exercise price, which in the case of incentive stock options, must be at least the fair market value of the common stock on the date of the grant or, with respect to optionees who own at least 10% of our outstanding common stock, 110% of fair market value. If our common stock is listed and traded on a registered national or regional securities exchange, or quoted on the National Association of Securities Dealers' Automated Quotation System, fair market value is the average closing price of a share of our common stock on such exchange or quotation system for the five trading days prior to the date of grant. If our common stock is not traded on a registered securities exchange or quoted in such a quotation system, fair market value is determined in good faith by the administrator.

Options granted under the plan are generally not transferable by the optionee except by will or the laws of descent and distribution, and to certain related individuals with the consent of the administrator. Options generally must be exercised within three months after the optionee's termination of employment for any reason other than disability or death, or within 12 months after the optionee's termination by disability. Options granted under the plan vest at the rate specified in the option agreement. However, in no event may an option be exercised later than the earlier of the expiration of the term of the option or 10 years from the date of the grant of the option, or when an optionee owns stock representing more than 10% of the voting power, five years from the date of the grant of the option in the case of incentive stock options.

Any incentive stock options granted to an optionee which, when combined with all other incentive stock options becoming exercisable for the first time in any calendar year that are held by that person, would have an aggregate fair market value in excess of $0.1 million, shall automatically be treated as nonstatutory stock options.

The plan may be amended, altered, suspended or terminated by our board of directors at any time, but no such amendment, alteration, suspension or termination may adversely affect the terms of any option previously granted without the consent of the affected optionee. Unless terminated sooner, the plan will terminate automatically in September 2012. As of December 31, 2009, there were 2,601,523 outstanding options or stock awards at a weighted average price of $1.28 under the plan. There were 1,664,023 options exercisable under the 2002 Equity Incentive Plan as of December 31, 2009.

2002 Non-employee Director Stock Option Plan

Our 2002 Non-employee Director Stock Option Plan was adopted by our board of directors and by our stockholders in April 2002. We have reserved a total of one million shares of our common stock for issuance under the plan. The option grants under the plan are automatic and nondiscretionary, and the exercise price of the options is equal to 100% of the fair market value of our common stock on the grant date.

Only non-employee directors are eligible for grants under the plan. The plan will provide for an initial grant to a new non-employee director of an option to purchase 50,000 shares of our common stock. Subsequent to the initial grants, each non-employee director will be automatically granted on the first business day of January commencing January 1, 2003, an option to purchase 10,000 shares of our common stock.

The term of the options granted under the plan is 10 years, but the options expire 12 months after the termination of the optionee's status as a director or three months if the termination is due to the voluntary resignation of the optionee. The option grants will vest and become exercisable as to one-fifth of the shares on the date that is one year after the date of grant and an additional one-fifth of the shares subject to the option on a cumulative basis will vest and become exercisable annually thereafter.

As of December 31, 2009, options to purchase 140,000 shares of common stock were outstanding at a weighted average price of $1.13 per share under the 2002 Non-employee Director Stock Option Plan. There were 52,000 options exercisable under the 2002 Non-employee Director Stock Option Plan as of December 31, 2009.

The plan will terminate in October 2012, unless our board of directors terminates it sooner.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Soo Buchanan, the sister of John Kang, the Company's former Chairman, occasionally provides services to us as a consultant. During the years ended December 31, 2009, 2008 and 2007, the Company incurred $0, $0.1 million and $0, respectively, for her services as a consultant. Additionally, Otis Buchanan, the husband of Ms. Buchanan, is employed by us and was paid aggregate compensation of approximately $0.1 million during each of the years ended December 31, 2009, 2008 and 2007.

During the year ended December 31, 2009, John Kang, our former Chairman, advanced us $0.2 million to fund working capital needs. We repaid $0.1 million of the advance and have $0.1 million outstanding as of December 31, 2009, which is included in short-term debt. Further, Mr. Kang entered into a Continuing Guarantee Agreement, dated January 5, 2009, to personally guarantee repayment of our outstanding borrowings made under a Factoring Agreement.

In May 2009, we completed a transaction in which (i) the holders of our 8% Convertible Subordinated Notes exchanged such notes for a combination of new 8% Senior Secured Convertible Notes and shares of a new series of convertible preferred stock designated "Series A-2 Preferred Stock", together with warrants thereon, and (ii) certain investors purchased, for an aggregate purchase price of $2,500, shares of a new series of convertible preferred stock designated as "Series A-1 Preferred Stock". The lead investors in this transaction were Carlyle Liquid, LLC and Carlyle Liquid Holdings, LLC (the "Carlyle Entities"), which are two investor entities organized by Abdi Mahamedi and Jack Chitayat. Mr. Mahamedi became a director and greater-than-5% beneficial owner of our company by reason of the May 2009 transaction, and Jack Chitayat is a former director of our company who became a greater-than-5% beneficial owner of our company by reason of the May 2009 transaction. Mr. Mahamedi and Mr. Chitayat have shared voting and investment control over the shares held by the Carlyle Entities due to the fact that other entities owned by them are the managing members of these two Carlyle entities. Additionally, Mr. Iraj Azarm and Mr. Robert Biehl, directors of our company, are passive investors in the Carlyle Entities.

We have an exclusive license agreement with LLPG, Inc. ("LLPG"), a corporation headed by Mr. Chitayat. Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. We, in turn, will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. We recognized revenues from product sales and licensing fees of $0.2 million and $0.3 million from LLPG during the years ended December 31, 2009 and 2008, respectively. Approximately, $0 and $30 thousand is included in accounts receivables as of December 31, 2009 and 2008, respectively, for outstanding trade receivables due from LLPG.

Table of Contents

As of December 31, 2009 and 2008, Ricardo Salas, our Executive Vice President, held $0 and $0.4 million of the convertible unsecured subordinated notes, respectively, and $0.3 million of the unsecured subordinated notes for both periods. Mr. Salas advanced us $0.2 million during the year ended December 31, 2009 to meet working capital needs and are included in short-term debt. The $0.2 million advance accrues interest at an annual rate of 10%.

On June 1, 2007, we entered into a transaction with Grace Metal (currently Liquidmetal Korea Co., Ltd. "LMK"), under which (i) LMK agreed to purchase various equipments (including die casting machines and vacuum induction melters) used in our bulk amorphous alloy business segment and (ii) we granted LMK a 10-year exclusive license to manufacture products made from bulk Liquidmetal alloys for customers whose principal headquarters or whose major operations are located in South Korea. LMK was formed by an investor group that includes the former director and officer of our Company, James Kang, who is also the brother of John Kang, former Chairman of our company. Under an equipment purchase agreement between us and LMK, LMK agreed to buy the purchased equipment for a total purchase price of $2 million. The equipment purchase agreement provides that delivery of the equipment can be delayed to accommodate our continuing manufacturing needs, and it also provides that we will retain a security interest in the purchased equipment until full payment of the purchase price.

In consideration of the license agreement with LMK, we will be entitled to royalty of 10% of LMK's net sales of licensed products (unless LMK's margin on the products falls below specified levels, in which case a new royalty will be negotiated in good faith). Effective June 1, 2008, the royalty rate was adjusted to 5%. The agreement provides that we may convert the license to a non-exclusive in the event that the net sales in the second year of the contract or thereafter are not sufficient to result in royalties of $0.5 million or more per year. The agreement also provides that LMK will be required to purchase all alloy feedstock from us, and we will have the right to continue to manufacture Liquidmetal alloy products for South Korean customers until all purchased equipment has been commissioned. Subsequent to December 31, 2009, the license agreement with LMK was terminated on June 15, 2010.

We purchased production supplies and outsourced production of certain bulk alloy production with LMK. In June 2008, we began sharing the use of its manufacturing facility and production equipment in Pyongtaek, South Korea, with LMK as we began significant outsourcing of its bulk alloy parts production. We incurred expenses for purchase of production supplies and outsourcing fees of $1.3 million, $2.1 million and $0.7 million during the years ended December 31, 2009, 2008 and 2007, respectively. There is $0 included in accounts payable and accrued expenses for both December 31, 2009 and 2008, for outstanding trade payables due to LMK. We recognized revenue from sales of raw materials and royalties for a total of $4.5 million, $2.0 million and $3.4 million during the years ended December 31, 2009 and 2008, respectively. Approximately, $0 and $0.2 million is included in accounts receivables as of December 31, 2009 and 2008, respectively, for outstanding trade receivables due from LMK.

In October 2009, John Kang, our Company's former Chairman, Tony Chung, our Company's Chief Financial Officer, and Ricardo Salas, our Company's Executive Vice President, acquired 80,000 shares of our Company's Series A-1 Preferred Stock and 2,000,000 warrants for an aggregate cash price of $0.4 million. The Series A-1 Preferred Stock are convertible into our Company's common stock at a conversion price of $0.10 per common share. Further, the warrants are issuable into our Company's common stock at an exercise price of $0.50 per share and expire on January 3, 2012.

Item 14. Principal Accountant Fees and Services

Choi, Kim & Park, LLP

The following table summarizes the aggregate fees billed to the Company by Choi, Kim & Park, LLP for professional services:

Fees	2008	2009
Audit Fees (1)	$ 297,000	$ 188,000

(1) *Audit Fees.*

Fees for audit services billed in 2009 consisted of:

- Audit of the Company's financial statements for 2008; and
- Review of the Company's quarterly financial statements for 2009

Fees for audit services billed in 2008 consisted of:

- Audit of the Company's financial statements for 2007;
- Review of the Company's quarterly financial statements for 2008; and
- Review of the Company's internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 for 2007.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this report:

1. *Financial Statements*.

2. *Financial Statement Schedules*. See the last page of Consolidated Financial Statements.

3. *Exhibits*. See Item 15(c) below.

(b) *Exhibits*. The exhibits listed on the Exhibit Index, which appears at the end of this Item 15, are filed as part of, or incorporated by reference into, this report.

(c) *Financial Statement Schedules*. See Item 15(a)(2) above.

Table of Contents

EXHIBIT INDEX

Exhibit Number	Document Description
3.1	Certificate of Incorporation *(incorporated by reference to Exhibit 3.1 to the Form 10-Q filed on August 14, 2003).*
3.2	Bylaws *(incorporated by reference to Exhibit 3.2 to the Form 10-Q filed on August 14, 2003).*
3.3	Certificate of Amendment to the Certificate of Incorporation *(incorporated by reference to Exhibit 3.1 to the Form 8-K filed on August 6, 2009).*
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Form of Common Stock Certificate *(incorporated by reference to Exhibit 4.2 to the Form 10-Q filed on August 14, 2003).*
10.1	Amended and Restated License Agreement, dated September 1, 2001, between Liquidmetal Technologies, Inc. and California Institute of Technology *(incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.2*	1996 Stock Option Plan, as amended, together with form of Stock Option Agreement *(incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.3*	2002 Equity Incentive Plan *(incorporated by reference to Exhibit 10.23 to the Registration Statement on Form S-1 (Amendment No. 2) filed on April 5, 2002 (Registration No. 333-73716)).*
10.4*	2002 Non-Employee Director Stock Option Plan *(incorporated by reference to Exhibit 10.24 to the Registration Statement on Form S-1 (Amendment No. 2) filed on April 5, 2002 (Registration No. 333-73716)).*
10.5*	Employment Agreement, dated December 31, 2000, between Liquidmetal Technologies, Inc. and John Kang, as amended by

	Amendment No. 1 to Employment Agreement, dated June 28, 2001 *(incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.6	Non-Qualified Stock Option Agreement, dated January 1, 2001, between Liquidmetal Technologies, Inc. and Paul Azinger *(incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.7	Foreign Corporation Lease Zone Occupancy (Lease) Agreement, dated March 5, 2002, between Kyonggi Local Corporation and Liquidmetal Korea Co., Ltd. *(incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 (Amendment No. 2) filed by Liquidmetal Technologies on April 5, 2002 (Registration No. 333-73716)).*
10.8	Credit Service Agreement, dated February 2003, between Liquidmetal Korea Co., Ltd. and Kookmin Bank *(incorporated by reference to Exhibit 10.20 to the Form 10-K filed on March 31, 2003).*
10.9	Form of Common Stock Purchase Warrant, dated August 2, 2005 (*incorporated by reference from Exhibit 10.3 of the Registrant's 10-Q/A filed on 08/30/05)*
10.10	Form of Common Stock Purchase Warrant, dated June 13, 2005 (*incorporated by reference from Exhibit 99.3 of the Registrant's 8-K filed on 06/16/05)*
10.11	Agreement, dated November 3, 2004, between Liquidmetal Technologies, Inc. and John Kang relating to liability under Section 16(b) *(incorporated by reference from Exhibit 10.58 to the Form 10-K filed on March 16, 2006).*
10.12	Form of Indemnity Agreement between Liquidmetal Technologies, Inc. and directors and executive officers *(incorporated by reference from Exhibit 10.59 to the Form 10-K filed on March 16, 2006).*
10.13	Factoring, Loan, and Security Agreement, dated April 21, 2005, between Liquidmetal Technologies, Inc. and Hana Financial, Inc. and Amendment No. 1 to Factoring, Loan, and Security Agreement, dated January 27, 2006, between Liquidmetal Technologies, Inc. and Hana Financial, Inc. *(incorporated by reference to Exhibit 10.60 to the Registration Statement on Form S-1 (Amendment No. 1) filed on April 20, 2006 (Registration No. 333-130251)).*
10.14	Warrant for Purchase of Shares of Common Stock, dated March 17, 2006, granted by Liquidmetal Technologies, Inc. to Atlantic Realty Group, Inc. *(incorporated by reference to Exhibit 10.62 to the Registration Statement on Form S-1 (Amendment No. 1) filed on April 20, 2006 (Registration No. 333-130251)).*
10.15	Consulting Agreement, dated April 12, 2006, between Liquidmetal Technologies, Inc. and William Johnson *(incorporated by reference to Exhibit 10.65 to the Registration Statement on Form S-1 (Amendment No. 1) filed on April 20, 2006 (Registration No. 333-130251)).*
10.16	Securities Purchase Agreement, dated May 17, 2006, among Liquidmetal Technologies, Inc. and the parties identified as "Purchasers" therein *(incorporated by reference to Exhibit 10.66 to the Registration Statement on Form S-1 (Amendment*

Table of Contents

Exhibit Number	Document Description
	No. 2) filed on July 20, 2006 (Registration No. 333-130251)).
10.17	Form of 8% Unsecured Subordinated Note due August 2007 *(incorporated by reference to Exhibit 10.67 to the Registration Statement on Form S-1 (Amendment No. 2) filed on July 20, 2006 (Registration No. 333-130251)).*
10.18	Form of Common Stock Purchase Warrant, dated May 17, 2006 *(incorporated by reference to Exhibit 10.68 to the Registration Statement on Form S-1 (Amendment No. 2) filed on July 20, 2006 (Registration No. 333-130251)).*
10.19	Registration Rights Agreement, dated May 17, 2006, among Liquidmetal Technologies, Inc. and the parties identified as "Purchasers" therein *(incorporated by reference to Exhibit 10.69 to the Registration Statement on Form S-1 (Amendment No. 2) filed on July 20, 2006 (Registration No. 333-130251)).*
10.20	Securities Purchase Agreement, dated January 3, 2007 (the "Securities Purchase Agreement"), among Liquidmetal Technologies, Inc. (the "Company") and the investors listed on the Schedule of Buyers attached thereto (the "Buyers") *(incorporated by reference from Exhibit 10.1 to the Form 8-K filed on January 4, 2007).*
10.21	Form of Convertible Subordinated Note issued pursuant to Securities Purchase Agreement *(incorporated by reference from Exhibit 10.2 to the Form 8-K filed on January 4, 2007).*
10.22	Form of Common Stock Purchase Warrant issued pursuant to Securities Purchase Agreement *(incorporated by reference from Exhibit 10.3 to the Form 8-K filed on January 4, 2007).*
10.23	Registration Rights Agreement, dated January 3, 2007, among the Company and the Buyers *(incorporated by reference from Exhibit 10.4 to the Form 8-K filed on January 4, 2007).*
10.24	Amendment No. 2 to Factoring, Loan & Security Agreement, dated January 23, 2007, between Liquidmetal Technologies Inc. and Hana Financial, Inc. *(incorporated by reference from Exhibit 10.76 to the Form 10-K filed on March 16, 2007).*

10.25	Amendment No. 1 to the Securities Purchase Agreement and Convertible Subordinated Notes, dated April 23, 2007, by and between Liquidmetal Technologies, Inc. and the investors listed on the Schedule of Buyers attached thereto *(incorporated by reference from Exhibit 10.1 to the Form 8-K filed on April 27, 2007).*
10.26	Standard Industrial / Commercial Single-Tenant Lease, dated February 13, 2007, between Liquidmetal Technologies, Inc. and 30452 Esperanza LLC *(incorporated by reference from Exhibit 10.1 to the Form 10-Q filed on May 15, 2007).*
10.27	Lease, dated March 19, 2007, between Liquidmetal Technologies, Inc. and Larry Ruffino and Roland Ruffino *(incorporated by reference from Exhibit 10.1 to the Form 10-Q filed on May 15, 2007).*
10.28	Principles of Agreement and Security Agreement, dated June 1, 2007, between Liquidmetal Technologies, Inc. and Foster Wheeler Energy Services, Inc. *(incorporated by reference from Exhibit 10.64 to the Registration Statement on Form S-1 (Amendment No. 1) filed on July 2, 2007 (Registration No.* 333-142442*)).*
10.29	Equipment Purchase Agreement and Licensing Agreement, dated June 1, 2007, between Liquidmetal Technologies, Inc. and Gracemetal, as amended *(incorporated by reference from Exhibit 10.65 to the Registration Statement on Form S-1 (Amendment No. 1) filed on July 2, 2007 (Registration No.* 333-142442*)).*
10.30	Asset Purchase and Contribution Agreement, dated July 24, 2007 between Company and Liquidmetal Coatings, LLC. (includes Liquidmetal Coatings, LLC Operating Agreement) *(incorporated by reference from Exhibit 2.1 to the Form 8-K filed on July 27, 2007).*
10.31	Loan Agreement, dated July 24, 2007 by and among Liquidmetal Coatings, LLC, Liquidmetal Coatings Solutions, LLC and Bank Midwest, N.A. *(incorporated by reference from Exhibit 2.2 to the Form 8-K filed on July 27, 2007).*
10.32	Securities Purchase Agreement, dated July 24, 2007, by and among Liquidmetal Coatings, LLC, C3 Capital Partners, L.P., C3 Capital Partners II, L.P. and Liquidmetal Coatings Solutions, LLC. *(incorporated by reference from Exhibit 2.3 to the Form 8-K filed on July 27, 2007).*
10.33	First Amended and Restated Operating Agreement of Liquidmetal Coatings, LLC, dated February 22, 2008 *(incorporated by reference from Exhibit 2.1 to the Form 8-K filed on February 28, 2008).*
10.34	Form of Convertible Subordinated Note, dated October 1, 2007 *(incorporated by reference from Exhibit 10.34 to the Form 10-K filed on April 3, 2008).*
10.35	Form of Convertible Subordinated Note, dated December 28, 2007*(incorporated by reference from Exhibit 10.35 to the Form 10-K filed on April 3, 2008).*
10.36	Form of Common Stock Purchase Warrant, dated December 28, 2007*(incorporated by reference from Exhibit 10.36 to the Form 10-K filed on April 3, 2008).*

Table of Contents

Exhibit Number	Document Description
10.37	Form of Letter dated, October 31, 2007, to extend 8% Unsecured Subordinated Note due date *(incorporated by reference from Exhibit 10.37 to the Form 10-K filed on April 3, 2008).*
10.38	First Amended and Restated Operating Agreement of Liquidmetal Coatings, LLC, dated February 22, 2008 *(incorporated by reference from Exhibit 2.1 to the Form 8-K filed on February 22, 2008).*
10.39	Form of Convertible Subordinated Note, dated April 1, 2008 *(incorporated by reference from Exhibit 10.1 to the Form 10-Q filed on August 19, 2008).*
10.40	Form of Convertible Subordinated Note, dated July 1, 2008 *(incorporated by reference from Exhibit 10.2 to the Form 10-Q filed on August 19, 2008).*
10.41	Form of letter dated, July 31, 2008, to extend to change the first redemption date and amount of the Convertible Subordinated Notes due January 2010 *(incorporated by reference from Exhibit 10.3 to the Form 10-Q filed on August 19, 2008).*
10.42	Promissory Note, dated October 21, 2008, between Liquidmetal Coatings, LLC and Bank Midwest N.A. *(incorporated by reference from Exhibit 10.42 to the Form 10-K filed on April 15, 2009).*
10.43	Form of Convertible Subordinated Note, dated October 1, 2008 *(incorporated by reference from Exhibit 10.43 to the Form 10-K filed on April 15, 2009).*
10.44	Form of Convertible Subordinated Note, dated January 1, 2009 *(incorporated by reference from Exhibit 10.44 to the Form 10-K filed on April 15, 2009).*
10.45	Continuing Guarantee Agreement, dated January 5, 2009, between John Kang and Hana Financial, Inc. *(incorporated by reference from Exhibit 10.45 to the Form 10-K filed on April 15, 2009).*
10.46	Securities Purchase Agreement, dated May 1, 2009 (“the Securities Purchase Agreement”) among Liquidmetal Technologies, Inc. (the

	"Company) and the investors listed on the Schedule of Buyers attached hereto (the "Buyers") *(incorporated by reference from Exhibit 10.1 to the Form 8-K filed on May 7, 2009).*
10.47	Form of 8% Senior Secured Convertible Subordinated Note issued pursuant to Securities Purchase Agreement *(incorporated by reference from Exhibit 10.2 to the Form 8-K filed on May 7, 2009).*
10.48	Form of Common Stock Purchase Warrant issued in connection with the 8% Senior Secured Convertible Subordinated Notes *(incorporated by reference from Exhibit 10.3 to the Form 8-K filed on May 7, 2009).*
10.49	Form of Common Stock Purchase Warrant issued in connection with the Series A Preferred Stock *(incorporated by reference from Exhibit 10.4 to the Form 8-K filed on May 7, 2009).*
10.50	Registration Rights Agreement, dated May 1, 2009, among the Company and the Buyers *(incorporated by reference from Exhibit 10.5 to the Form 8-K filed on May 7, 2009).*
10.51	Security Agreement, dated May 1, 2009, among the Company and the Buyers *(incorporated by reference from Exhibit 10.6 to the Form 8-K filed on May 7, 2009).*
10.52	Form of Convertible Subordinated Note, dated November 1, 2009.
14	Code of Ethics for Chief Executive Officer and Senior Financial and Accounting Officers (*incorporated by reference to Exhibit 14 to the Form 10-K filed on November 10, 2004*).
21	Subsidiaries of the Registrant. *(incorporated by reference from Exhibit 21 to the Form 10-K filed on November 10, 2004).*
23.1	Consent of Registered Independent Public Accounting Firm, Choi, Kim & Park, LLP.
24.1	Power of Attorney relating to subsequent amendments (included on the signature page(s) of this report)
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification pursuant to 18 U.S.C. 1350.

---

* Denotes a management contract or compensatory plan or arrangement required to be filed as an exhibit this Form 10-K.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Thomas Steipp

Thomas Steipp
President and Chief Executive Officer
(Principal Executive officer)

Date: August 20, 2010

By: /s/ Tony Chung

Tony Chung
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 20, 2010

Table of Contents

POWER OF ATTORNEY

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas Steipp and Tony Chung and each of them, jointly and severally, his attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Abdi Mahamedi Abdi Mahamedi	Chairman of the Board and Director	August 20, 2010
/s/ Marty Weinstein Marty Weinstein	Vice Chairman of the Board and Director	August 20, 2010
/s/ Robert Biehl Robert Biehl	Director	August 20, 2010
/s/ Iraj Azarm Iraj Azarm	Director	August 20, 2010

Certifications provided as Exhibits.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Liquidmetal Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Liquidmetal Technologies, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive loss, shareholders' deficiency, and cash flows for the years ended December 31, 2009, 2008, and 2007. Our audits also included the financial statement schedules listed at index in Item 15(a) as of and for the years ended December 31, 2009, 2008, and 2007. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Liquidmetal Technologies, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and cash flows for the years ended December 31, 2009, 2008, and 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's significant operating losses and working capital deficit raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Choi, Kim & Park LLP

Los Angeles, California
Certified Public Accountants

August 6, 2010

Table of Contents

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

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 151	$ 157
Trade accounts receivables, net of allowance for doubtful accounts of $1,314 and $121	1,180	2,237
Inventories	982	820
Prepaid expenses and other current assets	594	967
Total current assets	2,907	4,181
Property, plant and equipment, net	5,668	7,021
Other intangibles, net	1,232	1,069
Investment in joint venture	—	306
Other assets	633	663
Total assets	10,440	13,240
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued expenses	9,111	8,563
Deferred revenue	31	40
Short-term debt	896	1,176
Long-term debt, current portion, net of debt discounts of $0 and $7,128	1,393	14,172
Warrant liabilities	3,975	692
Conversion feature liabilities	444	147
Other liabilities, current portion	141	146
Total current liabilities	15,991	24,936
Long-term debt, net of current portion and debt discounts of $3,227 and $0	12,661	8,521
Other long-term liabilities, net of current portion	155	163
Total liabilities	28,807	33,620
Shareholders' deficiency:		
Liquidmetal Technologies, Inc. shareholders' deficiency		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; 3,183,663 and 0 shares issued and outstanding at December 31, 2009 and 2008, respectively	4	—
Common stock, $0.001 par value; 300,000,000 shares authorized and 47,583,102 and 44,825,402 issued and outstanding at December 31, 2009 and 2008, respectively	48	45
Additional paid-in capital	142,135	140,204
Accumulated deficit	(162,777)	(162,307)
Accumulated other comprehensive income	1,441	1,027
Total Liquidmetal Technologies, Inc. shareholders' deficiency	(19,149)	(21,031)
Noncontrolling interest	782	651
Total shareholders' deficiency	(18,367)	(20,380)
Total liabilities and shareholders' deficiency	$ 10,440	$ 13,240

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

Table of Contents

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

	Years Ended December 31,		
	2009	2008	2007

Revenue	$ 14,720	$ 22,083	$ 29,022
Cost of sales	9,097	17,131	26,459
Gross profit	5,623	4,952	2,563
Operating expenses			
Selling, general, and administrative	6,740	6,529	8,921
Research and development	1,173	1,022	1,123
Impairment of long-lived assets	1,381	132	—
Total operating expenses	9,294	7,683	10,044
Loss before interest, other income, income taxes, and non-controlling interest	(3,671)	(2,731)	(7,481)
Loss from extinguishments of debt	(1,471)	—	(648)
Change in value of warrants, gain	9,835	1,890	4,923
Change in value of conversion feature, gain	1,827	1,987	6,965
Other expense	(308)	(17)	—
Other income	—	429	226
Interest expense	(5,862)	(7,712)	(9,364)
Interest income	—	3	123
Gain (loss) before income taxes and noncontrolling interest	350	(6,151)	(5,256)
Income taxes	(168)	—	—
Loss before noncontrolling interest	182	(6,151)	(5,256)
Noncontrolling interest loss (income)	69	(421)	(384)
Income (loss) from continuing operations	251	(6,572)	(5,640)
Net Income (loss)	251	(6,572)	(5,640)
Other comprehensive income (loss):			
Foreign exchange translation gain (loss) during the period	414	(1,765)	183
Comprehensive income (loss)	$ 665	$ (8,337)	$ (5,457)
Per common share basic and diluted:			
Income (loss) per share - basic	$ 0.01	$ (0.15)	$ (0.13)
Loss per share - diluted	$ 0.00	$ (0.15)	$ (0.13)
Number of weighted average shares - basic	46,084	44,735	44,730
Number of weighted average shares - diluted	214,429	44,735	44,730

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

Table of Contents

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
(in thousands, except share data)

	Preferred Shares	Common Shares	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total
Balance, December 31, 2006	—	44,311,768	$ —	$ 44	$ 136,032	$ (149,047)	$ 2,609	$ —	$ (10,363)
Conversion of notes payable	—	365,455	—	1	578	—	—	—	579
Common stocks issued as director's fees	—	49,072	—	—	42	—	—	—	42
Stock-based compensation	—	—	—	—	642	—	—	—	642
Foreign exchange translation gain	—	—	—	—	—	—	183	—	183
Cash distribution to minority interests	—	—	—	—	—	(23)	—	—	(23)
Net loss	—	—	—	—	—	(5,640)	—	—	(5,640)
Balance, December 31, 2007	—	44,726,295	$ —	$ 45	$ 137,293	$ (154,710)	$ 2,792	$ —	$ (14,580)
Common stock issued in lieu of cash	—	99,107	—	—	69	—	—	—	69
Stock-based compensation	—	—	—	—	578	—	—	—	578
Foreign exchange translation loss	—	—	—	—	—	—	(1,765)	—	(1,765)
Cash distribution to minority	—	—	—	—	—	(1,025)	—	—	(1,025)

interests									
Preferred Units capital account of subsidiary	—	—	—	—	2,264	—	—	—	2,264
Net (loss) income	—	—	—	—	—	(6,572)	—	651	(5,921)
Balance, December 31, 2008	—	44,825,402	$ —	$ 45	$ 140,204	$ (162,307)	$ 1,027	$ 651	$ (20,380)
Convertible preferred stocks issued	3,305,002		4	—	1,758	—	—	—	1,762
Conversion of preferred stocks	(121,339)	2,757,700	—	3	(3)	—	—	—	—
Dividends	—	—	—	—	—	(707)	—	—	(707)
Stock-based compensation	—	—	—	—	176	—	—	—	176
Foreign exchange translation gain	—	—	—	—	—	—	$ 414	—	414
Cash contribution from noncontrolling interests	—	—	—	—	—	—	—	200	200
Cash distribution to noncontrolling interests	—	—	—	—	—	$ (14)	—	—	(14)
Preferred Units capital account of subsidiary	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	$ 251	—	(69)	182
Balance, December 31, 2009	3,183,663	47,583,102	4	$ 48	$ 142,135	$ (162,777)	$ 1,441	$ 782	$ (18,367)

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 share data)

	Years Ended December 31, 2009	2008	2007
Operating activities:			
Net income (loss)	$ 251	$ (6,572)	$ (5,640)
Adjustments to reconcile loss from operations to net cash used for operating activities:			
Impairment of long-lived assets	1,381	132	—
Gain on disposal of asset	—	(15)	(226)
(Loss) income attributable to noncontrolling interest of consolidated subsidiary	(69)	421	384
Depreciation and amortization	1,055	1,275	3,102
Loss on extinguishment of debt	2,452	—	648
Amortization of debt discount	2,488	3,883	5,350
Stock-based compensation	176	578	642
Bad debt expense (recovery)	1,204	(83)	7
Warranty (recovery) expense	(66)	184	169
Gain from change in value of warrants	(9,835)	(1,890)	(4,923)
Gain from change in value of conversion feature	(1,827)	(1,987)	(6,965)
Changes in operating assets and liabilities:			
Trade accounts receivable	(147)	3,012	(1,061)
Inventories	(163)	1,479	1,467
Prepaid expenses and other current assets	(129)	(259)	(1)
Other assets	385	654	(2,211)
Accounts payable and accrued expenses	(583)	393	(1,545)
Deferred revenue	(9)	(276)	114
Other liabilities	(13)	(501)	450
Net cash (used in) provided by operating activities	(3,449)	428	(10,239)
Investing Activities:			
Purchases of property and equipment	(458)	(1,087)	(1,171)
Proceeds from the sale of property and equipment	—	(17)	400
Investment in patents and trademarks	(300)	(51)	(103)
Investment in joint venture	306	—	(303)
Net cash used in investing activities	(452)	(1,155)	(1,177)
Financing Activities:			
Proceeds from borrowings	16,627	16,438	45,863
Repayment of borrowings	(29,078)	(18,707)	(33,166)
Proceeds from issuance of convertible preferred stocks	16,228	—	—
Proceeds from issuance of preferred units of subsidiary	—	2,500	—
Redemption of preferred units of subsidiary	—	(237)	—
Cash contribution to noncontrolling interest of consolidated subsidiary	200	—	—
Cash distributions to holders of noncontrolling interest of consolidated subsidiary	(14)	(1,178)	(23)

Net cash provided by (used for) financing activities	3,963	(1,184)	12,674
Effect of foreign exchange translation	(68)	888	(222)
Net (decrease) increase in cash and cash equivalents	(6)	(1,023)	1,036
Cash and cash equivalents at beginning of period	157	1,180	144
Cash and cash equivalents at end of period	$ 151	$ 157	$ 1,180
Supplemental cash flow information			
Interest paid	$ 1,994	$ 2,007	$ 2,874
Taxes paid	$ —	$ —	$ —

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

Table of Contents

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

In 2007, $400 of the Company's 7% senior convertible notes due July 2007 was converted into 320,000 shares of the Company's common stock at a conversion price of $1.25 per share.

In 2007, $50 of the Company's 8% convertible subordinate notes due January 2010 was converted into 45,455 shares of the Company's common stock at a conversion price of $1.10 per share.

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

Table of Contents

LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009, 2008, and 2007
(in thousands, except share data)

1. Description of Business

Liquidmetal Technologies, Inc. ("Liquidmetal Technologies") and its subsidiaries (collectively "the Company") are in the business of developing, manufacturing, and marketing products made from amorphous alloys. Liquidmetal Technologies markets and sells Liquidmetal® alloy industrial coatings and also manufactures, markets and sells products and components from bulk Liquidmetal alloys that can be incorporated into the finished goods of its customers across a variety of industries. The Company also partners with third-party licensees and distributors to develop and commercialize Liquidmetal alloy products.

The Company classifies operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys. Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal-burning power plants. Bulk Liquidmetal alloys include potential market opportunities to manufacture and sell products and components for electronic devices, medical devices, defense applications, and sporting goods. In addition, such alloys are used to generate research and development services revenue for developing uses related primarily to defense and medical applications as well as potential license fees, royalties, and other compensation from strategic partnering transactions.

On July 24, 2007, the Company transferred substantially all of the assets of its Liquidmetal alloy industrial coatings business to a newly formed, newly capitalized subsidiary named Liquidmetal Coatings, LLC, a Delaware limited liability company ("LMC"), and LMC assumed substantially all of the liabilities of the coatings business. The transfer included the thermal spray coatings assets and liabilities acquired under a purchase agreement with Foster Wheeler Energy Services in June 2007. The Company holds a 69.25% ownership interest in LMC. The results of operation of LMC are consolidated and comprise our Liquidmetal alloy industrial coatings segment for financial reporting purposes.

2. Liquidity

The Company has experienced losses from continuing operations during the last three fiscal years and has an accumulated deficit of $162,777 as of December 31, 2009. Net cash used in continuing operations for the year ended December 31, 2009 was $3,449. At December 31, 2009, working capital deficit was $13,084. As of December 31, 2009, the Company's principal source of liquidity is $151 of cash and $1,180 of trade accounts receivable. Such conditions raise substantial doubt that the Company will be able to continue as a going concern. (see Note 20)

On May 1, 2009, the Company completed a financing transaction (the "Transaction") whereby aggregate cash of $2,500 and principal and accrued interest of $20,625 due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the "Prior Notes") were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of $5.00 per share, 2,625,002 shares Series A-2 Preferred Stock with an original issue price of $5.00 per share, and $7,500 of new 8% Senior Secured Convertible Subordinated Notes due January 2011 (the "Exchange Notes"). The Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the "Securities Purchase Agreement"), among the exchanging note holders and investors (collectively, the "Buyers"). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of Series A-1 Preferred Stock at $5.00 per share at any time prior to six months from the closing date (the "Series A-1 Option"). On August 5, 2010, the Company repaid in full all principal and interest on the Exchange Notes. All security interests in Company assets securing such obligations under the Exchange Notes were released and terminated. (see Note 11 and Note 20)

On October 30, 2009, the Company entered into an agreement with various investors, to issue 180,000 shares of convertible Series A-1 Preferred Stock for $900 of cash pursuant to the Series A-1 Option. (see Note 11)

On May 28, 2010, the Company issued $2,000,000 of 13% Subordinated Promissory Note ("January 2011 Subordinated Note") due on the earlier date of January 3, 2011 or the date on which all outstanding amounts are due under the Company's 8% January 2011 Notes. Following the due date, the interest on the Subordinated Note shall be 15%. The January 2011 Subordinated Note may be repaid in whole or in part at any time without penalty or premium, but is subordinate in right of payment to the January 2011 Notes and may not be paid until after the January 2011 Notes are paid in full. The company may, in its sole discretion, elect to pay all or any portion of the outstanding principal or accrued interest in cash or the Company's common stock or any combination thereof, at a value equal to the lower of $0.26 per share or the average market price per share for the 10 previous trading days immediately prior to the date the payment is made. As a condition for the January 2011 Subordinated Note, Carlyle Liquid Holdings, LLC, a current stockholder of the Company granted the holder of the January 2011 Subordinated Note a warrant to purchase up to 7,700,000 shares of the Company's common stock at a price equal to $0.26 per share, which warrant is

exercisable for a period of 90-days beginning on the date in which the Company repays the January 2011 Subordinated Note in cash (if it repays in cash). On August 5, 2010, the Company repaid in full all principal and accrued interest of $2,046 on the January 2011 Subordinated Note. In connection with the repayment, on August 10, 2010, the Company entered into a Subscription Agreement pursuant to which the Company issued 7,870,307 shares of the Company's common stock for an aggregate price of $2,046. (see Note 20)

Additionally, the Company has approximately $298 of principal and accrued interest outstanding as of December 31, 2009, under the 8% unsecured subordinated notes (the "Bridge Notes"), which were due August 17, 2007. On August 5, 2010, the Company repaid in full all principal and accrued interest of $314 on the Bridge Notes. (see Note 20)

The Company has $284 of outstanding loan as of December 31, 2009 under a factoring, loan, and security agreement with a financing company. In June 2009, the Company received a formal notice of default from the financing company for repayment of the outstanding loan balance and has entered into a settlement agreement with the financing company whereby it agreed to repay approximately $100 each month until the outstanding loans and accrued fees have been repaid. As of December 31, 2009, the Company was unable to pay the $100 monthly payments and is in discussions with the financing company to either extend or enter into another settlement agreement. On August 5, 2010, the Company repaid in full all principal, accrued interest and fees of $309 on the factoring loan. All security interests in Company assets securing such obligations under the factoring loan were released and terminated. (see Note 20)

The Company has outstanding liens on assets by our South Korean subsidiary by various creditors for past-due trade payables totaling $1,347, of which $1,072 is held by creditors in South Korea, as of December 31, 2009. The Company is currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If the Company cannot repay the amounts due or obtain a forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in South Korea. Such a foreclosure would have material adverse effect on its operations, financial condition, and results of operations.

3. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Liquidmetal Technologies, Inc. and its wholly-owned subsidiaries, Liquidmetal Technologies Co., Ltd., formerly Liquidmetal Korea Co., Ltd., ("LMT Korea"), located in South Korea, Liquidmetal Golf and its subsidiaries, which included the retail golf segment, now accounted for as a discontinued operations, and its majority-owned subsidiary, Liquidmetal Coatings, LLC, located in Texas. All intercompany balances and transactions have been eliminated.

Revenue Recognition. Revenue is recognized pursuant to applicable accounting standards including Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") Topic 13, *"Revenue Recognition"*, and *SAB 104, Revenue Recognition*. SAB 101 as amended and SAB 104 summarize certain points of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements and provide guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry. The Company's revenue recognition policy complies with the requirements of SAB 101 and SAB 104. Revenue is recognized at the time the Company ships its products, as this is when title passes to the customer and all other incidences of a sale have occurred. Revenue is deferred and included in liabilities when the Company receives cash in advance for services not yet performed or goods not yet delivered.

The Company applies the percentage of completion method to recognize revenue earned from government contracts that have cost-plus-fixed-fee arrangements. These arrangements provide the Company with full reimbursement on the actual cost incurred, plus a fixed fee that the Company is entitled to. These arrangements are covered by the American Institute of Certified Public Accountants Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1) and Accounting Research Bulletin No. 45, *Long-term Construction-Type Contracts* (ARB 45). In addition, cost-reimbursable contracts are also specifically covered by Accounting Research Bulletin No. 43, Chapter 11, Section A, *Government Contracts, Cost-Plus-Fixed Fee Contracts* (ARB 43). Substantially all of our cost-reimbursable and time and material contracts are with the U.S. Government, primarily with the Department of Defense. Revenues recognized under cost-plus-fixed fee are consistent with percentage of completion method and are consistent with ARB 43.

Sales on cost-reimbursable plus fixed fee type contracts are recognized as allowable costs are incurred on the contract and become billable to the customer, at an amount equal to the allowable costs plus the estimated profit on those costs. The estimated profit on a cost-reimbursable contract is generally fixed or variable based on the contract fee arrangement.

Table of Contents

LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009, 2008, and 2007
(in thousands, except share data)

Cash and Cash Equivalents. The Company considers all highly liquid investments with maturity dates of three months or less when purchased to be cash equivalents. The Company limits the amount of credit exposure to each individual financial institution and places its temporary cash into investments of high credit quality. There are no significant concentrations of credit risk to the Company associated with cash and cash equivalents.

Restricted Cash. The Company considers all cash and cash equivalents held under restrictive accounts as restricted cash.

Marketable Securities. The Company follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 320 *Accounting for Certain Investments in Debt and Equity Securities*, and classifies all of its investment securities as available -for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in Shareholders' Equity (Deficiency) under the caption "Accumulated Other Comprehensive Income."

Trade Accounts Receivables. The Company grants credit to its customers generally in the form of short-term trade accounts receivable. The creditworthiness of customers is evaluated prior to the sale of inventory. As of December 31, 2009, one customer represented 21%, or $250, of the total outstanding trade accounts receivable. As of December 31, 2008, one customer represented 18%, or $411, of the total outstanding trade accounts receivable.

The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the trade accounts receivable. Management primarily determines the allowance based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness and current industry and economic trends. The Company's provisions for uncollectible receivables are included in selling, general and administrative expense in the accompanying consolidated statements of operations and comprehensive loss.

Inventories. Inventories are accounted for using the moving average basis and reported at the lower of cost or market. Inventories consist of raw materials, work in process, and finished goods. The Company records write-offs for inventory obsolescence when it is deemed that there is impairment of the value of the inventories on hand.

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Additions and major renewals are capitalized. Repairs and maintenance are charged to expense as incurred. Upon disposal, the related cost and accumulated depreciation are removed from the accounts, with the resulting gain or loss included in operating income. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets, which range from two to twenty years.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is provided on the straight-line method over the estimated useful lives of the assets, which is five years.

Intangible Assets. Intangible assets consist of the costs incurred to purchase patent rights and costs incurred to internally develop patents and trademarks. Intangible assets are reported net of accumulated amortization. Patents and trademarks are amortized using the straight-line method over a period based on their contractual lives ranging from ten to seventeen years.

Goodwill. Beginning January 1, 2002, the Company adopted FASB ASC. 350, *Goodwill*. According to this statement, goodwill and other intangible assets are no longer subject to amortization, but instead must be reviewed annually for impairment by applying a fair value-based test.

Impairment of Long-lived Assets. The Company reviews long-lived assets to be held and used in operations for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. An impairment loss is recognized when the estimated fair value of the assets is less than the carrying value of the assets. The Company recognized $1,381, $132, and $0 during the years ended December 31, 2009, 2008 and 2007, respectively, for impairment of long-lived assets.

Fair Value of Financial Instruments. The estimated fair values of amounts reported in the consolidated financial statements have been determined using available market information and valuation methodologies, as applicable. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and all other current assets and liabilities approximate their fair value because of their short term maturities at December 31, 2009 and 2008, unless otherwise stated. The fair value of non-current assets and liabilities approximate their carrying value unless otherwise stated. The fair value of the Company's long-term debt is based on interest rates that would be available to the Company for the issuance of debt with similar terms.

Table of Contents

LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009, 2008, and 2007
(in thousands, except share data)

Research and Development Expenses. Research and development expenses represent salaries, related benefits expense, expenses incurred for the design and testing of new processing methods and other expenses related to the research and development of Liquidmetal alloys. Development costs incurred in research and development activities are expensed as incurred.

Advertising and Promotion Expenses. Advertising and promotion expenses are expensed when incurred. Advertising and promotion expenses were $38, $22, and $1, for the years ended December 31, 2009, 2008 and 2007, respectively.

Legal Costs. Legal costs are expensed as incurred.

Debt Discount Amortization. Debt discounts for notes payable are amortized to interest expense, using a method that approximates the interest method over the term of the related debt instruments.

Stock-Based Compensation. The Company accounts for share-based compensation in accordance with the fair value recognition provisions of FASB ASC 718, *Share-based Payment*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on their fair values. The fair value of stock options is calculated by using the Black-Scholes option pricing formula that requires estimates for expected volatility, expected dividends, the risk-free interest rate and the term of the option. If any of the assumptions used in the Black-Scholes model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period. See additional information related to share-based compensation in Note 13.

Income Taxes. Income taxes are provided under the asset and liability method as required by FASB ASC 740, *Accounting for Income Taxes*. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect of a tax rate change on deferred taxes is recognized in operations in the period that the change in the rate is enacted. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

The Company adopted the provisions of Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of the FASB Statement No. 109 ("FIN 48") on January 1, 2007. At the adoption date and as of December 31, 2007, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There was no expense related to interest and penalties for the year ended December 31, 2009.

Translation of Foreign Currency. The Company applies FASB ASC 830 *Foreign Currency*, for translating foreign currency into US dollars in our consolidation of the financial statements. Upon consolidation of the Company's foreign subsidiaries into the Company's consolidated financial statements, any balances with the subsidiaries denominated in the foreign currency are translated at the exchange rate at year end. The financial statements of LMT Korea have been translated based upon Korean Won as the functional currency. LMT Korea's assets and liabilities were translated using the exchange rate at period end and income and expense items were translated at the average exchange rate for the periods reported. The resulting translation adjustment was included in other comprehensive income (loss).

Earnings Per Share. Basic earnings per share ("EPS") is computed by dividing earnings (losses) attributable to common shareholders by the weighted average number of common shares outstanding for the periods. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates. These management estimates are primarily related to impairment of long-lived assets, inventory valuation, product warranty, and the allowance for bad debt account balances.

Subsequent Events. In May 2009, the FASB issued a new accounting standard which established general accounting standards and disclosure for subsequent events. In accordance with this standard, the Company evaluated subsequent events through August 20, 2010, the date the company filed this Annual Report on Form 10-K with the SEC.

Reclassifications. Certain amounts from prior years have been reclassified to conform to the current year's presentation.

New Accounting Pronouncements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"), which amends SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. This FSP amends the other-than-temporary guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The provisions of FSP FAS 115-2 and FAS 124-2 that amend SFAS 115 and SFAS 124 are effective for interim and annual reporting periods ending after June 15, 2009. The implementation of this FSP is not expected to affect the Company's consolidated results of operations or financial condition.

In May 2009, the FASB issued authoritative guidance establishing general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This guidance, which was incorporated into the Accounting Standards Codification ("ASC") Topic 85, "Subsequent Events", was effective for interim or annual periods ended after June 15, 2009 and the adoption did not have any impact on the Company's financial statements.

In June 2009, the FASB issued SFAS 166, "Accounting for Transfers of Financial Assets," which will be effective for us on January 1, 2010. SFAS 166 removes the concept of a qualifying special-purpose entity (QSPE) from SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", and removes the exception from applying FASB Interpretation 46R, "Consolidation of Variable Interest Entities". This statement also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements.

(in thousands, except share data)

In June 2009, the FASB issued SFAS 167, "Amendments to FASB Interpretation No. 46R," which will be effective for us on January 1, 2010. SFAS 167 requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. The Company does not expect a material effect from the adoption of this standard on our consolidated financial statements.

In June 2009, the FASB issued SFAS 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162," which was effective for us on September 30, 2009. SFAS 168's objective is to establish the FASB Accounting Standards Codification as the source of authoritative non-governmental accounting principles to be applied in the preparation of financial statements in conformity with US GAAP. Although SFAS 168 does not change GAAP, the adoption of SFAS 168 will impact the Company's consolidated financial statements since all future references to authoritative accounting literature will be in accordance with SFAS 168.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, *Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value*. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. The adoption of this guidance is not expected to have a material 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.

Table of Contents

4. Trade accounts receivable

Trade accounts receivables from continuing operations were comprised of the following:

	December 31, 2009	December 31, 2008
Trade accounts receivable	$ 2,494	$ 2,358
Less: Allowance for doubtful accounts	(1,314)	(121)
Trade accounts receivable, net	$ 1,180	$ 2,237

As of December 31, 2009, $1,256 is included in the allowance for doubtful accounts for reserves on accounts receivable from Liquidmetal Korea Co., Ltd. ("LMK"). There were no such reserves as of 12/31/08.

5. Inventories

Inventories were comprised of the following:

	December 31, 2009	December 31, 2008
Raw materials	$ 675	$ 426
Work in process	94	184
Finished goods	213	210
Total inventories	$ 982	$ 820

The Company analyzes inventory held for any excess or obsolescence issues. Any amounts considered excess or obsolete are written off. Further, as significant amount of sales of Liquidmetal bulk alloy parts are used primarily in consumer electronics components, our inventory is subject to fluctuations in demand for those consumer electronics goods. Accordingly, the Company reduces the carrying value of raw materials held by its subsidiaries, by the amounts considered to be excess or obsolete. During the years ended December 31, 2009 and 2008, total write downs of excess or obsolete inventory included in "Cost of sales" in the accompanying Statement of Operations and Comprehensive Loss was $836 and $199, respectively, primarily from discontinued Liquidmetal bulk alloy parts used in our customer's certain cell phone models. There were no such write downs as of December 31, 2007.

6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 2009	December 31, 2008
Machinery and equipment	$ 12,909	$ 11,719
Computer equipment	779	750
Office equipment, furnishings, and improvements	1,165	1,002
Buildings	7,345	8,042
Total	22,198	21,513
Accumulated depreciation	(16,530)	(14,492)

(in thousands, except share data)

Total property, plant and equipment, net	$ 5,668	$ 7,021

Table of Contents

Depreciation expense is classified as follows:

	Years ended December 31,		
	2009	2008	2007
Cost of sales	$ 869	$ 1,065	$ 2,831
Selling, general and administrative	46	86	153
Research and development	3	1	—
Total depreciation expense	$ 918	$ 1,152	$ 2,984

7. Other Intangible Assets

Intangible assets consist of the following:

	December 31,	
	2009	2008
Purchased and licensed patent rights	$ 566	$ 566
Internally developed patents	1,657	1,357
Trademarks	91	91
Total	2,314	2,014
Accumulated amortization	$ (1,082)	$ (945)
Total intangible assets, net	$ 1,232	$ 1,069

Amortization expense was $137, $123, and $123 for the years ended December 31, 2009, 2008 and 2007, respectively. The estimated aggregate amortization expense for each of the five succeeding years is as follows:

December 31,	Aggregate Amortization Expense
2010	138
2011	137
2012	126
2013	115
2014	97

	December 31,	
	2009	2008
Purchased and licensed patent rights	$ (359)	$ (324)
Internally developed patents	(660)	(567)
Trademarks	(63)	(54)
Total	$ (1,082)	$ (945)

Table of Contents

The weighted average amortization periods for each of the years ended December 31, 2009, 2008, 2007, is as follows:

	December 31,		
	2009	2008	2007
Purchased and licensed patent right	17	17	17
Internally developed patents	17	17	17
Trademarks	10	10	10

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"), a shareholder, through a license agreement with Caltech and other institutions. All fees and other amounts payable by the Company for these rights and licenses have been paid or accrued in full, and no further royalties, license fees or other amounts will be payable in the future under the License Agreements.

(in thousands, except share data)

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.

8. Other Liabilities

The other liabilities balance consists of accrued severance and operating lease costs associated with the Company's cost reduction measures for the Tampa, Florida executive offices.

Accrued severance	$	242	$	255
Accrued operating lease costs		54		54
Accrued capital lease costs		—		—
Total		296		309
Less current portion		(141)		(146)
Other long term liabilities, less current portion	$	155	$	163

During 2003, the Company initiated activities to substantially reduce the number of employees and consolidate manufacturing and administrative facilities to improve operational effectiveness and efficiency and reduce expenses. Certain relocating expenses associated with the move have been recorded and total liability accrued from the relocation and terminations in 2003, including the severance and lease accruals, were $54 as of both December 31, 2009 and 2008.

All leases with an initial term greater than one year are accounted for under FASB ASC 840 *Leases.* These leases are classified as either capital leases or operating leases, as appropriate. Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease. At December 31, 2009, the cost recorded for SEM Microscope and the JSM 6360 Electron Microscope under the capital lease was $47 and $320, respectively, and the accumulated depreciation was $46 and $320, respectively. At December 31, 2008, the cost recorded for SEM Microscope and the JSM 6360 Electron Microscope under the capital lease was $47 and $320, respectively, and the accumulated depreciation was $41 and $320, respectively.

9. Product Warranty

Management estimates product warranties as a percentage of certain bulk alloy product sales earned during the period. As of December 31, 2009 and 2008, the Company used 5% of bulk alloy product sales as an estimate of warranties to be claimed. As of December 31, 2009, the Company used 1% of coatings applications sales as estimate of warranties to be claimed. During the years ended December 31, 2009 and 2008, the Company's product warranty accrual balance had the following activity:

Balance, December 31, 2007	$	631
Accrual reduction		26
Warranty charges		(343)
Balance, December 31, 2008	$	314
Expense accrual		0
Warranty charges		(30)
Balance, December 31, 2009	$	284

The product warranty accrual balance was included in accounts payable and accrued expenses at December 31, 2009 and December 31, 2008.

10. Notes Payable

Unsecured Subordinated Note

On May 17, 2006, September 21, 2006, and December 1, 2006, the Company issued 8% Unsecured Subordinated Notes due August 2007 in the aggregate principal amount of $4,584 (the "August 2007 Subordinated Notes"). The August 2007 Subordinated Notes are unsecured and became due August 2007.

During 2007 and 2008, the Company retired $1,925 and $1,650 of the August 2007 Subordinated Notes, respectively. During the second quarter of 2009, the Company retired $750 of the August 2007 Subordinated Notes.

As of December 31, 2009 and 2008, the Company's gross outstanding loan balance of the August 2007 Subordinated Notes totaled $259 and $1,009, respectively, and is included in current portion of long-term debt. As of December 31, 2009, the effective interest rate for the August 2007 Subordinated Notes was 8%. (see Note 20)

Secured Convertible Subordinated Notes

On January 3, 2007 and December 28, 2007, the Company issued 8% Convertible Subordinated Notes due January 2010 in the aggregate principal amount of $17,300 (the "January 2010 Notes"). Additionally, during 2007, 2008 and 2009, the Company issued $971, $1,315, and $723 of additional January 2010 Notes for accrued interest, respectively. The January 2010 Notes were convertible into the Company's common stock at $1.10 per share.

On May 1, 2009, the January 2010 Notes were retired as part of a financing transaction (see Senior Secured Convertible Notes below).

The Company's gross outstanding loan balance of the January 2010 Notes totaled $0 and $19,113 as of December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, un-amortized discounts for conversion feature, warrants, and cash discount totaled $0 and $7,128, respectively, and other asset debt issuance costs totaled $0 and $655, respectively. Interest expense for the amortization of debt issuance cost and discount on note was $1,816 and $3,707 for the years ended December 31, 2009 and 2008, respectively.

Pursuant to FASB ASC 815, *Derivatives and Hedging*, the Company is required to report a value of the conversion liability as a fair value and record the fluctuation to the fair value of the conversion feature liability to current operations. The change in the fair value of the conversion feature liability resulted in losses of $1,137 and $1,987 for years ended December 31, 2009 and 2008, respectively.

Senior Secured Convertible Notes

On May 1, 2009, the Company completed a financing transaction (the "Transaction") whereby aggregate cash of $2,500 and principal and accrued interest of $20,625 due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the "January 2010 Notes") were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of $5.00 per share, 2,625,002 shares Series A-2 Preferred Stock with an original issue price of $5.00 per share, and $7,500 of new 8% Senior Secured Convertible Notes due January 2011 (the "January 2011 Notes"). Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the "Securities Purchase Agreement"), among the exchanging note holders and investors (collectively, the "Buyers"). The Securities Purchase Agreement gives the Buyers

option to subscribe for an additional 1,000,000 shares of preferred stock at $5.00 per share at any time prior to six months from the closing date. Additionally, 8,138,352 of previously issued warrants to purchase common shares held by holders of the January 2010 Notes have been cancelled in the Transaction.

The January 2011 Notes are due January 3, 2011 and bear annual interest rate of 8% with interest payable in October and April in cash or, at the Company's option, in the form of additional notes (in which case the interest rate will be 10%). (see Note 20) The preferred stocks accrue cumulative dividends at an annual rate of 8%, which is payable semi-annually. Beginning on the second anniversary of the initial issuance, the dividend will increase to 10%. As of December 31, 2009, the Company has accrued dividends of $707 included in accounts payable and other accrued expenses. The dividends are payable in cash or in kind by the issuance of the Company of additional preferred stock, only when and as declared by the Company's Board of Directors.

The Series A-1 Preferred Stock, Series A-2 Preferred Stock, and January 2011 Notes are convertible into the Company's common stock at conversion price of $0.10, $0.22, and $0.60 per common share, respectively. The Company issued warrants to purchase 3,125,007 shares and 42,329,407 shares of the Company's common stock at an exercise of $0.60 and $0.50 per share to the buyers of the January 2011 Notes and preferred stocks, respectively. The warrants will expire on January 3, 2012. The conversion prices and the number of common stock issuable under the preferred stocks, January 2011 Notes and warrants are subject to adjustments for anti-dilution purposes.

In connection with the Transaction, the Company and the Buyers entered into a Registration Rights Agreement under which the Company is required, upon the written request of the holders of more than fifty percent (50%) of the securities underlying the January 2011 Notes, warrants, and preferred stocks, after 180 days of the closing of the Transaction, to file a registration statement with the SEC covering the resale of the shares of Company's common stock issuable pursuant to the January 2011 Notes, the warrants and the preferred stocks and to use its best efforts to have the registration declared effective at the earliest date (but in no event later than 60 days after filing if there is no SEC review of the registration statement, or 120 days if there is an SEC review). The Company may be required to pay liquidated damages as set forth in the Registration Rights Agreement, if the registration statement is not filed or does not become effective on a timely basis.

The redemption of the previously issued January 2010 Notes was treated as an extinguishment of debt in accordance with Emerging Issues Task Force No. 96-19, "Debtors Accounting for a Modification or Exchange of Debt Instruments." The Transaction resulted in a $2,029 loss from extinguishment of debt, which consisted of write down of $503 other asset deferred issue costs, $5,487 debt discount, $1,306 decrease in conversion feature liability of the extinguished notes, $2,347 decrease in warrant liability from the warrants redeemed from holders of the January 2011 Notes, and $308 write off of accrued fees.

On November 1, 2009, the Company issued $378 of additional January 2011 Notes for accrued interest due under the notes in lieu of cash payments.

Pursuant to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," and EITF 05-2 "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19," the original fair value of the embedded conversion feature of $3,367 have been recorded as conversion feature liability as the debt is considered nonconventional convertible debt. The original fair value was computed using the Black-Scholes model under the following assumptions: (1) expected life of 1.68 years; (2) volatility of 176%; (3) risk free interest of 0.92% and dividend rate of 0%. In addition, the Company is required to report a value of the conversion liability as a fair value and record the fluctuation to the fair value of the conversion feature liability to current operations.

The change in the fair value of the conversion feature liability resulted in gains of $1,827 for the year ended December 31, 2009. The fair value of conversion feature outstanding at December 31, 2009 was $444. The fair value of conversion feature outstanding at December 31, 2009 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 1.01 years; (2) volatility of 152%, (3) risk free interest of 0.5% and dividend rate of 0%.

Pursuant to FASB ASC 815 *Derivaties and Hedging*, the original fair values of the warrants of $14,773 have been recorded as warrant liability, which was computed using the Black-Scholes pricing model under the following assumptions: (1) expected life of 2.67 years; (2) volatility of 176%; (3) risk free interest of 1.39% and (4) dividend rate of 0%.

The original fair value of the embedded conversion feature of $3,367 was recorded as discounts on the convertible notes and the original fair value of the warrants issued to buyers of the January 2011 Notes of $999 was recorded as discounts of the convertible notes. The original fair value of warrants issued to buyers of preferred stocks of $13,774 was recorded as reduction of additional paid-in capital. In addition, the Company incurred $440 of direct costs relating to the Transaction, of which $143 of was recorded as debt issuance cost in other assets relating to issuance of the convertible notes and $297 was recorded as reduction of additional paid-in capital relating to the issuance of the preferred stocks.

The Company's gross outstanding loan balance of the January 2011 Notes totaled $7,878 as of December 31, 2009. As of December 31, 2009, un-amortized discounts for conversion feature and warrants totaled $3,227, and other asset debt issuance costs totaled $104. Interest expense for the amortization of debt issuance cost and discount on note was $1,219 for the year ended December 31, 2009. The effective interest rate of the January 2011 Notes was 67% as of December 31, 2009.

The following is a repayment schedule of the January 2011 based on maturity date of the notes:

January 2011 Notes Repayment Schedule December 31,	Minimum Payments
2010	$ —
2011	7,878
Total	$ 7,878

Factoring Agreement

The Company entered into a Factoring, Loan, and Security Agreement (the "Agreement") with a financing company on April 21, 2005. The agreement will continue until February 1, 2008 and will renew annually thereafter. All borrowings are secured by outstanding receivables specifically assigned to the financing company. Further, pursuant to a Continuing Guaranty Agreement, dated January 5, 2009, the outstanding borrowings are personally guaranteed by John Kang, the Company's former Chairman. Assigned receivables are considered "Approved" or "Non-Approved" by the financing company. Borrowings made against non-approved receivables assigned are limited to $1,000 and total borrowings made on approved and non-approved receivables assigned are limited to $5,000.

Payments on assigned receivables are received directly by the financing company, and applied to outstanding advances. All outstanding advances and uncollected assigned receivables are subject to fees and interest charges ranging from 0.55% to 1.5% plus prime rate as published by the Wall Street Journal, with a minimum annual fee of $30. All receivables assigned and advances made are subject to return and recall by the financing company, respectively. As such, the advances have been classified as short-term secured borrowings in accordance with FASB ASC 860, *Transfers and Servicing.*

In June 2009, the Company received a formal notice of default from the financing company for repayment of the outstanding loan balance and entered into a settlement agreement with the financing company whereby it agreed to repay approximately $100 each month until the outstanding loans and accrued fees have been repaid. As of December 31, 2009, the company was unable to pay the $100 monthly payments. (see Note 20)

For the year ended December 31, 2009, the Company borrowed $48 and repaid $344 under the Agreement. The total outstanding advance made under the agreement is $284 and $580 as of December 31, 2009 and 2008, respectively, which is presented as short-term debt. The weighted average rate of interest for borrowings made under the Agreement was 8.72% and 6.85% for the years ended December 31, 2009 and 2008, respectively.

Kookmin Note

On February 4, 2003, the Company's Korean subsidiary received 6,500,000 in South Korean Won, or approximately $5,488, under a loan from Kookmin Bank of South Korea. This loan is collateralized by the plant facilities and certain equipment in South Korea.

On September 16, 2009, the Company retired the loan and paid $219 in outstanding principal and interest.

The outstanding loan balance totaled $0 and $151, as of December 31, 2009 and 2008, respectively, and are included in current portion of long-term debt.

LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009, 2008, and 2007
(in thousands, except share data)

Debt of Majority Owned Subsidiary

(in thousands, except share data)

On July 24, 2007, the Company completed an $11,500 financing transaction (the "Transaction") that provided funding to repay convertible notes previously issued by us that were scheduled to become due in July and August 2007. In the Transaction, the Company transferred substantially all of the assets of the Company's Liquidmetal Coatings division to a newly formed, newly capitalized subsidiary named Liquidmetal Coatings, LLC, a Delaware limited liability company ("LMC"), and LMC assumed substantially all of the liabilities of the division.

LMC was capitalized through a $6,500 subordinated debt and equity investment by C3 Capital Partners ("C3") and a $5,000 senior credit facility with Bank Midwest, N.A. This debt and equity resulted in cash proceeds of $11,102 after related debt issuance costs of $398, which proceeds LMC used to purchase all of the assets and liabilities from the Company. The Company incurred an additional $459 in issuance costs directly related to the debt issuance. As a result, $857 was recorded as deferred debt issuance costs to be amortized over the life of the debt. Interest expense for the amortization of debt issuance cost was $164 and $176 for the years ended December 31, 2009 and 2008, respectively.

The Company retains a 69.25% ownership interest in LMC, C3 holds a 19% ownership interest, Larry Buffington, the Company's former President and CEO, (who also serves as the President and CEO of LMC) holds a 10% ownership interest, and CRESO Capital Partners ("CRESO"), the Company's financial advisor in the Transaction, holds a 1.75% ownership interest. The equity interests acquired by C3 and issued to CRESO were not considered a discount to debt, as the unconsolidated net assets of LMC were deemed to have an initial value of $0 upon closing of the Transaction for financial accounting purposes. Further, LMC is fully responsible for the repayment of debt obligations.

Midwest Debt

In connection with the Transaction, LMC entered into a Loan Agreement (the "Loan Agreement"), dated July 24, 2007, with Bank Midwest, N.A. ("Midwest"). Following the Transaction, the Loan Agreement has been amended to renew and modify certain terms. The Loan Agreement, as amended on October 6, 2009 (the "Loan Amendment"), provides for total loan availability of $5,025, consisting of a $4,000 term loan and a revolving loan of up to $1,025 based on a percentage of LMC's eligible receivable and inventory. The Loan Amendment adjusted, among other terms, the interest rate of all outstanding loans to a fixed rate of 9%, certain financial covenants under the Loan Agreement, maturity date of the revolving loan through June 30, 2010 with monthly interest payments, and required an immediate repayment of $325 of the term loan and $325 of the revolving loan. The members of the Liquidmetal Coatings, LLC (the "Members") were required to contribute $650 in equity to repay the amounts due under the Loan Agreement (the "Capital Call"). On October 6, 2009 the Company paid $450 which represented its portion of the Capital Call and the remaining Members paid $150. As a result of the payment, the monthly amortization payments due under the term loan were reduced to $47 and the maturity date was extended to September 30, 2012.

In connection with the Loan Amendment, the Company borrowed $450 from C3 Capital Partners ("C3") to contribute its share of the Capital Call pursuant to a bridge loan agreement with C3. The Company paid down the bridge loan in November 2009.

LMC's obligations under the Loan Agreement are secured by a blanket security interest in all of LMC's assets and the Company's equity interest in LMC, and pursuant to an intercreditor agreement between the C3 and Midwest. Midwest's security interest in the assets is senior to C3's security interest in the same assets.

As of December 31, 2009 and 2008, the gross outstanding loan balance under the term loan totaled $1,430 and $2,729, respectively, and the gross outstanding loan balance under the revolving loan totaled $307 and $597, respectively. The loans are presented as long-term debt and short-term debt on the Company's consolidated balance sheet, respectively. Interest expense incurred under the term loan and revolving loan totaled $184 and $42 for the years ended December 31, 2009, respectively. Interest expense incurred under the term loan and revolving loan totaled $276 and $52 for the years ended December 31, 2008, respectively. (see Note 20)

Midwest Debt Term Loan Repayment Schedule December 31,		**Minimum Payments**
2010	$	1,104
2011		326
Total	$	1,430

Table of Contents

Additionally, LMC entered into Promissory Notes, dated August 29, 2007 and October 21, 2008 (the "Capital Loan"), with Midwest to provide for $45 and $105 to be used towards the purchase of a company truck and HVOF spray equipment with an annual fixed interest rate of 9% for both loans,. The Capital Loan has maturity dates of September 1, 2012 and November 1, 2013. LMC is required to make monthly principal and interest payments of $3 per month. As of December 31, 2009 and 2008, the gross outstanding loan balance under the Capital Loan totaled $102 and $129, respectively, which is presented as long-term debt on the Company's consolidated balance sheet. Interest expense incurred under the Capital Loan totaled $10 and $6 for the years ended December 31, 2009 and 2008, respectively. (see Note 20)

Capital Loan Repayment Schedule December 31,		**Minimum Payments**
2010	$	30
2011		32
2012		26
2013		14
Total	$	102

(in thousands, except share data)

C3 Debt

In the Transaction, LMC also entered into a Securities Purchase Agreement, dated July 24, 2007 (the "Securities Purchase Agreement"), with C3 Capital Partners, L.P. ("C3"), C3 Capital Partners II, L.P. ("C3 II", and with C3, the "C3 entities"), and Liquidmetal Coatings Solutions, LLC, a wholly owned subsidiary of LMC that will operate the thermal spray coatings business ("LMCS"). Pursuant to the Securities Purchase Agreement, LMC issued to the C3 entities subordinated promissory notes in the aggregate principal amount of $6,500 (the "Subordinated Notes"). Under the Securities Purchase Agreement, the C3 entities have the right, beginning on the July 24, 2012 (or, if earlier, upon a default by LMC under the Subordinated Notes or Securities Purchase Agreement) to require LMC to purchase the C3 entities' membership interests in LMC for a purchase price equal to their pro rata portion of the greater of (i) the appraised fair market value of LMC or (ii) six times LMC's trailing 12-month earnings before interest taxes, depreciation, and amortization, less funded debt.

The Subordinated Notes have a maturity date of July 20, 2012 with no required principal payments before maturity other than upon specified triggering events, such as a change in control of LMC. Interest accrues at an annual rate of 14%, with 12% interest being payable monthly beginning September 2007 and the remaining 2% interest being payable at maturity. In connection with the Securities Purchase Agreement and the Subordinated Notes, the Company and LMC entered into pledge agreements with the C3 entities in which the Company pledged its membership interest in LMC to secure the obligations under the notes and LMC pledged its membership interests in LMCS to secure its obligations under the notes. LMC and LMCS also granted to C3 a blanket security interest in all of their assets to secure their obligations under the Subordinated Notes.

The gross outstanding loan balance including accrued interest payable upon maturity of the Subordinated Note totaled $7,613 and $6,690 as of December 31, 2009 and 2008, respectively. Interest expense incurred under the Subordinated Notes totaled $810 and $926 for the years ended December 31, 2009 and 2008, respectively.

C3 Notes Repayment Schedule December 31,		**Minimum Payments**
2010	$	—
2011		—
2012		7,613
Total	$	7,613

Table of Contents

11. Shareholders' Equity (Deficiency)

Initial Public Offering. Pursuant to the Company's Registration Statement (Registration No. 333-73716) on Form S-1, as amended, initially filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002, the Company closed an initial public offering of 5,000,000 registered shares of common stock on May 28, 2002, plus an additional 229,000 shares on June 10, 2002 pursuant to an over allotment option, at a price of $15.00 per share (which sale is referred to herein as the "Offering"). The Offering generated net cash proceeds for the Company during the second quarter 2002 of approximately $70,721, net of underwriting commissions of $5,490 and other transaction fees of approximately $2,224.

Stock Split. On June 29, 2001 the Company declared a ten-for-one stock split to its common shareholders of record on June 29, 2001. This stock split was effected in the form of a stock dividend. On April 4, 2002, the Company declared a one-for-3.1 reverse stock split to its common shareholders of record on April 4, 2002. The consolidated financial statements and accompanying notes have been retroactively adjusted to reflect the effects of the split and reverse split.

Reincorporation. On May 21, 2003, the Company completed a reincorporation by transitioning from a California corporation to a Delaware corporation. The reincorporation was effected though the merger of the former California entity into its newly created wholly owned Delaware subsidiary. In connection with the reincorporation, the number of authorized common shares was reduced from 200,000,000 to 100,000,000. Additionally, the par value of the common stock was changed from no par value common stock to common stock with a par value of $0.001 per share. For purposes of these notes, the term "Company" refers to the former California entity with respect to periods prior to May 21, 2003.

Preferred Stock. On December 31, 2001, the Company received net proceeds of $5,577 from the sale of the preferred stock at a per share price of $12.40, as adjusted for the revised stock split. Upon the completion of the Offering, each share of preferred stock was converted automatically into one share of Class A common stock pursuant to the terms of the preferred stock issued. On May 1, 2009, pursuant to a Securities Purchase and Exchange Agreement (the "Securities Purchase Agreement), the Company issued 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of $5.00 per share, 2,625,000 shares Series A-2 Preferred Stock with an original issue price of $5.00 as part of a financing transaction. The Series A-1 Preferred Stock and Series A-2 Preferred Stock are convertible into the Company's common stock at conversion price of $0.10 and $0.22 per common share, respectively. In connection with the A-1 and A-1 Preferred Stock issuance, the Company issued warrants to purchase 42,329,407 shares of the Company's common stock at an exercise of $0.50 per share (See Note 10). In October 2009, the Company entered into an agreement with various investors to issue 180,000 shares of convertible Series A-1 Preferred Stock with an original issue price of $5.00 per share which are convertible into the Company's common stock at a conversion price of $.01 per common share. In connection with this issuance, the Company issued warrants to purchase up to 4,500,000 shares of common stock with an exercise price of $0.50 per share and an expiration date of January 3, 2012.

Warrants

As of December 31, 2009, outstanding warrants to acquire shares of the Company's common stock are as follows:

(in thousands, except share data)

Number of Shares		Exercise Price	Expiration Date
1,702,403	$	1.05	June 13, 2010
5,493,355		1.05	August 2, 2010
25,000		1.75	May 17, 2011
741,829		1.05	May 17, 2011
1,562,531		1.14	May 17, 2011
248,710		0.50	January 3, 2012
42,329,407		0.50	January 3, 2012
3,125,007		0.60	January 3, 2012
200,000		0.50	December 28, 2012
4,500,000		0.50	October 30, 2014
59,928,242			

Pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair value of the warrant liability to current operations. The change in the fair value of the warrants resulted in gains of $9,835, $1,890, and $4,923 for the years ended December 31, 2009, 2008 and 2007. The fair value of warrants outstanding at December 31, 2009 of $3,975 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 0.45 to 4.83 years; (2) volatility of 152%, (3) risk free interest of 0.20% to 2.69%, and dividend rate of 0%. The fair value of warrants outstanding at December 31, 2008 of $692 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 0.21 to 3.99 years; (2) volatility of 113%, (3) risk free interest of 0.11% to 1.55%, and dividend rate of 0%.

Table of Contents

12. Stock Compensation Plan

Under the Company's 1996 Stock Option Plan ("1996 Company Plan") the Company could grant to employees, directors or consultants options to purchase up to 12,903,226 shares of common stock as adjusted for the reverse stock split. The stock options are exercisable over a period determined by the Board of Directors or the Compensation Committee, but no longer than 10 years.

On April 4, 2002, our shareholders and board of directors adopted the 2002 Equity Incentive Plan ("2002 Equity Plan"). The 2002 Equity Plan provides for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. In addition, the plan permits the granting of stock appreciation rights with, or independently of, options, as well as stock bonuses and rights to purchase restricted stock. A total of 10,000,000 shares of our common stock may be granted under the 2002 Equity Plan. As of December 31, 2009, there are 2,601,523 options outstanding under the 2002 Equity Plan.

Certain of our current and former non-employee directors and our former Chief Executive Officer were given the opportunity to receive stock under the 2002 Equity Pan in lieu of past-due director and consulting fees that were due to them. During 2009, 2008, and 2007, the Company issued 0, 99,107, and 49,072 shares of stock, respectively, at prices ranging from $0.70 to $1.50 per share under the 2002 Equity Plan for such fees that were due to them.

Prior to the approval of the 2002 Equity Plan, options were primarily granted under the Company's 1996 Stock Option Plan ("1996 Company Plan"). On April 4, 2002, our board of directors terminated the 1996 Company Plan. The termination will not affect any outstanding options under the 1996 Company Plan and all such options will continue to remain outstanding and be governed by the Plan. No additional options may be granted under the 1996 Company Plan. As of December 31, 2009, there were 56,960 options outstanding under the 1996 Company Plan.

On April 4, 2002, our shareholders and board of directors adopted the 2002 Non-employee Director Stock Option Plan ("2002 Director Plan"). Only non-employee directors are eligible for grants under the 2002 Director Plan. A total of 1,000,000 shares of the Company's Common Stock may be granted under the 2002 Director Plan. There are 140,000 options outstanding under the 2002 Director Plan as of December 31, 2009.

Additionally, the Company has 1,591,399 options outstanding at December 31, 2009 which were granted outside the 1996 Company Plan, 2002 Equity Plan and 2002 Director Plan.

The Company previously applied Accounting Principles Board ("APB") Opinion No. 25 for options when the exercise price of options granted to employees is less than the fair value of the underlying stock on the date of grant. As permitted, the Company had previously elected to adopt provisions of FASB ASC 718 *Compensation-Stock Compensation* for options granted to non-employees who perform services for the Company and the disclosure-only provisions of options granted to employees.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS 123R"), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, ("SFAS 123") and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, ("APB 25"). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under SFAS 123R, the Company is required to measure the cost of employee services received in exchange for stock options and similar awards based on the grant-date fair value of the award and recognize this cost in the income statement over the period during which an employee is required to provide service in exchange for the award. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. The Company adopted SFAS 123R on January 1, 2006 using the modified prospective method and recorded $176, $578 and $643 for the years ended December 31, 2009, 2008 and 2007, respectively, of non-cash charges for stock compensation related to amortization of the fair value of restricted stock and unvested stock options representing a $1,397, or $0.03 per share, increase from the stock compensation that would have been recorded under APB 25 and SFAS 123. Under this method, the Company will recognize compensation cost, on a prospective basis, for the portion of outstanding awards for which the requisite service has not yet been rendered as of January 1, 2006 and any new grants, based upon the grant-date fair value of those awards calculated under SFAS 123 for pro forma disclosure purposes. Accordingly, we have not restated prior period amounts.

Table of Contents

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the assumptions noted in the following table. Expected volatilities are based on historical volatility expected over the expected life of the options. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is represents the period of time that options granted are expected to be outstanding. Actual forfeitures were used for years ended December 31, 2009, 2008 and 2007. The risk free rate for period within the expected life of the options is based on U.S. Treasury rates in effect at the time of grant.

	December 31, 2009	December 31, 2008	December 31, 2007
Expected volatility	119% - 184%	63% - 94%	58% - 100%
Expected dividends	—	—	—
Expected term (in years)	6	6	5 - 6
Risk-free rate	2.07% - 3.14%	2.13% - 3.54%	3.84% - 4.68%

The following table summarizes the Company's stock option transactions for the three years ended December 31, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2006	7,792,591	$ 4.35		
Granted	1,334,565	0.08		
Exercised	—	—		
Forfeited	(930,010)	2.00		
Options outstanding at December 31, 2007	8,197,146	4.04		
Granted	673,966	0.50		
Exercised	—	—		
Forfeited	(895,330)	3.41		
Options outstanding at December 31, 2008	7,975,782	3.81		
Granted	353,010	0.21		
Exercised	—	—		
Forfeited	(3,938,910)	4.87		
Options outstanding at December 31, 2009	4,389,882	$ 2.57	4.8	$ —
Options vested or expected to vest at December 31, 2009	4,222,944	$ 3.25	5.0	$ —
Options exercisable at December 31, 2009	3,364,382	$ 3.13	3.2	$ —

The weighted average fair value of options granted during the years ended December 31, 2009, 2008 and 2007 was $0.21, $0.50, and $0.81 respectively. There were 3,364,382 options with a weighted average exercise price of $3.13 exercisable at December 31, 2009 and there were 6,303,382 options with a weighted average exercise price of $4.57 exercisable at December 31, 2008.

Included in the above tables are certain options granted where their exercise prices were below the fair market value of the common stock at the grant date (measurement date). Such options totaling 358,582 with a weighted average fair value of $11.22 and 734,927 with a weighted average fair value of $7.56 at December 31, 2008 and 2007, respectively, were canceled as of December 31, 2009.

Table of Contents

The following table summarizes the Company's stock options outstanding and exercisable by ranges of option prices as of December 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Numbers of options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$0.00 - $1.55	2,130,071	7.80	$ 0.70	1,152,571	$ 0.73

(in thousands, except share data)

1.56 - 3.10	555,000	4.50	2.35	507,000	2.36
3.11 - 4.65	1,644,163	1.00	4.65	1,644,163	4.65
4.66 - 6.20	—	0.00	0.00	—	—
6.21 - 7.75	—	—	—	—	—
7.76 - 9.30	—	—	—	—	—
9.31 - 10.85	10,000	3.00	9.81	10,000	9.81
10.86 - 12.40	4,518	1.60	12.40	4,518	12.40
12.41 - 13.95	—	—	—	—	—
13.96 - 15.50	46,130	2.30	15.00	46,130	15.00
Total	4,389,882			3,364,382	

13. Preferred Units of Subsidiary

On February 22, 2008, LMC completed a transaction under which it issued and sold $2,500 in preferred membership units to two minority members of LMC (the "Preferred Units Transaction"). Immediately following the sale of the preferred membership units, the subscription proceeds (after a 1% transaction fee) were distributed to LMC's common unit members, and as a result of such distribution, the Company received approximately $1,714 in the distribution. The preferred units issued by LMC have an accruing priority return of 14% per year that are priority over any distribution made by LMC and may be redeemed at any time within four years of issuance through cash payment or distribution in excess of the 14% priority return. If LMC fails to redeem the preferred units on or before the second anniversary of the issue date, the preferred units will receive an additional 200 common membership units (equal to 2% of the currently outstanding common units) per quarter until the preferred units are redeemed in full.

As of December 31, 2009, LMC has redeemed $236 of its preferred units and distributed $290 in priority return to the preferred unit holders. The total preferred units outstanding are $2,264 as of both December 31, 2009 and 2008.

Table of Contents

14. Income Taxes

Significant components of deferred tax assets are as follows:

	Years Ended December 31, 2009	2008
Loss carry forwards	$ 40,675	$ 43,359
Other	2,893	1,117
Total deferred tax asset	43,568	44,476
Valuation allowance	(43,568)	(44,476)
Total deferred tax asset, net	$ —	$ —

The following table accounts for the differences between the expected federal tax benefit (based on the statutory U.S. federal income tax rate of 34%) and the actual tax provision:

	Years Ended December 31, 2009	2008	2007
Expected federal tax benefit	(34)%	(34)%	(34)%
State tax expense, net of expected federal tax benefit	(56)%	3%	(0)%
Foreign loss not subject to U.S. federal income tax	(301)%	12%	33%
Net operating loss utilized or expired	(915)%	(38)%	88%
Other	0%	0%	0%
Increase (decrease) in valuation allowance	1,305%	63%	(87)%
Total tax provision	0%	0%	0%

As of December 31, 2009, the Company had approximately $112 of net operating loss ("NOL") carryforwards for U.S. federal income tax purposes expiring in 2009 through 2029. In addition, the Company has California state NOL carryforwards of approximately $51 expiring in 2009 through 2019. The Company and Liquidmetal Golf filed on a separate company basis for federal income tax purposes. Accordingly, the federal NOL carryforwards of one legal entity are not available to offset federal taxable income of the other. As of December 31, 2009, Liquidmetal Technologies, Inc. had approximately $75 in federal NOL carryforwards, expiring in 2009 through 2029 and Liquidmetal Golf, Inc. had approximately $38 in federal NOL carryforwards, expiring in 2013 through 2028.

As of December 31, 2009, the Company had approximately $246 of Research & Development ("R&D") credit carryforwards for U.S. federal income tax purposes expiring in 2021 through 2029. In addition, the Company has California R&D credit carryforwards of approximately $304, which do not expire under current California law.

(in thousands, except share data)

Section 382 of the Internal Revenue Code ("IRC") imposes limitations on the use of NOL's and credits following changes in ownership as defined in the IRC. The limitation could reduce the amount of benefits that would be available to offset future taxable income each year, starting with the year of an ownership change. The Company has not completed the complex analysis required by the IRC to determine if an ownership change has occurred.

The ability to realize the tax benefits associated with deferred tax assets, which includes benefits related to NOL's, is principally dependent upon the Company's ability to generate future taxable income from operations. The Company has provided a full valuation allowance for its net deferred tax assets due to the Company's net operating losses.

The Company adopted the provisions of FIN 48 on January 1, 2007. At the adoption date and as of December 31, 2009, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense which were $0 for the year ended December 31, 2009.

Table of Contents

Tax years 2005 through 2009 and 1998 through 2009 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process.

15. Segment Reporting and Geographic Information

FASB ASC 280, *Segment Reporting,* requires companies to provide certain information about their operating segments. In April 2002, the Company began classifying operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys. The Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants. Bulk Liquidmetal alloys include market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods, tooling, prototype sampling, defense applications and metal processing equipment. Primarily, the expenses incurred by the bulk Liquidmetal alloy segment are manufacturing, research and development costs, and selling expenses associated with identifying and developing market opportunities. Bulk Liquidmetal alloy products can be distinguished from Liquidmetal alloy coatings in that the bulk Liquidmetal alloy can have significant thickness, up to approximately one inch, which allows for their use in a wider variety of applications other than a thin protective coating applied to machinery and equipment. Revenue and expenses associated with research and development services are included in the bulk Liquidmetal alloy segment. The accounting policies of the reportable segments are the same as those described in Note 3 above.

Summarized financial information concerning the Company's reportable segments is shown in the following tables:

	Coatings	Bulk Alloy	Segment Totals
Year ended December 31, 2009:			
Revenue to external customers	$ 8,656	$ 6,064	$ 14,720
Gross profit	3,129	2,494	5,623
Total segment loss	(304)	(1,737)	(2,041)
Total identifiable assets at end of period	2,485	6,134	8,619
Year ended December 31, 2008:			
Revenue to external customers	$ 12,508	$ 9,575	$ 22,083
Gross profit	4,451	501	4,952
Total segment income (loss)	1,374	(1,347)	27
Total identifiable assets at end of period	2,931	7,837	10,768
Year ended December 31, 2007:			
Revenue to external customers	$ 14,393	$ 14,629	$ 29,022
Gross profit (loss)	5,638	(3,075)	2,563
Total segment income (loss)	3,337	(3,310)	27
Total identifiable assets at end of period	4,441	6,327	10,768

Table of Contents

Reconciling information for the statements of operations between reportable segments and the Company's consolidated totals is shown in the following table:

	Years ended December 31,		
	2009	2008	2007
Total segment income (loss) before interest expense and discontinued	$ (2,041)	$ 27	$ (1,523)

(in thousands, except share data)

operations			
General and administrative expenses, excluded	(3,247)	(3,765)	(6,349)
Loss before interest, other income, income taxes, and discontinued operations	(5,288)	(3,738)	(7,872)
Loss from extinguishment of debt	(1,471)	—	(648)
Change in value of warrants, gain	9,835	1,890	4,923
Change in value of conversion feature, gain	1,827	1,987	6,965
Interest expense	(4,553)	(6,293)	(8,747)
Interest income	—	3	123
Income taxes	(168)	—	—
Loss (income) attributable to noncontrolling interest	69	(421)	(384)
Consolidated net income (loss)	$ 251	$ (6,572)	$ (5,640)

Included in bulk alloy segment income for the year ended December 31, 2008 is $429 of other income recognized from $182 deferred gain on disposal of assets in connection with a 2007 equipment purchase agreement with Liquidmetal Korea (see Note 19) and $247 gain from accounts payables write off, and $17 of other expense recognized from loss from disposal of assets. Included in bulk alloy segment income for the year ended December 31, 2007 is $226 of other income recognized from gain on disposal of assets in connection with the equipment purchase agreement and transfer agreement of the Weihei operations to Liquidmetal Korea (see Note 19).

Excluded general and administrative expenses are attributable to the Company's corporate headquarters. These expenses primarily include corporate salaries, consulting, professional fees and facility costs. Research and development expenses are included in the operating costs of the segment that performed the research and development.

Reconciling information for the balance sheets between reportable segments and the Company's consolidated totals is shown in the following table:

	December 31,	
	2009	2008
Total segment assets	$ 8,619	$ 10,768
Cash and cash equivalents	64	56
Prepaid expenses and other current assets	62	866
Other property, plant and equipment	62	97
Intangibles, net	1,214	1,049
Other assets	419	404
Total consolidated assets	$ 10,440	$ 13,240

Assets excluded from segments include assets attributable to the Company's corporate headquarters. The largest asset represents the Company's intangible assets, consisting primarily of the Company's patents and trademarks.

Table of Contents

Certain customers accounted for more than 10% of revenues from continuing operations as follows:

	Years Ended December 31,		
	2009	2008	2007
Grant Prideco	8%	10%	10%
Liquidmetal Korea (Grace Metal)	31%	9%	12%

Revenues from sales to companies in the United States were $8,579, $13,374 and $15,003 during the years ended December 31, 2009, 2008 and 2007, respectively. The revenue related to the United States of America was earned under defense-related research and development contracts, sales of coatings products, and sales of Liquidmetal bulk alloy products.

During the years ended December 31, 2009, 2008 and 2007 the Company had revenue on sales to companies outside of the United States of $6,141, $8,709 and $14,019, respectively, of which $4,573, $1,067 and $7,850 represented sales to companies located in South Korea, respectively.

Long-lived assets include net property, plant, and equipment and net intangible assets. The Company had long-lived assets of $1,968 and $1,813 located in the United States at December 31, 2009 and 2008, respectively. The Company had long-lived assets of $4,931 and $6,277 located in South Korea at December 31, 2009 and 2008, respectively.

16. Income (Loss) Per Common Share

Basic 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. A reconciliation of the number of common shares used in calculation of basic and diluted EPS is presented below:

	For the Years Ended December 31,		
	2009	2008	2007
Weighted average basic shares	46,083,970	44,734,554	44,730,091

Effect of dilutive securities:			
Stock options	4,385,256	—	—
Warrants	59,928,242		
Conversion of preferred stocks	13,130,137		
Conversion of notes payable	90,901,432	—	—
Weighted average diluted shares	214,429,037	44,734,554	44,730,091

Options to purchase 7,975,782 shares of common stock at prices ranging from $0.09 to $15.00 per share were outstanding at December 31, 2008, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive. Options to purchase 8,197,146 shares of common stock at prices ranging from $0.75 to $15.00 per share were outstanding at December 31, 2007, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive.

Warrants to purchase 14,443,183 shares of common stock between $1.55 and $2.07 per share outstanding at December 31, 2008 were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive. Warrants to purchase 14,418,183 shares of common stock between $1.55 and $2.07 per share outstanding at December 31, 2007 were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive.

17,375,707 shares of common stock issuable upon conversion of the Company's senior convertible notes with conversion prices of $1.10 per share outstanding at December 31, 2008 were not included in the computation of diluted EPS for the period as the inclusion would have been antidilutive. 16,179,548 shares of common stock issuable upon conversion of the Company's senior convertible notes with conversion prices of $1.10 per share outstanding at December 31, 2007 were not included in the computation of diluted EPS for the period as the inclusion would have been antidilutive.

LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009, 2008, and 2007
(in thousands, except share data)

17. Commitments and Contingencies

The Company is from time to time a party to certain legal proceedings arising in the ordinary course of business. Although outcomes cannot be predicted with certainty, the Company does not believe that any legal proceeding to which it is a party will have a material adverse effect on the Company's financial position, results of operations, and cash flows.

On June 26, 2006, the Company entered into a joint venture agreement with SAGA, SpA in Padova, Italy, ("SAGA") a specialist precision parts manufacture. The joint venture is named Liquidmetal SAGA Italy, Srl ("LSI"). The Company also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, the Company has option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, the Company exercised the 19.9% interest in LSI and will have two years to purchase the additional interest at a nominal price. In January 2007 and June 2007, the Company contributed additional $217 and $86, respectively, into LSI as additional investment. The contribution did not change the Company's 19.9% interest in LSI. Under the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell to the Company certain business assets including manufacturing equipment acquired under the joint venture. During the fourth quarter of the year ended December 31, 2009, the Company wrote-off its investment of $306 in the joint venture due to lower than anticipated growth in the eye wear industry. During the years ended December 31, 2009, 2008 and 2007, the Company recognized revenues of $0, $0, and $103, respectively, of Liquidmetal alloys sold to LSI for use in the joint venture. (see Note 20)

The Company has outstanding liens on assets located in our South Korean subsidiary by various creditors for past-due trade payables totaling approximately $1,347, of which $1,072 are held by creditors in South Korea, as of December 31, 2009. The Company is currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If the Company cannot repay the amounts due or obtain a forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in South Korea. Such a foreclosure would have material adverse effect on the Company's operations, financial condition, and results of operations.

Operating Leases

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. Future minimum lease payments under non-cancelable operating leases during subsequent years are as follows:

December 31,	Minimum Payments
2010	365
2011	349
2012	141
2013	
2014	—
Total	$ 855

Rent expense was $364, $322 and $464 for the years ended December 31, 2009, 2008, and 2007, respectively.

18. 401(k) Savings Plan

The Company has a tax-qualified employee savings and retirement plan, or 401(k) plan, which covers all of its United States-based employees. Our Korean employees are covered under a government sponsored pension program and do not participate in the U.S. based 401(k) program.

Under the U.S. based 401 (k) plan, participants may elect to reduce their current compensation, on a pre-tax basis, by up to 15% of their taxable compensation or of the statutorily prescribed annual limit, whichever is lower, and have the amount of the reduction contributed to the 401(k) plan. The 401(k) plan permits the Company, in its sole discretion, to make additional employer contributions to the 401(k) plan. However, the Company did not make employer contributions to the 401(k) plan during any of the periods presented in the accompanying consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009, 2008, and 2007
(in thousands, except share data)

19. Related Party Transactions

Soo Buchanan, the sister of John Kang, the Company's former Chairman, provides services to the Company as a consultant. During the years ended December 31, 2009, 2008 and 2007, the Company incurred $0, $70 and $0, respectively, for her services as a consultant. Additionally, Otis Buchanan, the husband of Ms. Buchanan, is employed by the Company and was paid aggregate compensation of approximately $110 during each of the years ended December 31, 2009, 2008 and 2007.

During the year ended December 31, 2009, John Kang, former Chairman of the Company, advanced the Company $250 to fund working capital needs. The Company repaid $120 of the advance and has $130 outstanding as of December 31, 2009, which is included in short-term debt. Further, Mr. Kang entered into a Continuing Guarantee Agreement, dated January 5, 2009, to personally guarantee repayment of the Company's outstanding borrowings made under a Factoring Agreement. (see Note 10)

In May 2009, the Company completed a transaction in which (i) the holders of our 8% Convertible Subordinated Notes exchanged such notes for a combination of new 8% Senior Secured Convertible Notes and shares of a new series of convertible preferred stock designated "Series A-2 Preferred Stock", together with warrants thereon, and (ii) certain investors purchased, for an aggregate purchase price of $2,500, shares of a new series of convertible preferred stock designated as "Series A-1 Preferred Stock" (see Note 10). The lead investors in this transaction were Carlyle Liquid, LLC and Carlyle Liquid Holdings, LLC (the "Carlyle Entities"), which are two investor entities organized by Abdi Mahamedi and Jack Chitayat. Mr. Mahamedi became a director and greater-than-5% beneficial owner of the company by reason of the May 2009 transaction, and Jack Chitayat is a former director of the Company who became a greater-than-5% beneficial owner of our company by reason of the May 2009 transaction. Mr. Mahamedi and Mr. Chitayat have shared voting and investment control over the shares held by the Carlyle Entities due to the fact that other entities owned by them are the managing members of these two Carlyle entities. Additionally, Mr. Iraj Azarm and Mr. Robert Biehl, directors of the Company, are passive investors in the Carlyle Entities.

The Company has an exclusive license agreement with LLPG, Inc. ("LLPG"), a corporation headed by Mr. Chitayat. Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. The Company, in turn, will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. The Company recognized revenues from product sales and licensing fees of $203 and $287 from LLPG during the years ended December 31, 2009 and 2008, respectively. Approximately, $0 and $30 is included in accounts receivables as of December 31, 2009 and 2008, respectively, for outstanding trade receivables due from LLPG.

As of December 31, 2009 and 2008, Ricardo Salas, the Company's Executive Vice President, held $0 and $381 of the convertible unsecured subordinated notes, respectively, and $259 of the unsecured subordinated notes for both periods. Mr. Salas advanced the Company $175 during the year ended December 31, 2009 to meet working capital needs and are included in short-term debt. The $175 advance accrues interest at an annual rate of 10%.

On June 1, 2007, the Company entered into a transaction with Grace Metal (currently Liquidmetal Korea Co., Ltd. "LMK"), under which (i) LMK agreed to purchase various equipments (including die casting machines and vacuum induction melters) used in the Company's bulk amorphous alloy business segment and (ii) the Company granted LMK a 10-year exclusive license to manufacture products made from bulk Liquidmetal alloys for customers whose principal headquarters or whose major operations are located in South Korea. LMK was formed by an investor group that includes the former director and officer of the Company, James Kang, who is also the brother of John Kang, former Chairman of the company. Under an equipment purchase agreement between the Company and LMK, LMK agreed to buy the purchased equipment for a total purchase price of $2,000. The equipment purchase agreement provides that delivery of the equipment can be delayed to accommodate the Company's continuing manufacturing needs, and it also provides that the Company will retain a security interest in the purchased equipment until full payment of the purchase price.

In consideration of the license agreement with LMK, the Company will be entitled to royalty of 10% of LMK's net sales of licensed products (unless LMK's margin on the products falls below specified levels, in which case a new royalty will be negotiated in good faith). Effective June 1, 2008, the royalty rate was adjusted to 5%. The agreement provides that the Company may convert the license to a non-exclusive in the event that the net sales in the second year of the contract or thereafter are not sufficient to result in royalties of $500 or more per year. The agreement also provides that LMK will be required to purchase all alloy feedstock from the Company, and the Company will have the right to continue to manufacture Liquidmetal alloy products for South Korean customers until all purchased equipment has been commissioned. Subsequent to December 31, 2009, the license agreement with LMK was terminated on June 15, 2010.

The Company purchased production supplies and outsourced production of certain bulk alloy production with LMK. In June 2008, the Company began sharing the use of its manufacturing facility and production equipment in Pyongtaek, South Korea, with LMK as the Company began significant outsourcing of its bulk alloy parts production. The Company incurred expenses for purchase of production supplies and outsourcing fees of $1,252, $2,053 and $650 during the years ended December 31, 2009, 2008 and 2007, respectively. There is $0 included in accounts payable and accrued expenses for both December 31, 2009 and 2008, for outstanding trade payables due to LMK. The Company recognized revenue from sales of raw materials and royalties for a total of $4,540, $2,000 and $3,392 during the years ended December 31, 2009, 2008 and 2007, respectively. Approximately, $0 and $212 is included in net accounts receivables as of December 31, 2009 and 2008, respectively, for outstanding trade receivables due from LMK.

Table of Contents

LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009, 2008, and 2007
(in thousands, except share data)

In October 2009, John Kang, the Company's former Chairman, Tony Chung, the Company's Chief Financial Officer, and Ricardo Salas, the Company's Executive Vice President, acquired 80,000 shares of the Company's Series A-1 Preferred Stock and 2,000,000 warrants for an aggregate cash price of $400. The Series A-1 Preferred Stock are convertible into the Company's common stock at a conversion price of $0.10 per common share. Further, the warrants are issuable into the Company's common stock at an exercise price of $0.50 per share and expire on January 3, 2012.

20. Subsequent Events

On May 28, 2010, the Company issued $2,000,000 of 13% Subordinated Promissory Note ("January 2011 Subordinated Note") due on the earlier date of January 3, 2011 or the date on which all outstanding amounts are due under the Company's 8% January 2011 Notes. Following the due date, the interest on the January 2011 Subordinated Note shall be 15%. The January 2011Subordinated Note may be repaid in whole or in part at any time without penalty or premium, but is subordinate in right of payment to the January 2011 Notes and may not be paid until after the January 2011 Notes are paid in full. The company may, in its sole discretion, elect to pay all or any portion of the outstanding principal or accrued interest in cash or the Company's common stock or any combination thereof, at a value equal to the lower of $0.26 per share or the average market price per share for the 10 previous trading days immediately prior to the date the payment is made. As a condition for the January 2011 Subordinated Note, Carlyle Liquid Holdings, LLC, a current stockholder of the Company granted the holder of the January 2011 Subordinated Note a warrant to purchase up to 7,700,000 shares of the Company's common stock at a price equal to $0.26 per share, which warrant is exercisable for a period of 90-days beginning on the date in which the Company repays the January 2011 Subordinated Note in cash (if it repays in cash).

On June 25, 2010, LMC entered into a Credit Agreement ("Credit Agreement") with Enterprise Bank & Trust ("Enterprise") and retired its loan agreements with Bank Midwest, N.A. The Credit Agreement provides for a total loan availability of $3,700, consisting of $1,500 million term loan ("Term Note"), a revolving loan of up to $2,000 (Revolving Note"), and equipment loans ("Equipment Note") of up to $200. The Term Note of $1,500 has a maturity date of June 25, 2013 and bears an interest rate of 7% per annum. Borrowing availability under the Revolving Note is based on a percentage of LMC's eligible receivables and inventory and accrues interest at the rate of the greater of libor plus 3.75% or 6%. LMC will make monthly interest payments on the Revolving Note until June 24, 2011, at which point all remaining principal and interests are due. LMC has the right to prepay the Term Note and the Revolving Note and the Equipment Note, in whole or in part, at any time with our penalty or premium.

On August 5, 2010, the Company entered into a Master Transaction Agreement with Apple Inc. ("Apple"), pursuant to which (i) Liquidmetal contributed substantially all of its intellectual property assets to a newly organized special-purpose, wholly-owned subsidiary (the "IP Company"), (ii) the IP Company granted to Apple a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in the field of consumer electronic products in exchange for a license fee, and (iii) the IP Company granted back to Liquidmetal a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in all other fields of use.

On August 5, 2010, the Company repaid in full all principal and interest on (i) the January 2011 Notes in the amount of $8,242, (ii) the secured debt under the factoring loan in the amount of $309, and (iii) the Bridge Notes in the amount of $314. All security interests in Company assets securing such obligations under the January 2011 Notes and factoring loan were released and terminated.

On August 5, 2010, the Company repaid in full all principal and accrued interest of $2,046 on the January 2011 Subordinated Note. In connection with the repayment, on August 10, 2010, the Company entered into a Subscription Agreement pursuant to which the Company issued 7,870,307 shares of the Company's common stock for an aggregate price of $2,046.

On August 5, 2010, the Company appointed Thomas Steipp to serve as the Company's President and Chief Executive Officer. Mr. Steipp was also appointed as a member of the Company's Board of Directors. Upon Mr. Steipp's appointment as the Company's President and Chief Executive Officer, Larry Buffington ceased to serve as the Company's President and Chief Executive Officer, although Mr. Buffington will continue to serve as the Chief Executive Officer of the Company's majority-owned Liquidmetal Coatings subsidiary.

On August 6, 2010, SAGA filed a litigation case against the Company claiming damages of $3,220 for payment on a loan and for breach of contract in connection with the formation of LSI, a joint venture between the Company and SAGA. The Company is in the process of responding to the claim and working with SAGA to resolve the matter.

Table of Contents

Schedule II — Valuation and Qualifying Accounts

Schedule II - Valuation and Qualifying Accounts	Balance at Beginning of Period	Additions Charged to Expenses	Write-offs and Payments	Balance at End of Period
Allowance for doubful accounts				
Year ended December 31, 2009	$ 121	$ 1,193	$ —	$ 1,314
Year ended December 31, 2008	89	32	—	121
Year ended December 31, 2007	82	7	—	89

Product warranty accrual				
Year ended December 31, 2009	$ 314		$ (30)	$ 284
Year ended December 31, 2008	631	26	(343)	314
Year ended December 31, 2007	738	—	(107)	631
Deferred tax asset valuation allowance *				
Year ended December 31, 2009	$ 44,476	$ (908)	$ —	$ 43,568
Year ended December 31, 2008	38,804	5,672	$ —	44,476
Year ended December 31, 2007	43,134	—	(4,330)	38,804

* The deferred tax asset valuation allowance represents a 100% reserve against the deferred tax asset accounts at December 31, 2009, 2008 and 2007, respectively.

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT. ANY TRANSFEREE OF THIS NOTE SHOULD CAREFULLY REVIEW THE TERMS OF THIS NOTE, INCLUDING SECTIONS 3(c)(iii) AND 19(a) HEREOF. THE PRINCIPAL AMOUNT REPRESENTED BY THIS NOTE AND, ACCORDINGLY, THE SECURITIES ISSUABLE UPON CONVERSION HEREOF MAY BE LESS THAN THE AMOUNTS SET FORTH ON THE FACE HEREOF PURSUANT TO SECTION 3(c)(iii) OF THIS NOTE.

8% SENIOR SECURED CONVERTIBLE NOTE

Issuance Date: November 1, 2009 Principal: U.S. $XXXX

FOR VALUE RECEIVED, LIQUIDMETAL TECHNOLOGIES, INC., a Delaware corporation (the **"Company"**), hereby promises to pay to the order of or registered assigns (**"Holder"**) the amount set out above as the Principal (as reduced pursuant to the terms hereof pursuant to redemption, conversion or otherwise, the **"Principal"**) when due, whether upon the Maturity Date (as defined below), acceleration, redemption or otherwise (in each case in accordance with the terms hereof) and to pay interest (**"Interest"**) on any outstanding Principal at the rate of interest as determined pursuant to Section 2, from the date set out above as the Issuance Date (the **"Issuance Date"**) until the same becomes due and payable, whether upon an Interest Date (as defined below), the Maturity Date, acceleration, conversion, redemption or otherwise (in each case in accordance with the terms hereof). This 8% Senior Secured Convertible Note (including all 8% Senior Secured Convertible Notes issued in exchange, transfer or replacement hereof, this **"Note"**) is one of an issue of 8% Senior Secured Convertible Notes issued on May 1, 2009 (the "**Original Issuance Date**") pursuant to the Securities Purchase and Exchange Agreement (the "**Original Notes**") or issued after May 1, 2009 in satisfaction of interest and/or other amounts owing by the Company to the holders of the Original Notes (the "**Interest Notes**") (the Original Notes and Interest Notes are collectively referred to as the "**Notes**" herein, and any Notes other than this Note are collectively referred to as the "**Other Notes**"). This Note is deemed to be issued pursuant to Section 2 of the Holder's Original Note and is subject to the terms and provisions of the Securities Purchase Agreement. Certain capitalized terms are defined in Section 29.

---

(1) MATURITY. On January 3, 2011 (the **"Maturity Date"**), the Company shall pay to the Holder an amount in cash representing all outstanding Principal and accrued and unpaid Interest, and following receipt of such payment, the Holder shall mark this Note as "Cancelled" and shall surrender such cancelled Note to the Company by courier, registered mail, or other traceable means. The Company may, upon thirty (30) calendar days prior written notice to Holder and at the sole election of the Company, prepay this Note in whole or in part for a cash redemption price equal to: (i) if the cash redemption price is being paid, in whole or in part, from the proceeds of sales of the Company's assets, which shall include fees received from licensing the Company's intellectual property assets, One Hundred Percent (100%) of the portion of the principal amount being redeemed plus all accrued and unpaid interest on the portion of the principal amount being redeemed or (ii) if the cash redemption price is being paid solely from the Company's income from continuing operations, One Hundred Three Percent (103%) of the portion of the principal amount being redeemed plus all accrued and unpaid interest on the portion of the principal amount being redeemed; provided that (as to both clauses (i) and (ii) above) following such notice the Holder may convert all or any part of the portion of the Note to be redeemed so long as the Company receives a duly executed Conversion Notice pursuant to Section 3 of this Note prior to the date on which prepayment is actually made.

(2) INTEREST; INTEREST RATE. Interest on this Note shall commence accruing on the Issuance Date and shall be computed on the basis of a 365-day year and actual days elapsed and shall be payable in arrears on the first Business Day of November and May during the period beginning on the Issuance Date and ending on, and including, the Maturity Date (each, an **"Interest Date"**). Interest shall be payable on each Interest Date at the option of the Company (i) in cash at the rate of 8.00% per annum (the **"Cash Interest Rate"**) or (ii) at the rate of 10.00% per annum (the **"Note Interest Rate"**, and together with the Cash Interest Rate, referred to sometimes herein as the **"Interest Rate"**) in the form of one or more additional 8% Senior Secured Convertible Notes, upon the same terms and conditions of the form of this Note, in the principal amount of such Interest. Prior to the payment of Interest on an Interest Date, Interest on this Note shall accrue at the Cash Interest Rate and be payable by way of inclusion of the Interest in the Conversion Amount in accordance with Section 3(b)(i). From and after the occurrence of an Event of Default, the Interest Rate shall be increased so that the Cash Interest Rate shall be twelve percent (12.00%) per annum and the Note Interest Rate per annum shall be fifteen percent (15%) per annum. In the event that such Event of Default is subsequently cured, the adjustment referred to in the preceding sentence shall cease to be effective as of the date of such cure; provided that the Interest as calculated at such increased rate during the continuance of such Event of Default shall continue to apply to the extent relating to the days after the occurrence of such Event of Default through and including the date of cure of such Event of Default.

(3) CONVERSION OF NOTES. This Note shall be convertible into shares of the Company's common stock, par value $0.001 per share (the **"Common Stock"**), on the terms and conditions set forth in this Section 3.

(a) Conversion Right. Subject to the provisions of Section 3(d), at any time or times on or after the Issuance Date, the Holder shall be entitled to convert any portion of the outstanding and unpaid Conversion Amount (as defined below) into fully paid and nonassessable shares of Common Stock in accordance with Section 3(c), at the Conversion Rate (as defined below). The Company shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Company shall round such fraction of a share of Common Stock up to the nearest whole share. The Company shall pay any and all taxes that may be payable with respect to the issuance and delivery of Common Stock upon conversion of any Conversion Amount.

(b) Conversion Rate. The number of shares of Common Stock issuable upon conversion of any Conversion Amount (as defined below) pursuant to Section 3(a) shall be determined by dividing (x) such Conversion Amount by (y) the Conversion Price (as defined below) (the **"Conversion Rate"**).

(i) **"Conversion Amount"** means the sum of (A) the portion of the Principal to be converted, redeemed or otherwise with respect to which this determination is being made, plus (B) accrued and unpaid Interest with respect to such Principal, plus (C) any fees and penalties (if any) that become due under this Note and that are not paid by the Company within three (3) days of written demand therefor.

(ii) **"Conversion Price"** means, as of any Conversion Date (as defined below) or other date of determination, and subject to adjustment as provided herein, $0.60.

(c) Mechanics of Conversion.

(i) Optional Conversion. To convert any Conversion Amount into shares of Common Stock on any date (a **"Conversion Date"**), the Holder shall (A) transmit by facsimile (or otherwise deliver), for receipt on or prior to 5:00 p.m., New York Time, on such date, a copy of an executed notice of conversion in the form attached hereto as Exhibit I (the **"Conversion Notice"**) to the Company and (B) if required by Section 3(c)(iii), surrender this Note to a common carrier for delivery to the Company as soon as practicable on or following such date (or an indemnification undertaking with respect to this Note in the case of its loss, theft or destruction). On or before the first Business Day following the date of receipt of a Conversion Notice, the Company shall transmit by facsimile a confirmation of receipt of such Conversion Notice to the Holder and the Company's transfer agent (the "**Transfer Agent**"). On or before the second Business Day following the date of receipt of a Conversion Notice (the **"Share Delivery Date"**), the Company shall (X) credit such aggregate number of shares of Common Stock to which the Holder shall be entitled to the Holder's or its designee's balance account with Depository Trust Company ("**DTC**") through its Deposit/Withdrawal At Custodian system or (Y) if the Transfer Agent is not participating in DTC Fast Automated Securities Transfer Program, issue and deliver to the address as specified in the Conversion Notice,

a certificate, registered in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder shall be entitled. If this Note is physically surrendered for conversion as required by Section 3(c)(iii) and the outstanding Principal of this Note is greater than the Principal portion of the Conversion Amount being converted, then the Company shall as soon as practicable and in no event later than five Business Days after receipt of this Note and at its own expense, issue and deliver to the Holder a new Note (in accordance with Section 19(d)) representing the outstanding Principal not converted. The Person or Persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

(ii) Company's Failure to Timely Convert. If the Company shall fail to issue a certificate to the Holder or credit the Holder's balance account with DTC for the number of shares of Common Stock to which the Holder is entitled upon conversion of any Conversion Amount on or prior to the date which is five Business Days after the Conversion Date (a **"Conversion Failure"**), then (A) the Company shall pay liquidated damages to the Holder for each day of such Conversion Failure in an amount equal to 1.0% of the product of (I) the sum of the number of shares of Common Stock not issued to the Holder on or prior to the Share Delivery Date and to which the Holder is entitled, and (II) the Closing Sale Price of the Common Stock on the Share Delivery Date and (B) the Holder, upon written notice to the Company, may void its Conversion Notice with respect to, and retain or have returned, as the case may be, any portion of this Note that has not been converted pursuant to such Conversion Notice; provided that the voiding of a Conversion Notice shall not affect the Company's obligations to make any payments which have accrued prior to the date of such notice pursuant to this Section 3(c)(ii) or otherwise. In addition to the foregoing, if within three (3) Trading Days after the Company's receipt of the facsimile copy of a Conversion Notice the Company shall fail to issue and deliver a certificate to the Holder or credit the Holder's balance account with DTC for the number of shares of Common Stock to which the Holder is entitled upon such Holder's conversion of any Conversion Amount, and if on or after such Trading Day the Holder purchases (in an open market transaction or otherwise) Common Stock to deliver in satisfaction of a sale by the Holder of Common Stock issuable upon such conversion that the Holder anticipated receiving from the Company (a "**Buy-In**"), then the Company shall, within five (5) Business Days after the Holder's request and in the Holder's discretion, either (i) pay cash to the Holder in an amount equal to the Holder's total purchase price (including brokerage commissions and other out-of-pocket expenses, if any) for the shares of Common Stock so purchased (the **"Buy-In Price"**), at which point the Company's obligation to deliver such certificate (and to issue such Common Stock) shall terminate, or (ii) promptly honor its obligation to deliver to the Holder a certificate or certificates representing such Common Stock and pay cash to the Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of Common Stock, times (B) the Closing Bid Price on the Conversion Date.

(iii) Book-Entry. Notwithstanding anything to the contrary set forth herein, upon conversion of any portion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Company unless (A) the full Conversion Amount represented by this Note is being converted or (B) the Holder has provided the Company with prior written notice (which notice may be included in a Conversion Notice) requesting physical surrender and reissue of this Note. The Holder and the Company shall maintain records showing the Principal and Interest converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Company, so as not to require physical surrender of this Note upon conversion.

(iv) Pro Rata Conversion; Disputes. In the event that the Company receives a Conversion Notice from more than one Holder of Notes for the same Conversion Date and the Company can convert some, but not all, of such portions of the Notes submitted for conversion, the Company, subject to Section 3(d), shall convert from each Holder of Notes electing to have Notes converted on such date a pro rata amount of such Holder's portion of its Notes submitted for conversion based on the principal amount of Notes submitted for conversion on such date by such Holder relative to the aggregate principal amount of all Notes submitted for conversion on such date. In the event of a dispute as to the number of shares of Common Stock issuable to the Holder in connection with a conversion of this Note, the Company shall issue to the Holder the number of shares of Common Stock not in dispute and resolve such dispute in accordance with Section 24.

(d) Limitations on Conversions.

(i) Beneficial Ownership. Unless waived by the Holder upon no less than sixty one (61) days prior written notice to the Company, the Company shall not effect any conversion of this Note pursuant to Section 3(a) to the extent that after giving effect to such conversion the Holder (together with the Holder's affiliates) would beneficially own in excess of 4.99% of the number of shares of Common Stock outstanding immediately after giving effect to such conversion. Even if the Holder waives the limitation set forth in the preceding sentence, the Company shall in no event effect any conversion of this Note, and the Holder of this Note shall not have the right to convert any portion of this Note pursuant to Section 3(a), to the extent that after giving effect to such conversion, the Holder (together with the Holder's affiliates) would beneficially own in excess of 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentences, the number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon conversion of this Note with respect to which the determination of such sentence is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) conversion of the remaining, nonconverted portion of this Note beneficially owned by the Holder or any of its affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any Other Notes or warrants)

subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 3(d)(i), beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. For purposes of this Section 3(d)(i), in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent Form 10-Q or Form 10-K, (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Transfer Agent setting forth the number of shares of Common Stock outstanding. For any reason at any time, upon the written or oral request of the Holder, the Company shall within two Business Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Note, by the Holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. Notwithstanding the foregoing, the limitations of this paragraph shall not apply to any Holder who is an Affiliated Investor (as that term is defined in the Securities Purchase and Exchange Agreement).

(ii) **INTENTIONALLY OMITTED**.

(4) RIGHTS UPON EVENT OF DEFAULT.

(a) Event of Default. Each of the following events shall constitute an **"Event of Default"**:

(i) the Company's failure to pay to the Holder any amount of Principal or Interest when and as due under this Note if such failure continues for a period of at least five Business Days;

(ii) the Company's failure to pay to the Holder any amounts other than Principal or Interest when and as due under this Note, the Securities Purchase and Exchange Agreement, or the Registration Rights Agreement, which failure is not cured within five Business Days after notice of such default sent by the Holder to the Company;

(iii) any default under, redemption prior to maturity of, or acceleration prior to maturity of any Indebtedness (as defined below) of the Company or any of its Subsidiaries (as defined in the Securities Purchase and Exchange Agreement) other than with respect to (A) the Other Notes and (B) the default by Liquidmetal Korea Co. Ltd., the Company's subsidiary organized under the laws of the Republic of Korea, in existence as of the Original Issuance Date under its loan from Kookmin Bank; provided that in the case of a payment default of such Indebtedness, such default is not cured within applicable cure periods; further provided that in the case of a non-payment default of such Indebtedness that has not resulted in an acceleration or redemption of such Indebtedness prior to its maturity, only upon acceleration or redemption of such Indebtedness;

(iv) the Company shall fail to observe or perform any other material covenant or agreement contained in the Securities Purchase and Exchange Agreement or the other Transaction Documents (as defined in the Securities Purchase and Exchange Agreement), which failure is not cured within ten Business Days after notice of such default sent by the Holder to the Company;

(v) the Company or any of its Subsidiaries, pursuant to or within the meaning of Title 11, U.S. Code, or any similar Federal or state law for the relief of debtors (collectively, **"Bankruptcy Law"**), (A) commences a voluntary case, (B) consents to the entry of an order for relief against it in an involuntary case, (C) consents to the appointment of a receiver, trustee, assignee, liquidator or similar official (a "**Custodian**"), or (D) makes a general assignment for the benefit of its creditors;

(vi) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against the Company or any of its Subsidiaries in an involuntary case that remains undismissed for a period of 90 days, (B) appoints a Custodian of the Company or any of its Subsidiaries that remains undischarged or unstayed for a period of 90 days, or (C) orders the liquidation of the Company or any of its Subsidiaries;

(vii) a final judgment or judgments for the payment of money aggregating in excess of $250,000 are rendered against the Company or any of its Subsidiaries and which judgments are not, within 60 days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; provided, however, that any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $250,000 amount set forth above;

(viii) any breach or failure to comply with Section 15 of this Note;

(ix) **INTENTIONALLY OMITTED**;

(x) any security interest created by the Security Agreement shall at any time not constitute a valid and perfected first priority security interest on the collateral intended to be covered thereby (to the extent perfection by filing, registration, recordation or possession is required herein or therein) in favor of the Holder, or any of the security interests granted pursuant to the Security Agreement shall be determined to be void, voidable, invalid or unperfected, are subordinated or are ineffective to provide the Holder with a perfected, first priority security interest in the collateral covered by the Security Agreement (except to the extent expressly subordinated under the terms of the Security Agreement), or, except for expiration or termination in accordance with its terms, the Security Agreement shall for whatever reason be terminated or cease to be in full force and effect, or the enforceability thereof shall be contested by the Company;

(xi) the Company or any Subsidiary commits a default under any material contract to which it is a party and as a result of which default the Company or its Subsidiaries will be legally obligated to pay damages in an aggregate amount in excess of $250,000 for such default; or

(x) any Event of Default (as defined in the Other Notes) occurs with respect to any Other Notes.

(b) Redemption Right. Promptly after the occurrence of an Event of Default with respect to this Note or any Other Note, the Company shall deliver written notice thereof via facsimile and overnight courier (an **"Event of Default Notice"**) to the Holder. At any time after the earlier of the Holder's receipt of an Event of Default Notice and the Holder becoming aware of an Event of Default, the Holder may require the Company to redeem all or any portion of this Note by delivering written notice thereof (the **"Event of Default Redemption Notice"**) to the Company, which Event of Default Redemption Notice shall indicate the portion of this Note the Holder is electing to redeem. Each portion of this Note subject to redemption by the Company pursuant to this Section 4(b) shall be redeemed by the Company at a price equal to the greater of (i) the Conversion Amount to be redeemed and (ii) the product of (A) the Conversion Rate with respect to such Conversion Amount in effect at such time as the Holder delivers an Event of Default Redemption Notice and (B) the Closing Sale Price of the Common Stock on the date immediately preceding such Event of Default (the **"Event of Default Redemption Price"**). Redemptions required by this Section 4(b) shall be made in accordance with the provisions of Section 12.

(5) RIGHTS UPON CHANGE OF CONTROL.

(a) Change of Control. Each of the following events shall constitute a **"Change of Control"**:

(i) the consolidation, merger or other business combination (including, without limitation, a reorganization or recapitalization) of the Company with or into another Person (other than (A) a consolidation, merger or other business combination (including, without limitation, reorganization or recapitalization) in which Holders of the Company's voting power immediately prior to the transaction continue after the transaction to hold, directly or indirectly, the voting power of the surviving entity or entities necessary to elect a majority of the members of the board of directors (or their equivalent if other than a corporation) of such entity or entities, or (B) pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company);

(ii) the sale or transfer of all or substantially all of the Company's assets; or

(iii) a purchase, tender or exchange offer made to and accepted by the Holders of more than the 50% of the outstanding shares of Common Stock.

No sooner than 15 days nor later than 10 days prior to the consummation of a Change of Control, but not prior to the public announcement of such Change of Control, the Company shall deliver written notice thereof via facsimile and overnight courier to the Holder (a **"Change of Control Notice"**). The transactions contemplated by the Securities Purchase and Exchange Agreement shall not be deemed to constitute a Change of Control for purposes of this Agreement.

(b) Assumption. Prior to the consummation of any Change of Control, the Company will secure from any Person purchasing the Company's assets or Common Stock or any successor resulting from such Change of Control (in each case, an **"Acquiring Entity"**) a written agreement (in form and substance satisfactory to the Holders of Notes representing at least a majority of the aggregate principal amount of the Notes then outstanding) to deliver to each Holder of Notes in exchange for such Notes, a security of the Acquiring Entity evidenced by a written instrument substantially similar in form and substance to the Notes, including, without limitation, having a principal amount and interest rate equal to the principal amounts and the interest rates of the Notes held by such Holder, and satisfactory to the Holders of Notes representing at least a majority of the principal amount of the Notes then outstanding. In the event that an Acquiring Entity is directly or indirectly controlled by a company or entity whose common stock or similar equity interest is listed, designated or quoted on a securities exchange or trading market, the Holders of Notes representing at least a majority of the aggregate principal amount of the Notes then outstanding may elect to treat such Person as the Acquiring Entity for purposes of this Section 5(b).

(c) Redemption Right. At any time during the period beginning after the Holder's receipt of a Change of Control Notice and ending on the date of the consummation of such Change of Control (or, in the event a Change of Control Notice is not delivered at least 10 days prior to a Change of Control, at any time on or after the date which is 10 days prior to a Change of Control and ending ten days after the consummation of such Change of Control), the Holder may require the Company to redeem all or any portion of this Note by delivering written notice thereof (**"Change of Control Redemption Notice"**) to the Company, which Change of Control Redemption Notice shall indicate the Conversion Amount the Holder is electing to redeem; provided, however, that the Company shall not be under any obligation to redeem all or any portion of this Note or to deliver the applicable Change of Control Redemption Price unless and until the applicable Change of Control is consummated. The portion of this Note subject to redemption pursuant to this Section 5 shall be redeemed by the Company in cash at a price equal to the sum of (i) the Conversion Amount of the portion to be redeemed, plus (ii) the Black Scholes Value, as of the date immediately preceding the date the Change of Control is consummated, of the Holder's right to convert the Conversion Amount hereunder upon the terms set forth herein (the "**Change of Control Redemption Price**"). For the purpose of this Note, "**Black Scholes Value**" means the value, as reasonably calculated by the Company, of this Note, which shall be determined by use of the Black Scholes Option Pricing Model reflecting (i) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of this Note as of such date of request and (ii) an expected volatility equal to the greater of 60%

and the 100 day volatility obtained from the HVT function on Bloomberg; provided that the Black Scholes Value of this Note shall not for this purpose exceed an amount equal to $2.50 multiplied by the number of shares of Common Stock for which this Note may be converted at the time the Change of Control is consummated (with such $2.50 cap being subject to adjustment for stock dividends, stock splits, reverse stock splits, and the like).

(6) RIGHTS UPON ISSUANCE OF PURCHASE RIGHTS AND OTHER CORPORATE EVENTS.

(a) Purchase Rights. If at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of Common Stock (the **"Purchase Rights"**), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note (without taking into account any limitations or restrictions on the convertibility of this Note) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

(b) Other Corporate Events. Prior to the consummation of any recapitalization, reorganization, consolidation, merger, spin-off or other business combination (other than a Change of Control) pursuant to which holders of Common Stock are entitled to receive securities or other assets with respect to or in exchange for Common Stock (a **"Corporate Event"**), the Company shall make appropriate provision to insure that the Holder will thereafter have the right to receive upon a conversion of this Note, (i) in addition to the shares of Common Stock receivable upon such conversion, such securities or other assets to which the Holder would have been entitled with respect to such shares of Common Stock had such shares of Common Stock been held by the Holder upon the consummation of such Corporate Event or (ii) in lieu of the shares of Common Stock otherwise receivable upon such conversion, such securities or other assets received by the holders of Common Stock in connection with the consummation of such Corporate Event in such amounts as the Holder would have been entitled to receive had this Note initially been issued with conversion rights for the form of such consideration (as opposed to shares of Common Stock) at a conversion rate for such consideration commensurate with the Conversion Rate. Provision made pursuant to the preceding sentence shall be in a form and substance satisfactory to the Holders of Notes representing at least a majority of the aggregate principal amount of the Notes then outstanding.

(7) RIGHTS UPON ISSUANCE OF OTHER SECURITIES.

(a) Adjustment of Conversion Price upon Issuance of Common Stock. If and whenever on or after the Issuance Date, the Company issues or sells, or in accordance with this Section 7(a) is deemed to have issued or sold, any shares of Common Stock (including the issuance or sale of shares of Common Stock owned or held by or for the account of the

Company, but excluding shares of Common Stock deemed to have been issued or sold by the Company in connection with any Excluded Security) for a consideration per share (the "**New Securities Issuance Price**") less than the Conversion Price in effect immediately prior to such issue or sale (the foregoing a **"Dilutive Issuance"**), then immediately after such Dilutive Issuance, the Conversion Price then in effect shall be reduced effective concurrently with such Dilutive Issuance to an amount equal to the New Securities Issuance Price. For purposes of determining the adjusted Conversion Price under this Section 7(a), the following shall be applicable:

(i) Change in Option Price or Rate of Conversion. If the purchase price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exchange or exercise of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exchangeable or exercisable for Common Stock changes at any time, the Conversion Price in effect at the time of such change shall be adjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities provided for such changed purchase price, additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold in the Dilutive Issuance.

(ii) Calculation of Consideration Received. In case any Option is issued in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Options will be deemed to have been issued for a consideration of $.01. If any Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor will be deemed to be the net amount received by the Company therefor. If any Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company will be the fair value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Closing Sale Price of such securities on the date of receipt. If any Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Company is the surviving entity, the amount of consideration therefor will be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. The fair value of any consideration other than cash or securities will be determined jointly by the Company and the Holders of Notes representing at least a majority of the principal amounts of the Notes then outstanding. If such parties are unable to reach agreement within ten days after the occurrence of an event requiring valuation (the **"Valuation Event"**), the fair value of such consideration will be determined within five Business Days after the tenth day following the Valuation Event by an independent, reputable appraiser jointly selected by the Company and the Holders of Notes representing at least a majority of the principal amounts of the Notes then outstanding. The determination of such appraiser shall be

deemed binding upon all parties absent manifest error and the fees and expenses of such appraiser shall be borne equally by the Company, on the hand, and the Holders of the Notes, on the other hand.

(iii) Record Date. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Common Stock, Options or in Convertible Securities or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(b) Adjustment of Conversion Price upon Subdivision or Combination of Common Stock. If the Company at any time subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company at any time combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Conversion Price in effect immediately prior to such combination will be proportionately increased.

(c) Other Events. If any event occurs of the type contemplated by the provisions of this Section 7 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's Board of Directors will make an appropriate adjustment in the Conversion Price so as to protect the rights of the Holder under this Note; provided that no such adjustment will increase the Conversion Price as otherwise determined pursuant to this Section 7.

(8) **INTENTIONALLY OMITTED.**

(9) COMPANY'S RIGHT OF MANDATORY CONVERSION. (a) Mandatory Conversion. If at any time from and after the Issuance Date, the Weighted Average Price of the Common Stock exceeds 250% of the conversion price of the Original Notes as of the Original Issuance Date (subject to appropriate adjustments for stock splits, stock dividends, stock combinations and other similar transactions after the Original Issuance Date) for each of any 20 consecutive Trading Days (the **"Mandatory Conversion Measuring Period"**) and the Conditions to Mandatory Conversion (as set forth in Section 9(c)) are satisfied or waived in writing by the Holder, the Company shall have the right to require the Holder to convert all or any such portion of the Conversion Amount of this Note designated in the Mandatory Conversion Notice into fully paid, validly issued and nonassessable shares of Common Stock in accordance with Section 3(c) hereof at the Conversion Rate as of the Mandatory Conversion Date (as defined below) (a "**Mandatory Conversion**"). The Company may exercise its right to

require conversion under this Section 9(a) by delivering within not more than five Trading Days following the end of such Mandatory Conversion Measuring Period a written notice thereof by facsimile and overnight courier to all, but not less than all, of the Holders of Notes and the Transfer Agent (the **"Mandatory Conversion Notice"** and the date all of the Holders received such notice is referred to as the "**Mandatory Conversion Notice Date**"). The Mandatory Conversion Notice shall be irrevocable.

(b) Pro Rata Conversion Requirement. If the Company elects to cause a conversion of all or any portion of the Conversion Amount of this Note pursuant to Section 9(a), then it must simultaneously take the same action with respect to the Other Notes (except that the Company is not required to take the same action with respect to the Other Notes to the extent limited by Section 3(d) in this Note or similar provisions under the Other Notes). If the Company elects to cause the conversion of this Note pursuant to Section 9(a) (or similar provisions under the Other Notes) with respect to less than all of the Conversion Amounts of the Notes then outstanding, then the Company shall require conversion of a Conversion Amount from each of the Holders of the Notes equal to the product of (I) the aggregate Conversion Amount of Notes which the Company has elected to cause to be converted pursuant to Section 9(a), multiplied by (II) the fraction, the numerator of which is the sum of the aggregate principal amount of the Original Notes purchased by such Holder pursuant to the Securities Purchase and Exchange Agreement and the denominator of which is the sum of the aggregate principal amount of the Original Notes purchased by all Holders pursuant to the Securities Purchase and Exchange Agreement (except to the extent limited by Section 3(d) in this Note or similar provisions under the Other Notes) (such fraction with respect to each Holder is referred to as its "**Allocation Percentage**," and such amount with respect to each Holder is referred to as its "**Pro Rata Conversion Amount**"). In the event that the initial Holder of any Notes shall sell or otherwise transfer any of such Holder's Notes, the transferee shall be allocated a pro rata portion of such Holder's Allocation Percentage. The Mandatory Conversion Notice shall state (i) the Trading Day selected for the Mandatory Conversion in accordance with Section 9(a), which Trading Day shall be at least 10 Business Days but not more than 60 Business Days following the Mandatory Conversion Notice Date (the "**Mandatory Conversion Date**"), (ii) the aggregate Conversion Amount of the Notes which the Company has elected to be subject to mandatory conversion from all of the Holders of the Notes pursuant to this Section 9 (and analogous provisions under the Other Notes), (iii) each Holder's Pro Rata Conversion Amount of the Conversion Amount of the Notes the Company has elected to cause to be converted pursuant to this Section 9 (and analogous provisions under the Other Notes) and (iv) the number of shares of Common Stock to be issued to such Holder as of the Mandatory Conversion Date. All Conversion Amounts converted by the Holder after the Mandatory Conversion Notice Date shall reduce the Conversion Amount of this Note required to be converted on the Mandatory Conversion Date. If the Company has elected a Mandatory Conversion, the mechanics of conversion set forth in Section 3(c) shall apply, to the extent applicable, as if the Company and the Transfer Agent had received from the Holder on the Mandatory Conversion Date a Conversion Notice with respect to the Conversion Amount being converted pursuant to the Mandatory Conversion.

(c) Conditions to Mandatory Conversion. For purposes of this Section

9, "**Conditions to Mandatory Conversion**" means the following conditions: (i) during the period beginning on the date that is six months prior to the Mandatory Conversion Date and ending on and including the Mandatory Conversion Date, the Company shall have delivered shares of Common Stock upon any conversion of Conversion Amounts as set forth in Section 3(c)(i); (ii) on each day during the period beginning on the first Trading Day of the Mandatory Conversion Measuring Period and ending on and including the Mandatory Conversion Date, the Common Stock shall be traded, listed, or quoted (as applicable) on the Principal Market, the NASDAQ Global Market or Global Select Market, the NASDAQ Capital Market, the New York Stock Exchange, or the American Stock Exchange; (iii) on the Mandatory Conversion Date either (x) the Registration Statement or Registration Statements required pursuant to the Registration Rights Agreement shall be effective and available for the sale for all of the Registrable Securities in accordance with the terms of the Registration Rights Agreement or (y) all shares of Common Stock issuable upon conversion of the Notes shall be eligible for sale without restriction and without the need for registration under any applicable federal or state securities laws; (iv) on the Mandatory Conversion Date, an Authorized Share Failure shall not be in effect; and (v) the average number of shares of Common Stock traded on the Principal Market for the 20 Trading Days prior to the Mandatory Conversion Date shall equal or exceed 200,000 shares per day.

(10) NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Note, and will at all times in good faith carry out all of the provisions of this Note and take all action as may be required to protect the rights of the Holder of this Note.

(11) RESERVATION OF AUTHORIZED SHARES.

(a) Reservation. Upon the filing of the Charter Amendment (as defined in the Securities Purchase and Exchange Agreement) with the Delaware Secretary of State, the Company shall initially reserve out of its authorized and unissued Common Stock a number of shares of Common Stock for each of the Notes equal to 125% of the Conversion Rate with respect to the Conversion Amount of each such Note as of the Issuance Date. Thereafter, the Company, so long as any of the Notes are outstanding, shall use commercially reasonable efforts to reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of the Notes, 125% of the number of shares of Common Stock as shall from time to time be necessary to effect the conversion of all of the Notes then outstanding (without regard to any limitations on conversions) (the **"Required Reserve Amount"**). The number of shares of Common Stock reserved for conversions of the Notes shall be allocated pro rata among the Holders of the Notes based on the principal amount of the Notes held by each Holder at the time of Issuance Date or increase in the number of reserved shares, as the case may be (the **"Authorized Share Allocation"**). In the event that a Holder shall sell or otherwise transfer any of such Holder's Notes, each transferee shall be allocated a pro rata portion of such Holder's Authorized Share Allocation. Any shares of Common Stock reserved and allocated to any Person which ceases to hold any Notes shall be allocated to the remaining Holders of Notes, pro rata based on the principal amount of the Notes then held by such Holders.

(b) Insufficient Authorized Shares. If at any time after the filing of the Charter Amendment with the Delaware Secretary of State and while any of the Notes remain outstanding the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon conversion of the Notes at least a number of shares of Common Stock equal to the Required Reserve Amount (an **"Authorized Share Failure"**), then the Company shall as soon as practicable use commercially reasonable efforts to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Notes then outstanding.

(12) HOLDER'S REDEMPTIONS.

(a) Mechanics. In the event that the Holder has sent an Event of Default Redemption Notice or a Change of Control Redemption Notice to the Company pursuant to Section 4(b) or Section 5(c), respectively (each, a **"Redemption Notice"**), the Holder shall promptly submit this Note to the Company. If the Holder has submitted an Event of Default Redemption Notice in accordance with Section 4(b), the Company shall deliver the applicable Event of Default Redemption Price to the Holder within five Business Days after the Company's receipt of the Holder's Event of Default Redemption Notice. If the Holder has submitted a Change of Control Redemption Notice in accordance with Section 5(c), the Company shall deliver the applicable Change of Control Redemption Price to the Holder concurrently with the consummation of such Change of Control if such notice is received prior to the consummation of such Change of Control and within five Business Days after the Company's receipt of such notice if such notice is received after the consummation of such Change of Control. In the event of a redemption of less than all of the Conversion Amount of this Note, the Company shall promptly cause to be issued and delivered to the Holder, at the Holder's request, a new Note (in accordance with Section 19(d)) representing the outstanding Principal which has not been redeemed. In the event that the Company does not pay the Event of Default Redemption Price or the Change of Control Redemption Price (each, the **"Redemption Price"**), as applicable, to the Holder (or deliver any Common Stock to be issued pursuant to a Redemption Notice) within the time period required, at any time thereafter and until the Company pays such unpaid Redemption Price (and issues any Common Stock required pursuant to a Redemption Notice) in full, the Holder shall have the option, in lieu of redemption, to require the Company to promptly return to the Holder all or any portion of this Note representing the Conversion Amount that was submitted for redemption and for which the applicable Redemption Price (or any Common Stock required to be issued pursuant to a Redemption Notice) has not been paid. Upon the Company's receipt of such notice, (x) the Redemption Notice shall be null and void with respect to such Conversion Amount, (y) the Company shall immediately return this Note, or issue a new Note (in accordance with Section 19(d)) to the Holder representing such Conversion Amount and (z) the Conversion Price of this Note or such new Notes shall be adjusted to the lesser of (A) the Conversion Price as in effect on the date on which the Redemption Notice is voided and (B) the Closing Bid Price on the date on which the Redemption Notice is voided.

(b) Redemption by Other Holders. Upon the Company's receipt of notice from any of the Holders of the Other Notes for redemption or repayment as a result of an event or occurrence substantially similar to the events or occurrences described in Section 4(b) or Section 5(c) (each, an **"Other Redemption Notice"**), the Company shall immediately forward to the Holder by facsimile a copy of such notice. If the Company receives a Redemption Notice and one or more Other Redemption Notices during the seven Business Day period beginning on and including the date which is three Business Days prior to the Company's receipt of the Holder's Redemption Notice and ending on and including the date which is three Business Days after the Company's receipt of the Holder's Redemption Notice and the Company is unable to redeem all principal, interest and other amounts designated in such Redemption Notice and such Other Redemption Notices received during such seven Business Day period, then the Company shall redeem a pro rata amount from each Holder of the Notes (including the Holder) based on the principal amount of the Notes submitted for redemption pursuant to such Redemption Notice and such Other Redemption Notices received by the Company during such seven Business Day period.

(13) SUBORDINATION TO SENIOR INDEBTEDNESS.

(a) General. The Company and the Holder covenant and agree that this Note shall be subject to the provisions of this Section 13 and to the extent and in the manner set forth in this Section 13, the indebtedness represented by this Note and the payment of Principal, Interest, the Redemption Price, and any redemption amount, liquidated damages, fees, expenses, or any other amounts in respect of this Note are hereby expressly made subordinate and junior and subject in right of payment to the prior payment in full in cash of all Senior Indebtedness of the Company now outstanding or hereinafter incurred. However, notwithstanding anything to the contrary set forth in this Note, the provisions of this Section 13 shall apply only to Senior Indebedness described in clause (ii) of Section 29(q) of this Note.

(b) No Payment if Default in Senior Indebtedness.

(i) no cash payment on account of Principal or Redemption Price of, or Interest on, this Note or any other payment payable with respect to this Note shall be made, and no portion of this Note shall be redeemed or purchased directly or indirectly by the Company, if at the time of such payment or purchase or immediately after giving effect thereto, (A) a default in the payment of principal, premium, if any, interest or other obligations in respect of any Senior Indebtedness occurs and is continuing (or, in the case of Senior Indebtedness for which there is a period of grace, in the event of such a default that continues beyond the period of grace, if any, specified in the instrument evidencing such Senior Indebtedness) (a "**Payment Default**"), unless and until such Payment Default shall have been cured or waived or shall have ceased to exist or (B) the Company shall have received notice (a "**Payment Blockage Notice**") from the holder or holders of Senior Indebtedness that there exists under such Senior Indebtedness a default, which

shall not have been cured or waived, permitting the holder or holders thereof to declare such Senior Indebtedness due and payable, but in the case of this clause (B), only for the period (the "**Payment Blockage Period**") commencing on the date of receipt of the Payment Blockage Notice and ending on the date such default shall have been cured or waived. The Company shall resume payments on and distributions in respect of this Note, including any past scheduled payments of the principal of (and premium, if any) and interest on this Note to which the Holder would have been entitled but for the provisions of this Section 13(b)(ii), within five (5) Business Days of the date upon which such Payment Default is cured or waived or ceases to exist or the date on which the Payment Blockage Period ends (and if payment is made within such time period, any Event of Default with respect to such nonpayment shall be cured).

(c) Payment upon Dissolution, Etc. In the event of any bankruptcy, insolvency, reorganization, receivership, composition, assignment for benefit of creditors or other similar proceeding initiated by or against the Company or any dissolution or winding up or total or partial liquidation or reorganization of the Company (being hereinafter referred to as a "**Proceeding**"), the Holder agrees that such Holder shall, upon request of a holder of Senior Indebtedness, and at such holder of Senior Indebtedness' own expense, take all reasonable actions (including but not limited to the execution and filing of documents and the giving of testimony in any Proceeding, whether or not such testimony could have been compelled by process) necessary to prove the full amount of all its claims in any Proceeding, and the Holder shall not waive any claim in any Proceeding without the written consent of such holder. If the Holder does not file a proper proof of claim or proof of debt in the form required in any Proceeding at least thirty (30) days before the expiration of the time to file such claim, the holders of any Senior Indebtedness are hereby authorized to file an appropriate claim for and on behalf of the Holder.

The Holder shall retain the right to vote and otherwise act with respect to the claims under this Note (including, without limitation, the right to vote to accept or reject any plan of partial or complete liquidation, reorganization, arrangement, composition or extension); provided that the Holder shall not vote with respect to any such plan or take any other action in any way so as to (i) contest the validity of any Senior Indebtedness or any collateral therefor or guaranties thereof, (ii) contest the relative rights and duties of any of the lenders under the Senior Indebtedness established in any instruments or agreement creating or evidencing the Senior Indebtedness with respect to any of such collateral or guaranties, or (iii) contest the Holders' obligations and agreements set forth in this Section 13.

Upon payment or distribution to creditors in a Proceeding of assets of the Company of any kind or character, whether in cash, property or securities, all principal and interest due upon any Senior Indebtedness shall first be paid in full before the Holder shall be entitled to receive or, if received, to retain any payment or distribution on account of this Note, and upon any such Proceeding, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holder would be entitled except for the provisions of this Section 13, shall be paid by the Company or by any receiver, trustee in

bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Holder who shall have received such payment or distribution, directly to the holders of the Senior Indebtedness (pro rata to each such holder on the basis of the respective amounts of such Senior Indebtedness held by such holder) or their representatives to the extent necessary to pay all such Senior Indebtedness in full after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness, before any payment or distribution is made to the Holder or any Holders of the Notes.

(d) Payments on Notes. Subject to Sections 13(b) and 13(c), the Company may make regularly scheduled payments of the Principal of, or Interest on, this Note or any other payment payable with respect to this Note, if at the time of payment, and immediately after giving effect thereto, there exists no Payment Default or a Payment Blockage Period.

(e) Certain Rights. Nothing contained in this Section 13 or elsewhere in this Note is intended to or shall impair, as among the Company, its creditors including the holders of Senior Indebtedness and the Holder, the right, which is absolute and unconditional, of the Holder to convert this Note in accordance herewith.

(f) Subrogation. Subject to payment in full in cash of all Senior Indebtedness, the rights of the Holder shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of the assets of the Company made on such Senior Indebtedness until all principal and interest on this Note shall be paid in full in cash; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness of any cash, property or securities to which the Holder would be entitled except for the subordination provisions of this Section 13 shall, as between the Holder and the Company and/or its creditors other than the holders of the Senior Indebtedness, be deemed to be a payment on account of the Senior Indebtedness.

(g) Rights of Holders Unimpaired. The provisions of this Section 13 are and are intended solely for the purposes of defining the relative rights of the Holder and the holders of Senior Indebtedness and nothing in this Section 13 shall impair, as between the Company and the Holder, the obligation of the Company, which is unconditional and absolute, to pay to the Holder the principal thereof (and premium, if any) and interest thereon, in accordance with the terms of this Note.

(h) Holders of Senior Indebtedness. These provisions regarding subordination will constitute a continuing offer to all Persons who, in reliance upon such provisions, become holders of, or continue to hold, Senior Indebtedness; such provisions are made for the benefit of the holders of Senior Indebtedness, and such holders are hereby made obligees under such provisions to the same extent as if they were named therein, and they or any of them may proceed to enforce such subordination and no amendment or modification of the provisions contained herein shall diminish the rights of such holders unless such holders have agreed in writing thereto. The holders of Senior Indebtedness may, at any time and from time to

time, without the consent of or notice to the Holder, without incurring responsibility to the Holder and without impairing or releasing the subordination provisions of this Section 13, (i) subject to the limitations set forth herein, increase the amount of, change the manner, terms or place of payment of, or renew or alter, any Senior Indebtedness, or otherwise amend, modify, restate or supplement the same (provided that any such modified indebtedness continues to be constitute Senior Indebedness within the meaning of this Agreement), (ii) sell, exchange or release any collateral mortgaged, pledged or otherwise securing the Senior Indebtedness, (iii) release any Person liable in any manner for the Senior Indebtedness and (iv) exercise or refrain from exercising any rights against the Company or any other Person.

(i) Proceeds Held in Trust. In the event that notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities (including, without limitation, by way of setoff or otherwise) prohibited by the provisions hereof shall be received by the Holder before all Senior Indebtedness if paid in full in cash, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of Senior Indebtedness, as their respective interests may appear, as calculated by the Company, for application to, or to be held as collateral for, the payment of any Senior Indebtedness remaining unpaid to the extent necessary to pay all Senior Indebtedness in full in cash after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness.

(j) Blockage of Remedies. In addition to any restrictions included in the Security Agreement, during any Payment Default or any Payment Blockage Period, if an Event of Default has occurred and is continuing under this Note, the Holder will not commence or join with any creditor of the Company in asserting or commencing any proceedings to collect or enforce its rights hereunder or take any action to foreclose or realize upon the indebtedness hereunder for a period beginning on the date of such Event of Default and ending on the date such Payment Default is cured, waived or ceases to exist or the date such Payment Blockage Period ends, as the case may be.

(k) Subsequent Senior Indebtedness Requested Modifications. In connection with the incurrence of any future Senior Indebtedness, the Holder agrees that it shall act reasonably and negotiate in good faith any modifications to the provisions of this Section 13 reasonably requested by the holder of such Senior Indebtedness; provided that nothing in this section shall restrict the holders of Notes representing at least a majority of the aggregate principal amount of the Notes then outstanding from changing or amending this Section 13 pursuant to Section 17 hereof upon the request of the Company.

(l) Failure to Make Payment. In the event that the Company is prohibited or restricted from making any payment required under this Note by reason of the provisions of this Section 13, such prohibition or restriction shall not preclude the failure to make such payment from being an Event of Default under Section 4(a) of this Note.

(14) VOTING RIGHTS. The Holder shall have no voting rights as the holder of this Note, except as required by law, including but not limited to the Delaware General Corporation Law, and as expressly provided in this Note.

(15) RANK; SECURITY; ADDITIONAL INDEBTEDNESS; LIENS.

(a) Rank. All payments due under this Note (a) shall rank *pari passu* in right of payment with all Other Notes (**"Pari Passu Indebtedness"**), (b) shall be subordinate in right of payment to the prior payment of all existing and future Senior Indebtedness upon the terms set forth in Section 13 above, and (c) shall be senior in right of payment to all other Indebtedness of the Company, other than Senior Indebtedness and Pari Passu Indebtedness.

(b) Security. This Note is secured by assets of the Company under that certain Security Agreement, dated May 1, 2009, among the Company and the purchasers of the Original Notes (the "**Security Agreement**").

(c) Incurrence of Certain Indebtedness. So long as this Note is outstanding, the Company shall not, and the Company shall not permit any of its Subsidiaries to, directly or indirectly, incur or guarantee, assume or suffer to exist any Indebtedness which shall rank senior to the Notes, other than Senior Indebtedness and Qualified Subsidiary Indebtedness. "**Qualified Subsidiary Indebtedness**" means: (i) Indebtedness incurred by Liquidmetal Coatings, LLC or its Subsidiaries, but only to the extent not guaranteed by, or secured by the assets of, the Company or any other Company Subsidiary, and (ii) Indebtedness incurred by the Company's foreign subsidiaries, but only to the extent not guaranteed by, or secured by the assets of, the Company or any Company Subsidiary incorporated in the United States. "**Qualified Subsidiary Indebtedness**" shall not include any Indebtedness incurred by Liquidmetal Korea Co. Ltd., a subsidiary of the Company organized under the laws of the Republic of Korea ("**LMK**"), after the date of the Securities Purchase and Exchange Agreement except to the extent that such Indebtedness is incurred to refinance Indebtedness existing prior to the date of the Securities Purchase and Exchange Agreement on terms than are more favorable or the same to LMK as the terms of such existing Indebtedness.

(d) Restricted Payments. The Company shall not, and the Company shall not permit any of its Subsidiaries to, directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any Indebtedness, other than Senior Indebtedness, Pari Passu Indebtedness, or Qualified Subsidiary Indebtedness, whether by way of payment in respect of principal of (or premium, if any) or interest on, such Indebtedness if at the time such payment is due or is otherwise made or, after giving effect to such payment, an event constituting an Event of Default has occurred and is continuing.

(16) PARTICIPATION. The Holder, as the holder of this Note, shall be entitled to such dividends paid and distributions made to the holders of Common Stock (each, a **"Distribution"**), in each such case to the extent of the Distribution as if the Holder had converted this Note into Common Stock (without regard to any limitations on conversion herein or elsewhere) and had held such shares of Common Stock on the record date for such dividends and distributions. Payments (if any) under the preceding sentence shall be made concurrently with the dividend or distribution to the holders of Common Stock.

(17) AMENDMENT TO THE TERMS OF NOTES; LIKE TREATMENT OF NOTES. This Note shall not be modified, amended, changed, terminated, supplemented, or any term or condition hereof waived except in writing signed by the Company and Holder. In addition, neither the Company nor any of its affiliates shall, directly or indirectly, pay or cause to be paid any consideration (immediate or contingent), whether by way of interest, fee, payment for the redemption or conversion of the Notes, or otherwise, to any Holder of Notes, for or as an inducement to, or in connection with the solicitation of, any consent, waiver or amendment of any terms or provisions of the Notes, unless such consideration is required to be paid to all Holders of Notes. The Company shall not, directly or indirectly, redeem any Notes unless such offer of redemption is made pro rata to all Holders of Notes on identical terms. For clarification purposes, this provision constitutes a separate right granted by the Company to each Holder of Notes and negotiated separately by each Holder of Notes, is intended for the Company to treat the Holders of Notes as a class, and shall not in any way be construed as the Holders of Notes acting in concert or as a group with respect to the purchase, disposition or voting of Notes or otherwise.

(18) TRANSFER. This Note may be offered, sold, assigned or transferred by the Holder without the consent of the Company, subject only to the provisions of Section 2(f) of the Securities Purchase and Exchange Agreement.

(19) REISSUANCE OF THIS NOTE.

(a) Transfer. If this Note is to be transferred, the Holder shall surrender this Note to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Note (in accordance with Section 19(d)), registered as the Holder may request, representing the outstanding Principal being transferred by the Holder and, if less then the entire outstanding Principal is being transferred, a new Note (in accordance with Section 19(d)) to the Holder representing the outstanding Principal not being transferred. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of Section 3(c)(iii) and this Section 19(a), following conversion or redemption of any portion of this Note, the outstanding Principal represented by this Note may be less than the Principal stated on the face of this Note.

(b) Lost, Stolen or Mutilated Note. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Note, the Company shall execute and deliver to the Holder a new Note (in accordance with Section 19(d)) representing the outstanding Principal.

(c) Note Exchangeable for Different Denominations. This Note is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Note or Notes (in accordance with Section 19(d) and in principal amounts of at least $100,000) representing in the aggregate the outstanding Principal of this Note, and each such new Note will represent such portion of such outstanding Principal as is designated by the Holder at the time of such surrender.

(d) Issuance of New Notes. Whenever the Company is required to issue a new Note pursuant to the terms of this Note, such new Note (i) shall be of like tenor with this Note, (ii) shall represent, as indicated on the face of such new Note, the Principal remaining outstanding (or in the case of a new Note being issued pursuant to Section 19(a) or Section 19(c), the Principal designated by the Holder which, when added to the principal represented by the other new Notes issued in connection with such issuance, does not exceed the Principal remaining outstanding under this Note immediately prior to such issuance of new Notes), (iii) shall have an issuance date, as indicated on the face of such new Note, which is the same as the Issuance Date of this Note, (iv) shall have the same rights and conditions as this Note, and (v) shall represent accrued Interest on the Principal and Interest of this Note, from the Issuance Date.

(20) REMEDIES, CHARACTERIZATIONS, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note, the Securities Purchase and Exchange Agreement and the Registration Rights Agreement, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the Holder's right to pursue actual and consequential damages for any failure by the Company to comply with the terms of this Note. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by the Holder and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof). The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Holder shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

(21) PAYMENT OF COLLECTION, ENFORCEMENT AND OTHER COSTS. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note or (b) there occurs any bankruptcy, reorganization, receivership of the Company or other proceedings affecting Company creditors' rights and involving a claim under this Note, then the Company shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, attorneys' fees and disbursements.

(22) CONSTRUCTION; HEADINGS. This Note shall be deemed to be jointly drafted by the Company and all the Purchasers and shall not be construed against any person as the drafter hereof. The headings of this Note are for convenience of reference and shall not form part of, or affect the interpretation of, this Note.

(23) FAILURE OR INDULGENCE NOT WAIVER. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

(24) DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Redemption Price or the arithmetic calculation of the Conversion Rate or the Redemption Price, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within one Business Day of receipt of the Conversion Notice or Redemption Notice or other event giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation within one Business Day of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within one Business Day submit via facsimile (a) the disputed determination of the Closing Bid Price or the Closing Sale Price to an independent, reputable investment bank selected by the Company and approved by the Holder or (b) the disputed arithmetic calculation of the Conversion Rate or the Redemption Price to the Company's independent, outside accountant. The Company, at the Company's expense, shall cause the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than five Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

(25) NOTICES; PAYMENTS.

(a) Notices. Whenever notice is required to be given under this Note, unless otherwise provided herein, such notice shall be given in accordance with Section 9(f) of the Securities Purchase and Exchange Agreement. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Note, including in reasonable detail a description of such action and the reason therefore. Without limiting the generality of the foregoing, the Company will give written notice to the Holder (i) immediately upon any adjustment of the Conversion Price, setting forth in reasonable detail, and certifying, the calculation of such adjustment and (ii) at least twenty days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Common Stock, (B) with respect to any pro rata subscription offer to holders of Common Stock or (C) for determining rights to vote with respect to any Change of Control, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder. Notwithstanding the foregoing, Section 4(i) of the Securities Purchase and Exchange Agreement shall apply to all notices given pursuant to this Note.

(b) Payments. Whenever any payment of cash is to be made by the Company to any Person pursuant to this Note, such payment shall be made in lawful money of the United States of America by a check drawn on the account of the Company and sent via overnight courier service to such Person at such address as previously provided to the Company in writing (which address, in the case of each of the Purchasers, shall initially be as set forth on the Schedule of Buyers attached to the Securities Purchase and Exchange Agreement); provided that the Holder may elect to receive a payment of cash via wire transfer of immediately available funds by providing the Company with prior written notice setting out such request and the Holder's wire transfer instructions. Whenever any amount expressed to be due by the terms of this Note is due on any day which is not a Business Day, the same shall instead be due on the next succeeding day which is a Business Day and, in the case of any Interest Date which is not the date on which this Note is paid in full, the extension of the due date thereof shall not be taken into account for purposes of determining the amount of Interest due on such date.

(26) CANCELLATION. After all Principal, accrued Interest and other amounts at any time owed on this Note has been paid in full, this Note shall automatically be deemed canceled, shall be surrendered to the Company for cancellation and shall not be reissued.

(27) WAIVER OF NOTICE. To the extent permitted by law, the Company hereby waives demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note and the Securities Purchase and Exchange Agreement.

(28) GOVERNING LAW. This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York.

(29) CERTAIN DEFINITIONS. For purposes of this Note, the following terms shall have the following meanings:

(a) **"Approved Stock Plan"** means any employee benefit, option or incentive plan which has been approved by the Board of Directors and shareholders of the Company, pursuant to which the Company's securities may be issued to any employee, consultant, officer or director for services provided to the Company; provided that the number of shares of the Company's Common Stock issuable pursuant to such plans, in the aggregate, shall not exceed 10% of the shares of the Company's Common Stock outstanding on a fully-diluted basis on the date of the First Closing (as defined in the Securities Purchase and Exchange Agreement) after giving effect to the First Closing and the full exercise of the Series A-1 Option

(as defined in the Securities Purchase and Exchange Agreement), as adjusted for stock splits, reverse stock splits, and the like, unless such increased amount of shares is approved by the holders of the Company's Common Stock and the holders of the Company's Series A-1 Preferred Stock and Series A-2 Preferred Stock voting together as a single class. For purposes of this definition, "fully-diluted basis" shall take into account all outstanding shares of Common Stock as well as all shares of Common Stock issuable upon the conversion of all outstanding convertible securities of the Company, including all options and warrants granted.

(b) "**Bloomberg**" means Bloomberg Financial Markets.

(c) **"Business Day"** means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(d) **"Closing Bid Price"** and **"Closing Sale Price"** means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or last trade price, respectively, of such security prior to 4:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 24. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(e) **"Contingent Obligation"** means, as to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to any indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto.

(f) "**Convertible Securities**" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock.

(g) **"Excluded Security"** means any share of Common Stock issued or issuable: (i) in connection with any Approved Stock Plan; (ii) upon conversion or exercise of any Notes, Other Notes, warrants or shares of Series A-1 Preferred Stock or Series A-2 Preferred Stock of the Company issued (A) pursuant to the Securities Purchase and Exchange Agreement, (B) as dividends on the Series A Preferred Stock, or (C) as interest under the Notes or Other Notes; (iii) upon conversion or exercise of any Options or Convertible Securities which are outstanding on the Issuance Date, (iv) pursuant to or in connection with commercial credit arrangements, equipment lease financings, acquisitions of other assets or businesses, and strategic transactions not primarily for financing purposes (including licensing or development agreements), but only to the extent the transactions described in this clause (iv) are entered into with non-affiliates of the Company.

(h) **"Indebtedness"** of any Person means, without duplication (A) all indebtedness for borrowed money, (B) all obligations issued, undertaken or assumed as the deferred purchase price of property or services, (C) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (D) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses, (E) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property), (F) all monetary obligations under any leasing or similar arrangement which, in connection with generally accepted accounting principles, consistently applied for the periods covered thereby, is classified as a capital lease, (G) off-balance sheet liabilities retained in connection with asset securitization programs, synthetic leases, sale and leaseback transactions or other similar obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheet of such Person and its subsidiaries, and (H) all indebtedness referred to in clauses (A) through (G) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by any Person, even though the Person which owns such assets or property has not assumed or become liable for the payment of such indebtedness, and (I) all Contingent Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (A) through (H) above. Notwithstanding the foregoing, trade payables incurred in the ordinary course of business shall not constitute "Indebtedness" for purposes of this Note.

(i) **"Issuance Date"** means November 1, 2009.

(j) "**Options**" means any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities.

(k) "**Original Issuance Date**" means the First Closing Date, as defined in the Securities Purchase and Exchange Agreement.

(l) **"Person"** means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(m) "**Principal Market**" means the OTC Bulletin Board.

(n) "**Registration Rights Agreement"** means that certain Registration Rights Agreement, dated May 1, 2009, between the Company and the initial Holders of the Original Notes.

(o) **"SEC"** means the United States Securities and Exchange Commission.

(p) **"Securities Purchase and Exchange Agreement"** means the Securities Purchase and Exchange Agreement, dated May 1, 2009, among the Company and the initial Holders of the Original Notes pursuant to which the Company issued the Original Notes.

(q) **"Senior Indebtedness"** means the principal of (and premium, if any), interest on, and all fees and other amounts (including, without limitation, any reasonable costs, enforcement expenses (including reasonable legal fees and disbursements, collateral protection expenses and other reimbursement or indemnity obligations relating thereto)), and all other obligations of the Company under (i) any of the agreements or instruments evidencing any Indebtedness of the Company and its Subsidiaries arising after the Original Issuance Date to an unaffiliated, third-party commercial lender (together with any renewals, refundings, refinancings or other extensions thereof) for purposes of purchasing equipment (which debt shall be secured only by the assets purchased with such financing), and (ii) Indebtedness not to exceed $4,000,000 in the aggregate that is secured solely by the Company's and/or its Subsidiaries' accounts receivable and/or inventory.

(r) "**Subsidiary**" means any business entity as to which the Company directly or indirectly owns or has the power to vote or control 50% or more of any class or series of capital stock or other equity securities of such entity.

(s) **"Trading Day"** means any day on which the Common Stock is traded on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock is then traded; provided that "Trading Day" shall not include any day on which

the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York Time).

(t) **"Warrants"** means the warrants issued under the Securities Purchase and Exchange Agreement to the initial Holders of the Original Notes.

(u) **"Weighted Average Price"** means, for any security as of any date, the dollar volume-weighted average price for such security on the Principal Market during the period beginning at 9:30:01 a.m., New York Time (or such other time as the Principal Market publicly announces is the official open of trading), and ending at 4:00:00 p.m., New York Time (or such other time as the Principal Market publicly announces is the official close of trading) as reported by Bloomberg through its "Volume at Price" functions, or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30:01 a.m., New York Time (or such other time as such market publicly announces is the official open of trading), and ending at 4:00:00 p.m., New York Time (or such other time as such market publicly announces is the official close of trading) as reported by Bloomberg, or, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Weighted Average Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Weighted Average Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 24. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed as of the Issuance Date set out above.

LIQUIDMETAL TECHNOLOGIES, INC.

By: ______________________
Name: Tony Chung
Title: Chief Financial Officer

EXHIBIT I

LIQUIDMETAL TECHNOLOGIES, INC.
CONVERSION NOTICE

Reference is made to the 8% Senior Secured Convertible Note (the **"Note"**) issued to the undersigned by Liquidmetal Technologies, Inc. (the **"Company"**). In accordance with and pursuant to the Note, the undersigned hereby elects to convert the Conversion Amount (as defined in the Note) of the Note indicated below into shares of Common Stock, par value $0.001 per share (the **"Common Stock"**), of the Company as of the date specified below.

Date of Conversion: ______________________

Aggregate Conversion Amount to be converted: ______________________

The undersigned hereby certifies to the Company that the undersigned's conversion of the amount set forth above in accordance with Section 3(a) of the Note will not directly result in the undersigned (together with the undersigned's affiliates) beneficially owning in excess of 4.99% of the number of shares of Common Stock outstanding immediately after giving effect to such conversion, calculated in accordance with Section 3(d)(i) of the Note; provided that if the undersigned has previously waived the 4.99% beneficial ownership limitation upon no less than sixty one (61) days prior written notice, the undersigned certifies to the Company that the undersigned's conversion of the amount set forth above will not directly result in the undersigned (together with the undersigned's affiliates) beneficially owning in excess of 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to such conversion, calculated in accordance with Section 3(d)(i) of the Note. Notwithstanding the foregoing, the certification set forth in this paragraph shall not apply to, and shall not be deemed to be made by, any Affiliated Investor (as that term is defined in the Purchase Agreement referred to in the Note).

Please confirm the following information:

Conversion Price: ______________________

Number of shares of Common Stock to be issued: ______________________

Please issue the Common Stock into which the Note is being converted in the following name and to the following address:

Issue to: ______________________

____

____

Facsimile Number: ______________________

Authorization: ______________________

By: ______________________

Title: ______________________

Dated: ______________________

Account Number: ______________________
(if electronic book entry transfer)

Transaction Code Number: ______________________
(if electronic book entry transfer)

ACKNOWLEDGMENT

The Company hereby acknowledges this Conversion Notice and hereby directs American Stock Transfer & Trust Co. to issue the above indicated number of shares of Common Stock in accordance with the Transfer Agent Instructions dated May 1, 2009, from the Company.

LIQUIDMETAL TECHNOLOGIES, INC.

By: ______________________
Name:
Title:

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Liquidmetal Technologies, Inc.

We consent to the incorporation by reference of our Report of Independent Registered Public Accounting Firm dated August 6, 2010 on the consolidated balance sheets as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for the three year period ended December 31, 2009 included in this Form 10-K, into the Company's previously filed S-8 Registration Statement (File No. 333-101447).

/s/ Choi, Kim, Park, LLP
Los Angeles, California
August 20, 2010

Exhibit 31.1

CERTIFICATIONS

I, Thomas Steipp, certify that:

1. I have reviewed this annual report on Form 10-K 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(s) 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 year (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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: August 20, 2010

/s/ Thomas Steipp
Thomas Steipp
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Tony Chung, certify that:

1. I have reviewed this annual report on Form 10-K 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(s) 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 year (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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: August 20, 2010

/s/ Tony Chung

Tony Chung
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Liquidmetal Technologies, Inc. (the "company") on Form 10-K for the year ending December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Thomas Steipp, President / Chief Executive Officer, and Tony Chung, Chief Financial Officer, of the company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: August 20, 2010	By:	/s/ Thomas Steipp Thomas Steipp President and Chief Executive Officer
Date: August 20, 2010	By:	/s/ Tony Chung Tony Chung Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Liquidmetal Technologies, Inc. and will be retained by Liquidmetal Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.