

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from _____ to _____

Commission File No. 000-31332

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

20-0121262
*(I.R.S. Employer
Identification No.)*

100 North Tampa St., Suite 3150
Tampa, Florida 33602
(address of principal executive office, zip code)

Registrant's telephone number, including area code: **(813) 314-0280**

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 at least the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 14, 2003, there were 41,599,652 shares of the registrant's common stock, \$0.001 par value, outstanding.

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PART I
FINANCIAL INFORMATION

Item 1 – Financial Statements and Independent Accountants’ Report

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

	<u>September 30, 2003</u>	<u>December 31, 2002</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,593	\$ 26,003
Marketable securities held-for-sale	—	3,068
Trade receivables, net	7,100	6,404
Inventories	5,008	2,506
Prepaid expenses and other current assets	954	2,112
	<u>21,655</u>	<u>40,093</u>
PROPERTY, PLANT AND EQUIPMENT, NET	22,547	23,505
GOODWILL	184	184
OTHER INTANGIBLE ASSETS, NET	972	785
OTHER ASSETS	340	438
	<u>45,698</u>	<u>65,005</u>
Total assets	<u>\$ 45,698</u>	<u>\$ 65,005</u>
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 5,978	\$ 11,174
Net liabilities of discontinued operations	133	1,148
Deferred revenue	885	1,397
Long-term debt, current portion	1,935	—
Other liabilities, current portion	113	19
	<u>9,044</u>	<u>13,738</u>
LONG-TERM DEBT, NET OF CURRENT PORTION	3,719	—
OTHER LONG-TERM LIABILITIES, NET OF CURRENT PORTION	228	74
	<u>12,991</u>	<u>13,812</u>
Total liabilities	<u>12,991</u>	<u>13,812</u>
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	1	21
	<u>1</u>	<u>21</u>
SHAREHOLDERS’ EQUITY:		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized; 41,599,652 shares issued and outstanding at September 30, 2003; and common stock, no par value, 200,000,000 shares authorized, 41,009,245 shares issued and outstanding at December 31, 2002	42	106,554
Paid in capital	127,136	20,326
Unamortized stock-based compensation	(187)	(480)
Accumulated deficit	(95,175)	(76,940)
Accumulated other comprehensive income	890	1,712
	<u>32,706</u>	<u>51,172</u>
Total shareholders’ equity	<u>32,706</u>	<u>51,172</u>
Total liabilities and shareholders’ equity	<u>\$ 45,698</u>	<u>\$ 65,005</u>

See notes to condensed consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share data)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
REVENUE	\$ 3,524	\$ 3,655	\$ 16,492	\$ 7,262
COST OF SALES	4,882	2,524	15,154	4,393
Gross profit (loss)	(1,358)	1,131	1,338	2,869
OPERATING EXPENSES:				
Selling, general, and administrative	3,732	3,912	12,943	9,041
Research and development	981	2,652	7,828	7,008
Total expenses	4,713	6,564	20,771	16,049
LOSS BEFORE INTEREST, OTHER INCOME, INCOME TAXES, MINORITY INTEREST AND DISCONTINUED OPERATIONS	(6,071)	(5,433)	(19,433)	(13,180)
Interest expense	(106)	(6)	(284)	(1,109)
Interest income	53	297	286	393
Gain on sale of marketable securities held-for-sale	—	—	1,178	—
LOSS BEFORE INCOME TAXES, MINORITY INTEREST AND DISCONTINUED OPERATIONS	(6,124)	(5,142)	(18,253)	(13,896)
Income taxes	—	—	(8)	—
LOSS BEFORE MINORITY INTEREST AND DISCONTINUED OPERATIONS	(6,124)	(5,142)	(18,261)	(13,896)
Minority interest in loss (income) of consolidated subsidiary	23	(76)	26	(86)
LOSS FROM CONTINUING OPERATIONS	(6,101)	(5,218)	(18,235)	(13,982)
Gain from disposal of discontinued retail golf segment, net	—	1,466	—	1,974
NET LOSS	(6,101)	(3,752)	(18,235)	(12,008)
Foreign exchange translation gain (loss)	687	(371)	846	(334)
Net unrealized gain (loss) on marketable securities held-for-sale (including transfer of realized gain of \$1,178 for the nine months ended September 30, 2003)	—	182	(1,668)	182
COMPREHENSIVE LOSS	\$ (5,414)	\$ (3,941)	\$ (19,057)	\$ (12,160)
PER COMMON SHARE BASIC AND DILUTED:				
Loss from continuing operations	\$ (0.15)	\$ (0.13)	\$ (0.44)	\$ (0.37)
Income from discontinued operations	\$ 0.00	\$ 0.04	\$ 0.00	\$ 0.05
Net loss	\$ (0.15)	\$ (0.09)	\$ (0.44)	\$ (0.32)

See notes to condensed consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 For the Nine Months Ended September 30, 2003
 (in thousands, except share data)
 (unaudited)

	Common Shares	Common Stock	Paid in Capital	Unamortized Stock- Based Compen- sation	Accumu- lated Deficit	Compre- hensive Income (Loss)	Total
Balance, December 31, 2002	41,009,245	\$ 106,554	\$ 20,326	\$(480)	\$(76,940)	\$ 1,712	\$ 51,172
Stock options exercised	684,165	1,149	—	—	—	—	1,149
Repurchase of shares	(93,758)	(653)	—	—	—	—	(653)
Change in par value due to reincorporation	—	(107,008)	107,008	—	—	—	—
Stock-based compensation amortization	—	—	(203)	293	—	—	90
Exercise of warrants	—	—	5	—	—	—	5
Foreign exchange translation gain	—	—	—	—	—	846	846
Unrealized loss on marketable securities	—	—	—	—	—	(1,668)	(1,668)
Net loss	—	—	—	—	(18,235)	—	(18,235)
Balance, September 30, 2003	41,599,652	\$ 42	\$127,136	\$(187)	\$(95,175)	\$ 890	\$ 32,706

See notes to condensed consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share data)
(unaudited)

	For the Nine Months Ended September 30,	
	2003	2002
OPERATING ACTIVITIES:		
Net loss	\$(18,235)	\$(12,008)
Gain on disposition of discontinued operations	—	(1,974)
Loss from continuing operations	(18,235)	(13,982)
Adjustments to reconcile loss from continuing operations to net cash used by operating activities:		
Gain on sale of marketable securities held-for-sale	(1,178)	—
Gain on sale of property and equipment	—	(19)
Minority interest in (loss) income of consolidated subsidiary	(26)	86
Depreciation and amortization	3,775	742
Amortization of debt discount	—	912
Stock-based compensation	90	1,629
Bad debt expense	193	102
Warranty expense	457	—
Changes in operating assets and liabilities:		
Accounts receivable	(889)	(3,031)
Inventories	(1,006)	(1,628)
Prepaid expenses and other current assets	1,158	(480)
Other assets	98	(119)
Accounts payable and accrued expenses	(6,056)	3,296
Deferred revenue	(512)	123
Other liabilities	—	(1)
Net cash used by continuing operations	(22,131)	(12,370)
Net cash used by discontinued operations	(1,015)	(2,256)
Net cash used by operating activities	(23,146)	(14,626)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,708)	(12,602)
Proceeds from sale of property and equipment	—	129
Purchases of marketable securities held-for-sale	—	(2,000)
Proceeds from sale of marketable securities held-for-sale	2,578	—
Purchase price of 51% investment in subsidiary, net of cash received of \$407	—	74
Investment in patents and trademarks	(252)	(93)
Net cash used by investing activities	(382)	(14,492)
FINANCING ACTIVITIES:		
Proceeds from borrowings	5,488	3,500
Repayment of borrowings	—	(7,400)
Repayment of other liabilities	(43)	(9)
Proceeds from issuance of common stock (net of offering costs)	—	70,721
Stock warrants exercised	5	—
Stock options exercised	899	460
Net cash provided by financing activities	6,349	67,272
EFFECT OF FOREIGN EXCHANGE TRANSLATION	(231)	(236)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,410)	37,918
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	26,003	2,230
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 8,593	\$ 40,148
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 108	\$ 439
Taxes paid	\$ 126	\$ —

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — continued
(in thousands, except share data)
(unaudited)

During the nine months ended September 30, 2003, the Company reclassified \$1,496 of machines from property, plant and equipment to inventory because the machines were sold in 2003.

During the nine months ended September 30, 2003, the change in the foreign exchange rate between the U.S. Dollar and the South Korean Won resulted in a \$166 gain related to the note payable, a \$1,249 gain related to property, plant and equipment and a \$6 loss related to minority interest in a consolidated subsidiary.

During the nine months ended September 30, 2003, an option holder surrendered 93,758 shares of the Company's common stock in-lieu of cash payment for the option exercise price of \$250 and income taxes payable by the option holder of \$403. The Company immediately canceled the common shares received in lieu of cash payment upon receipt of the shares.

During the nine months ended September 30, 2003, the Company entered into a lease agreement for \$291 of laboratory equipment that was recorded as a capital lease obligation. During the nine months ended September 30, 2002, the Company entered into a lease agreement for \$107 of office furniture that was recorded as a capital lease obligation.

During the nine months ended September 30, 2002, the Company recorded a net addition to shareholders' equity of \$1,149 comprised of stock-based compensation in the discontinued retail golf operations. Additionally, there was a \$98 foreign exchange loss effect in the discontinued retail golf operations.

See notes to condensed consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2003 and 2002

(in thousands, except share data)

(unaudited)

1. Description of Business

Liquidmetal Technologies, Inc. and its subsidiaries (collectively, the "Company") are in the business of developing and commercializing products made from amorphous alloys. Liquidmetal Technologies, Inc. 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. The bulk Liquidmetal alloy segment includes market opportunities to develop and sell components for electronic devices, medical devices, sporting goods, tooling and prototype sampling, and metal processing equipment. In addition, the bulk Liquidmetal alloy segment includes revenue and expenses from research and development services provided to both governmental entities and other businesses, as well as potential license fees, royalties, and other compensation from strategic partnering transactions.

On May 21, 2003, the Company 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 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.

2. Liquidity

The Company has experienced losses from continuing operations during the last two fiscal years and the nine months ended September 30, 2003 and has an accumulated deficit of \$95,175 as of September 30, 2003. Cash used in continuing operations for the nine months ended September 30, 2003 and the fiscal year ended December 31, 2002 was \$22,131 and \$16,856, respectively, and it is likely that cash flow from continuing operations will be negative throughout the fourth quarter of 2003 and the year of 2004. At September 30, 2003, the Company's principal source of liquidity is \$8,593 of cash and cash equivalents. Such conditions raise substantial doubt that the Company will be able to continue as a going concern for a reasonable period of time without receiving additional funding. These operating results occurred while the Company was developing and attempting to commercialize and manufacture products from an entirely new and unique technology. This business plan required significant spending related to start-up costs and capital expenditures. These factors have placed a significant strain on the financial resources of the Company. Management has sought to generate additional financial resources by reducing operating costs and is seeking additional sources of financing, including debt or equity funding. The ultimate success of the Company depends on its ability to obtain additional financing, to continue reducing operating costs and, ultimately, to generate higher revenue and attain profitability. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. Basis of Presentation and Recent Accounting Pronouncements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. In addition, certain reclassifications have been made for consistent presentation.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2003 and 2002
(in thousands, except share data)
(unaudited)

Operating results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2003. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 31, 2003.

Stock-based compensation. The Company applies 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. The Company applies Statement of Financial Accounting Standards ("SFAS") No. 123 for options granted to non-employees who perform services for the Company.

Had the Company determined employee stock-based compensation cost based on the fair value at the grant date for stock options consistent with the method of SFAS No. 123, the Company's loss from continuing operations and basic and diluted loss per share from continuing operations would have been as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Loss from continuing operations:				
As reported	\$(6,101)	\$(5,218)	\$(18,235)	\$(13,982)
Add: stock-based employee compensation expense (gain) included in reported net loss, net of related tax effects	(10)	31	44	200
Deduct: total stock-based employee compensation expense determined under the fair value based method for all awards	(232)	(246)	(5,427)	(5,064)
Proforma loss from continuing operations	\$(6,343)	\$(5,433)	\$(23,618)	\$(18,846)
Basic and diluted loss per share from continuing operations:				
As reported	\$ (0.15)	\$ (0.13)	\$ (0.44)	\$ (0.37)
Proforma	(0.15)	(0.13)	(0.57)	(0.50)

Recent Accounting Pronouncements. In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"). SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which such liabilities are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs should be capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Adoption of SFAS No. 143 did not have a material impact on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated With Exit or Disposal Activities* ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires costs associated with exit or disposal activities to be recognized when the costs are incurred, rather than at a date of commitment to an exit or disposal plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the Company's financial statements.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2003 and 2002

(in thousands, except share data)

(unaudited)

In December 2002, SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* ("SFAS No. 148") was issued by the FASB. This standard amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this standard amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. The Company implemented SFAS No. 148 effective January 1, 2003 regarding disclosure requirements for condensed financial statements for interim periods. The Company has not yet determined whether it will voluntarily change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("Interpretation 45"). Interpretation 45 changes the accounting for and the disclosure of guarantees. Interpretation 45 requires that guarantees meeting the characteristics described in the Interpretation be initially recorded at fair value in contrast to FASB No. 5, which requires recording a liability when a loss is probable and reasonably estimable. The disclosure requirements of Interpretation 45 are effective for financial statements and annual periods ending after December 31, 2002. The initial recognition and initial measurement provisions of Interpretation 45 are effective on a prospective basis to guarantees issued or modified after December 30, 2002. The adoption of Interpretation 45 did not have a material impact on the Company's financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. Many of these instruments previously were classified as equity or temporary equity and as such, SFAS No. 150 represents a significant change in practice in the accounting for a number of mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

In January 2003, the FASB issued FASB Interpretation No. 46 *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin ("ARB") No. 51, Consolidated Financial Statements* ("FIN 46"). FIN 46 clarifies the application of ARB No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The adoption of FIN 46, as it relates to variable interest entities created after January 31, 2003, did not impact the Company's condensed consolidated financial statements. Additional provisions of FIN 46, which will become effective for the Company beginning on January 1, 2004, have not had, and are not anticipated by management to have a, material effect on the Company's consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2003 and 2002
(in thousands, except share data)
(unaudited)

4. Trade Receivables

Trade receivables from continuing operations were comprised of the following:

	September 30, 2003	December 31, 2002
Accounts receivable	\$7,382	\$6,681
Less: Allowance for doubtful accounts	(282)	(277)
Account receivable, net	\$7,100	\$6,404

5. Inventories

Inventories from continuing operations were comprised of the following:

	September 30, 2003	December 31, 2002
Raw materials	\$3,237	\$1,585
Work in process	1,232	592
Finished goods	539	329
Total inventories	\$5,008	\$2,506

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2003	December 31, 2002
Machinery and equipment	\$12,381	\$11,002
Office and computer equipment, software, furnishings, and improvements	2,970	2,465
Buildings	11,631	11,084
Construction in process of machinery and equipment and plant	—	403
Total	26,982	24,954
Accumulated depreciation	(4,435)	(1,449)
Total property, plant and equipment, net	\$22,547	\$23,505

Depreciation expense was approximately \$1,165 and \$226 for the three months ended September 30, 2003 and 2002, respectively; and \$3,397 and \$676 for the nine months ended September 30, 2003 and 2002, respectively. During the three and nine months ended September 30, 2003, \$258 and \$571 of the depreciation expense was a result of accelerated depreciation expense due to a change in the estimated useful life of certain property, plant and equipment.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2003 and 2002

(in thousands, except share data)

(unaudited)

7. Other Intangible Assets

Other intangible assets consisted of the following:

	September 30, 2003	December 31, 2002
Purchased and licensed patent rights	\$ 458	\$ 458
Internally developed patents	840	622
Trademarks	83	56
	1,381	1,136
Total	1,381	1,136
Accumulated amortization	(409)	(351)
	\$ 972	\$ 785
Total intangible assets, net	\$ 972	\$ 785

Amortization expense was approximately \$24 and \$18 for the three months ended September 30, 2003 and 2002, respectively; and \$65 and \$66 for the nine months ended September 30, 2003 and 2002, respectively. The estimated aggregate amortization expense for each of the five succeeding years is as follows:

December 31,	Aggregate Amortization Expense
2004	\$78
2005	75
2006	74
2007	74
2008	74

8. Product Warranty

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. During the three and nine months ended September 30, 2003, the Company recorded \$95 and \$457 of warranty expense, respectively. The product warranty accrual balance is included in accounts payable and accrued expenses, and the warranty expense is included in selling, general, and administrative expenses. As of November 14, 2003, there have been no warranty claims paid.

9. Debt

On February 4, 2003, our Korean subsidiary received 6,500,000 in South Korean Won, or approximately \$5,488, under a loan from Kookmin Bank of South Korea. The loan bears interest at an annual rate of 7.1%. In the event of delayed repayment, the interest increases to a maximum of 21%, depending on the length of time the repayment is delayed. This loan is collateralized by the plant facilities and certain equipment in South Korea. During the first eighteen months from the origination date, interest was payable on a monthly basis. In October 2003, the Company paid \$900 of principal at the request of Kookmin due to the sale of machines that had been part of the collateral on the loan. Subsequent to October 31, 2003, Kookmin Bank requested that the Company pay an additional \$900 of principal by January 2004 due to the Company's current credit rating. Beginning in September 2004, the Company will be required to make equal monthly installments of principal and interest to repay the remaining balance of the loan.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2003 and 2002

(in thousands, except share data)

(unaudited)

Since this note is denominated in South Korea Won, the balance and payment amounts fluctuate with the exchange rate between the U.S. Dollar and the South Korean Won, resulting in the recognition of foreign exchange gains or losses that are included in other comprehensive income (loss). At September 30, 2003, the balance of the note was \$5,654, resulting in the recognition of a cumulative foreign exchange gain of \$166, which is included in the net foreign exchange gain included in other comprehensive income (loss) for the nine months ended September 30, 2003.

On August 23, 2003, the Company entered into a short-term agreement with Shinhan Bank of South Korea in the amount of \$ 1,000 which expires on May 30, 2004. The credit agreement is solely for the issuance of a letter of credit to vendors when our Korean subsidiary imports raw materials or other goods into South Korea. The facility is secured by any raw material or goods financed through the credit facility. As of November 14, 2003, there were no borrowings outstanding under this agreement.

10. Discontinued Operations

On April 30, 2002, management terminated the operations of the retail golf segment by completing the liquidation of substantially all of the retail golf assets and liabilities. The disposition of the retail golf operations represented the disposal of a business segment. Accordingly, the accompanying condensed consolidated financial statements reflect the retail golf segment as a discontinued operation for all periods presented.

During the three and nine months ended September 30, 2003, there was no change in the estimate of expenses associated with the disposal of the discontinued retail golf operations. During the nine months ended September 30, 2002, the Company recorded a net gain change in estimate of \$1,974 on the disposal of the discontinued retail golf segment that was primarily due to a change in the estimated value of stock-based compensation. The change in estimated value of the stock-based compensation was a result of the cumulative decrease of \$3,010 in the fair market value of the common shares underlying the options granted to Paul Azinger. Additionally, there was a \$98 gain due to the reversal of the accumulated foreign exchange gains after the liquidation of Liquidmetal Golf Europe Inc. These gains were partially offset by other changes in the estimated loss on disposal that included \$572 of additional operating expenses, \$57 increase in the allowance for doubtful accounts and \$505 primarily for the reduction of the estimated disposal value of work-in-process inventory and equipment.

At September 30, 2003, the net liabilities of the discontinued operations consisted entirely of current liabilities which are mostly attributed to warranty accruals. There were no assets associated with discontinued retail golf operations at September 30, 2003.

11. Stock Compensation Plan

On April 4, 2002, the Company's shareholders and Board of Directors adopted the 2002 Equity Incentive Plan ("2002 Equity Plan"). The 2002 Equity Plan authorizes 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 common stock may be granted under the 2002 Equity Plan. As of September 30, 2003, there are 313,315 options outstanding under the 2002 Equity Plan. The stock options are exercisable over a period determined by the Board of Directors or the Compensation Committee, but no longer than 10 years.

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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, the Company's 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 September 30, 2003, there were 3,764,632 options outstanding under the 1996 Company Plan.

On April 4, 2002, the Company's 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 190,000 options outstanding under the 2002 Director Plan as of September 30, 2003.

Additionally, the Company has 2,221,508 options outstanding at September 30, 2003 that were granted outside the 1996 Company Plan, the 2002 Equity Plan and the 2002 Director Plan.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants for the nine months ended September 30, 2003 and 2002, respectively: expected volatility of 100% for all periods; dividend yield of 0.0% for all periods; expected option life of approximately 5 years; and a risk-free interest rate ranging from 2.6% to 3.8%.

The following table summarizes the Company's stock option transactions for the nine months ended September 30, 2003:

	Number of Shares	Weighted Average Price
Options outstanding at December 31, 2002	8,182,348	\$ 5.37
Granted	160,920	9.12
Exercised	(684,165)	(1.68)
Forfeited	(1,128,406)	(3.70)
	6,530,697	6.14

The following table summarizes the Company's stock option transactions for the nine months ended September 30, 2002:

	Number of Shares	Weighted Average Price
Options outstanding at December 31, 2001	8,166,703	\$ 4.53
Granted	482,298	14.79
Exercised	(283,873)	(1.62)
Forfeited	(324,199)	(4.02)
	8,040,929	5.26

The weighted average fair value of options granted during the nine months ended September 30, 2003 and 2002, was \$6.90 and \$11.20, respectively. There were 4,663,580 options with a weighted average exercise price of \$5.25 exercisable at September 30, 2003 and 4,283,553 options with a weighted average exercise price of \$4.32 exercisable at September 30, 2002.

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 measurement date ("in-the-money"). In-the-money options of 541,636 with a weighted average

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fair value of \$4.39 were outstanding at September 30, 2003 and 1,246,927 options with a weighted average fair value of \$4.53 were outstanding at September 30, 2002.

The following table summarizes the Company's stock options outstanding and exercisable by ranges of option prices as of September 30, 2003:

Range of Option Price	Options Outstanding			Options Exercisable	
	Number of options Outstanding	Weighted Average Remaining Contract Life (Years)	Weighted Average Option Price	Number of Options Exercisable	Weighted Average Option Price
\$0.00 - \$1.55	376,345	7.3	\$ 1.16	376,345	\$ 1.16
\$1.56 - \$3.10	300,774	4.5	2.33	300,774	2.33
\$3.11 - \$4.65	2,240,943	7.2	4.65	1,977,389	4.65
\$4.66 - \$6.20	2,695,471	7.6	6.20	1,766,883	6.20
\$6.21 - \$7.75	7,540	9.2	7.25	707	7.17
\$7.76 - \$9.30	11,507	9.2	8.80	301	7.83
\$9.31 - \$10.85	203,065	9.2	10.41	—	—
\$10.86 - \$12.40	339,040	7.9	12.40	164,571	12.40
\$12.41-\$15.50	356,012	8.5	15.04	76,610	15.04
Total Options	6,530,697	7.4	6.14	4,663,580	5.25

12. Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, 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. 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. The bulk Liquidmetal alloy segment includes market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting and leisure goods, tooling and prototype sampling (including demonstration parts and test samples), defense applications and metal processing equipment. The bulk Liquidmetal alloy segment also includes revenue and expenses from research and development services provided to both governmental entities and other businesses, as well as potential license fees, royalties, and other compensation from strategic partnering transactions. The expenses incurred by the bulk Liquidmetal alloy segment are primarily 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 its use in a wider variety of applications other than a thin protective coating applied to machinery and equipment. The accounting policies of the reportable segments are the same as those described in Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 31, 2003.

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

	Coatings	Bulk Alloy Products	Segment Totals
Three months ended September 30, 2003:			
Revenue from external customers	\$ 894	\$ 2,630	\$ 3,524
Gross profit (loss)	435	(1,793)	(1,358)
Total segment income (loss)	275	(3,713)	(3,438)
Total identifiable assets at end of period	1,055	33,005	34,060
Three months ended September 30, 2002:			
Revenue from external customers	\$1,234	\$ 2,421	\$ 3,655
Gross profit	569	562	1,131
Total segment income (loss)	358	(3,024)	(2,666)
Nine months ended September 30, 2003:			
Revenue from external customers	\$2,374	\$ 14,118	\$ 16,492
Gross profit	1,151	187	1,338
Total segment income (loss)	293	(10,672)	(10,379)
Nine months ended September 30, 2002:			
Revenue from external customers	\$3,862	\$ 3,400	\$ 7,262
Gross profit	1,824	1,045	2,869
Total segment income (loss)	1,284	(8,059)	(6,775)

Reconciling information between total segment income (loss) and the Company's net loss is shown in the following table:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Total segment loss	\$(3,438)	\$(2,666)	\$(10,379)	\$ (6,775)
General and administrative expenses not allocated to segments	(2,633)	(2,767)	(9,054)	(6,405)
Loss before interest, other income, income taxes, minority interest and discontinued operations	(6,071)	(5,433)	(19,433)	(13,180)
Interest expense	(106)	(6)	(284)	(1,109)
Interest income	53	297	286	393
Gain on sale of marketable securities held-for-sale	—	—	1,178	—
Income taxes	—	—	(8)	—
Minority interest in loss (income) of consolidated subsidiary	23	(76)	26	(86)
Gain from disposal of discontinued retail golf segment, net	—	1,466	—	1,974
NET LOSS	\$(6,101)	\$(3,752)	\$(18,235)	\$(12,008)

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.

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Reconciling information between identifiable segment assets and the Company's consolidated assets is shown in the following table:

	September 30, 2003
Total segment assets	\$34,060
Cash and cash equivalents	8,380
Prepaid expenses and other current assets	391
Other property, plant and equipment	1,807
Other intangible assets, net	972
Other assets	88
	\$45,698

Assets excluded from segment assets include assets attributable to the Company's corporate headquarters. The largest asset represents the Company's cash balances, primarily proceeds from the sale of marketable securities and proceeds from the Kookmin loan (See note 9).

13. Income Taxes

The provision for income tax benefit (expense) for the nine months ended September 30, 2003 and 2002, respectively, is calculated, when applicable, through the use of an estimated annual income tax rate based on projected annualized income (loss). The Company estimated that the effective tax rate for the nine months ended September 30, 2003 is insignificant. The Company estimated an effective tax rate of 0% for the nine months ended September 30, 2002 based on the Company's reported losses.

14. 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.

	Three Months Ended September 30,		Nine months Ended September 30,	
	2003	2002	2003	2002
Weighted average basic shares	41,599,652	40,993,245	41,473,394	37,945,021
Effect of dilutive securities:				
Stock options	—	—	—	—
Warrants	—	—	—	—
	41,599,652	40,993,245	41,473,394	37,945,021
Diluted shares	41,599,652	40,993,245	41,473,394	37,945,021

The effect of outstanding options and warrants to purchase common stock was excluded in the periods presented because the inclusion would have been antidilutive.

15. Commitments and Contingencies

In March 1996, the Company entered into a distribution agreement whereby it granted to a third party exclusive

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rights to market and sell golf products incorporating Liquidmetal technology to certain Japanese sporting equipment companies. The third party paid the Company a \$1.0 million distribution fee as part of this agreement, of which a portion was refundable according to a formula based on the gross profit earned by the third party. The remaining unearned distribution fee of \$830 has not been refunded as of September 30, 2003. On March 28, 2003, the distribution agreement was terminated and the Company entered into a new agreement to pay to the same third party a commission on the net sales price of all Liquidmetal golf equipment that is shipped by the Company or its affiliates to Japanese golf companies for sale into the Japanese end-market. This commission will apply to golf equipment shipped by the Company or its affiliates during the period beginning on March 28, 2003 and ending on March 28, 2006. If by March 28, 2006, the Company has not paid \$350 in commission payments, the balance between commissions paid and \$350 will be paid by April 30, 2006, thereby guaranteeing the third party a \$350 minimum payment during the term of the agreement. The Company will recognize the unearned distribution fee of \$830 as revenue proportionately with the payment of commissions under the new agreement.

On December 20, 2002, the Company entered into an agreement with a third-party supplier to purchase raw materials during 2003 for a total of \$3,488, of which the Company has purchased \$845 as of July 30, 2003. On July 30, the Company and the third-party agreed to cancel this purchase agreement. On July 22, 2003, the Company entered into another agreement with a separate third party supplier to purchase a different type of raw materials for a total of \$2,500 within twelve months from the date of this agreement. As of November 14, 2003, no purchases have been made under this agreement.

During the second quarter of 2003, the Company sold notes receivable with recourse. The Company has contingent obligations of \$171 for note receivables sold with recourse prior to September 30, 2003 that are outstanding as of November 14, 2003.

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 proceedings to which it is a party will have a material adverse effect on the Company's financial position, results of operations, and cash flows.

16. Related Party Transactions

In June 2003, the Company entered into an exclusive, ten-year license agreement with LLPG, Inc. ("LLPG"), a corporation headed by a former director of the Company. 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. In conjunction with its technology licensing contract, LLPG purchased two proprietary Liquidmetal alloy melting machines and three proprietary Liquidmetal alloy casting machines for a total purchase price of \$2,000. At September 30, 2003, the Company had a remaining receivable balance of \$1,575 due from LLPG. Subsequent to September 30, 2003, the Company received additional payments totaling \$575.

On July 29, 2002, the Company invested \$2,000 in Growell Metal, Inc., ("Growell Metal"), a South Korean metals processing company which is publicly traded on South Korea's KOSDAQ stock market. The Company acquired 891,100 shares (or approximately 5%) of Growell Metal's outstanding common stock in this transaction. During the fourth quarter of 2002, Growell Metal's spin-off of its electronics division resulted in the creation of a new company named Growell Electronics Inc ("Growell Electronics"). As a result of the spin-off, 30% of the Company's 891,100 common shares of Growell Metal were exchanged for an equal number of shares in the common stock of Growell Electronics. During the year ended December 31, 2002, the Company sold its shares in Growell Electronics for approximately \$1,432, resulting in a realized gain of \$832. In April 2003, the Company sold its remaining shares in Growell Metal for approximately \$2,578, resulting in a realized gain of approximately \$1,178 and the reversal of the accumulated unrealized gain of \$1,668, which is reported as other comprehensive loss in the accompanying condensed

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consolidated statement of operations. Currently, Growell Metal holds 92,167 shares (or approximately 0.2%) of the Company's outstanding common stock.

Under the terms of a supply agreement, the Company has engaged Growell Metal to produce Liquidmetal alloy ingots ("ingots") for the Company to purchase and use as a raw material in the manufacture of products and components made of Liquidmetal alloys. The agreement is for a five-year period beginning in June 2002. Under the terms of this cost-plus arrangement, Growell Metal is paid a processing fee plus the cost of the raw materials used to produce the ingots. During the nine months ended September 30, 2003, Growell Metal purchased \$3,126 of raw materials from the Company's own raw material stock to use in the production of the ingots. The Company purchased \$3,980 of ingots from Growell Metal during the nine months ended September 30, 2002. The net profit on the sale of the raw materials sold to Growell Metal is netted against the cost of the ingots purchased from Growell Metal. At September 30, 2003, the Company had a net payable of \$176 to Growell Metal related to these transactions.

During the first quarter of 2003, the Company sold \$2,544 of casting equipment to Growell Metal for use in the processing of bulk Liquidmetal alloy products. As part of a five-year strategic agreement finalized in March 2003, Growell Metal has the exclusive right to manufacture and market automotive parts made from Liquidmetal alloys for customers in South Korea. The Company will receive royalty payments from the sale of Liquidmetal alloy parts produced and sold by Growell Metal. At September 30, 2003, the Company had a receivable of \$2,134 from Growell Metal related to the sale of this equipment.

During the year ended December 31, 2002, the Company sold \$1,569 of furnace equipment to Growell Metal to produce ingots for the Company. The accumulated profit on these sales, \$80, was deferred and will be amortized against cost of sales over the remaining term of the technology transfer agreement between Growell Metal and the Company. The agreement is for a two-year period beginning in February 2002. At September 30, 2003, the remaining deferred profit was \$21. During the nine months ended September 30, 2003, the Company sold \$7 of products and services to Growell Metal related to the maintenance of this furnace equipment. At September 30, 2003, the Company had a receivable of \$161 from Growell Metal related to the sale of this equipment to Growell Metal.

Subsequent to October 31, 2003, the Company received from Growell Metal some updated information regarding the status of Growell Metal's ingot supply operations, and such information suggests that, due to financial challenges associated with the operations, Growell Metal may desire to modify its relationship with the Company. The Company and Growell Metal are currently discussing these issues. As of November 14, 2003, management believes it is too early to determine the outcome of these matters.

The Company is a party to a license agreement with California Institute of Technology ("Caltech") under which the Company exclusively licenses from Caltech certain inventions and technology relating to amorphous alloys. Professor William Johnson, a member of the Company's Board of Directors, is a professor at Caltech, and substantially all of the amorphous alloy technology licensed to the Company under the Caltech license agreement was developed in Professor Johnson's Caltech laboratory. During each of the nine months ended September 30, 2003 and 2002, the Company paid \$50 to Caltech representing, respectively, the second and final installments on the \$150 aggregate fees related to this agreement. Additionally, the Company reimburses Caltech for laboratory expenses incurred by Professor Johnson's Caltech laboratory, which during the nine months ended September 30, 2003, amounted to \$22 in reimbursements.

17. Cost Reduction Measures

During the second quarter of 2003, the Company initiated activities to reduce the number of employees and consolidate manufacturing and administrative facilities to improve operational effectiveness and efficiency and reduce expenses. The total amount of the charges related to these actions was incurred during the second and third quarters of 2003 and included \$288 for accelerated depreciation associated with a change in the estimated useful life of certain property and equipment, \$72 for relocation of property and equipment, and \$548 for voluntary termination benefits paid to 165 employees that accepted a voluntary termination package prior to September 30, 2003. All of these costs relate to the operations of the bulk alloy segment and were recorded as selling, general and administrative expenses.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidmetal Technologies, Inc. and Subsidiaries Management's Discussion and Analysis of Financial Condition And Results of Operations

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

This management's discussion and analysis, as well as other sections of this report on Form 10-Q, 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 "Factors Affecting Future Results" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 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 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 that are incorporated into the finished goods of our customers, and we also market and sell amorphous alloy industrial coatings. We also partner with third-party licensees and distributors to develop and commercialize Liquidmetal alloy products. We have the exclusive right to develop, manufacture, and sell what we believe are the only commercially viable bulk amorphous alloys.

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 ordinary metals and alloys when they solidify. Liquidmetal alloys possess a combination of performance, processing, and cost advantages that we believe makes 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 have processing characteristics similar in many respects to plastics. We believe these advantages could result in Liquidmetal alloys supplanting other incumbent materials in a wide variety of applications. Moreover, we believe these advantages will 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. The historical operating information for the three and nine months ended September 30, 2002 contained in this section is based substantially on sales of Liquidmetal alloy coatings. In the second half of 2002, we began producing bulk Liquidmetal alloy components and products for incorporation into our customers' finished goods. 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; metal processing equipment; and research and development revenue relating primarily to defense and medical applications. We expect that these new sources of revenue will continue to significantly change the size and 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, 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.

Our historical operations, prior to 2002, included our coatings business and our retail golf operation conducted through our majority owned Liquidmetal Golf subsidiary. On September 29, 2001, our board of directors and the board of directors of Liquidmetal Golf voted to discontinue the retail golf operations of Liquidmetal Golf in order to conform our operations to our broader corporate business strategy, although Liquidmetal Golf continues to market and develop golf club components for other golf club manufacturers. Pursuant to Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, we reclassified our consolidated financial statements to reflect the discontinuation of Liquidmetal Golf's retail golf operations. The revenue, costs and expenses, assets and liabilities, and cash flows of the retail golf business were segregated in our Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Loss, and Consolidated Statements of Cash Flows. The net operating results, net assets, and net cash flows of the retail golf business were reported as discontinued operations in our annual consolidated financial statements and in the condensed consolidated financial statements included in this report on Form 10-Q. On April 30, 2002, management terminated the operations of the retail golf segment by completing the liquidation of the retail golf assets and liabilities.

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.

The following discussion and analysis of our financial condition and results of operations focuses on the historical results of our continuing operations.

Results of Operations

Comparison of the three months ended September 30, 2003 and 2002

Revenue. Revenue decreased \$0.2 million to \$3.5 million in the three months ended September 30, 2003 from \$3.7 million in the three months ended September 30, 2002. The revenue decrease was primarily due to a decrease of \$0.3 million in the revenue generated by our coatings business as compared to the three months ended September 30, 2002. The revenue decrease was partially offset by an increase of \$0.2 million in revenue generated by our bulk Liquidmetal alloys

segment in the three months ended September 30, 2003. This increase in our bulk Liquidmetal alloy segment consisted of an increase of \$0.8 million from research and development services related primarily to defense and medical applications and \$0.1 million from the sale and prototyping of parts manufactured from bulk Liquidmetal alloys, offset by a \$0.7 million decrease from the sale of metal processing equipment used primarily in the process of bulk Liquidmetal alloy products.

Cost of Sales. Cost of sales increased to \$4.9 million, or 138.5% of revenue, during the three months ended September 30, 2003 from \$2.5 million, or 69.1% of revenue, in the three months ended September 30, 2002. The cost of sales as a percentage of revenue increased due to two primary factors: first, a higher percentage of plant operating costs allocated to manufacturing in the current period, as opposed to the same three month period in 2002 when our manufacturing facility was in the final stages of construction and significant in-plant spending was directed to research and development to support the ramp-up of manufacturing operations; and second, the impact of unprofitable electronic casing components and prototypes moving through our manufacturing mix.

Although the cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product, we expect gross margin to improve in the upcoming quarters based on our decisions to limit production and prototyping to select products that require the high-performance qualities of Liquidmetal alloys and can be priced accordingly. Furthermore, we believe that our plan to secure strategic licensing and other relationships to advance the development of our technology and processes could also contribute to improved gross margins. The cost of sales for the products sold by the coatings business is expected to remain generally consistent because 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 \$3.7 million, or 106% of revenue, in the three months ended September 30, 2003 from \$3.9 million, or 107% of revenue, in the three months ended September 30, 2002. This decrease was primarily a result of cost reduction activities from the prior quarter, which accounted for a decrease in salaries and wages of \$0.3 million; decreased professional fees, consultant fees, and contract services of \$0.2 million; and decreased travel expenses of \$0.1 million. These cost savings were partially offset by increased insurance expense of \$0.1 million; increased bad debt reserves of \$0.1 million; increased product warranty expense of \$0.1 million; and increased depreciation expense of \$0.1 in the three months ended September 30, 2003.

Research and Development Expenses. Research and development expenses decreased to \$1.0 million, or 28% of revenue, in the three months ended September 30, 2003 from \$2.7 million, or 73% of revenue, in the three months ended September 30, 2002. This decrease was partially the result of an intensive cost reduction program which began during the second quarter of 2003. Additionally, our manufacturing operations were brought on line during the third quarter of 2002, which accounted for a higher-than-normal research and development cost as the company worked to bring manufacturing equipment and processes on line. As a result, salaries and wages decreased by \$0.7 million; travel decreased by \$0.1 million, and professional fees, consultant fees, and contract services decreased by \$0.9 million.

Interest Expense. Interest expense was \$0.1 million, or 3% of revenue, in the three months ended September 30, 2003 and was \$6,000, or 0.2% of revenue, in the three months ended September 30, 2002. During the three months ended September 30, 2003, the interest expense was primarily due to interest accrued on the Kookmin Bank loan to our South Korean subsidiary that was made on February 4, 2003.

Interest Income. Interest income was \$0.1 million, or 2% of revenue, in the three months ended September 30, 2003 due to interest earned on short-term, investment grade, interest-bearing securities. During the three months ended September 30, 2002, interest income was \$0.3 million, or 8% of revenue, which was interest earned from the proceeds of our May 22, 2002 initial public offering.

Comparison of the nine months ended September 30, 2003 and 2002

Revenue. Revenue increased \$9.2 million to \$16.5 million in the nine months ended September 30, 2003 from \$7.3 million in the nine months ended September 30, 2002. The increase was due to the \$10.7 million increase in revenue earned by our bulk Liquidmetal alloy segment in the nine months ended September 30, 2003. This increase in our bulk Liquidmetal alloy segment revenue consisted of a revenue increase of \$5.6 million from the sale of metal processing equipment primarily for use in the processing of bulk Liquidmetal alloy products, an increase of \$2.3 million from the sale

and prototyping of parts manufactured from bulk Liquidmetal alloys, and an increase of \$2.8 million from research and development services related primarily to defense and medical applications. The increase in revenue earned by our bulk Liquidmetal alloy segment was offset by a decrease of \$1.5 million in the revenue earned by our coatings business as compared to the nine months ended September 30, 2002.

Cost of Sales. Cost of sales increased to \$15.2 million, or 92% of revenue, during the nine months ended September 30, 2003 from \$4.4 million, or 61% of revenue, in the nine months ended September 30, 2002. The cost of sales as a percentage of revenue increased due to two primary factors: first, a higher percentage of plant operating costs allocated to manufacturing in the current period, as opposed to the same nine month period in 2002 when our manufacturing facility was in the final stages of construction and significant in-plant spending was directed to research and development to support the ramp-up of manufacturing operations; and second, the impact of unprofitable electronic casing components and prototypes moving through our manufacturing mix.

Although the cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product, we expect gross margin to improve in the upcoming quarters based on our decisions to limit production and prototyping to select products that require the high-performance qualities of Liquidmetal alloys and can be priced accordingly. Furthermore, we believe that our plan to secure strategic licensing and other relationships to advance the development of our technology and processes could also contribute to improved gross margins. The cost of sales for the products sold by the coatings business is expected to remain generally consistent because 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 \$12.9 million, or 78% of revenue, in the nine months ended September 30, 2003 from \$9.0 million, or 124% of revenue, in the nine months ended September 30, 2002. This increase was primarily a result of increased wages of \$0.7 million; increased professional fees, consultant fees, and contract services of \$0.5 million; increased insurance expense of \$0.5 million; increased travel expenses of \$0.1 million; increased property rent of \$0.3 million; increased data communications expense of \$0.2 million; increased product warranty expense of \$0.5 million; increased depreciation expense of \$0.3 million; and \$0.3 million in expenses associated with the disposition of certain assets in the nine months ended September 30, 2003. These and other increases in selling, general and administrative expenses are associated with the development of our bulk Liquidmetal alloy business.

Research and Development Expenses. Research and development expenses increased to \$7.8 million, or 47% of revenue, in the nine months ended September 30, 2003 from \$7.0 million, or 96% of revenue, in the nine months ended September 30, 2002. This increase was partially a result of expenses related to the continued research and development of new Liquidmetal alloys and related processing capabilities, developing new manufacturing techniques, and providing research grants to various institutions to advance the development of Liquidmetal alloys. In the category of research and development expenses, salaries and wages decreased by \$0.5 million; travel decreased by \$0.1 million; professional fees, consultant fees, and contract services decreased by \$0.6 million; laboratory and prototyping expenses increased by \$1.4 million; depreciation of research equipment increased by \$0.3 million; and research grants to educational institutions increased by \$0.2 million.

Interest Expense. Interest expense was \$0.3 million, or 2% of revenue, in the nine months ended September 30, 2003 and was \$1.1 million, or 15% of revenue, in the nine months ended September 30, 2002. During the nine months ended September 30, 2003, the interest expense was primarily due to interest accrued on the Kookmin Bank loan to our South Korean subsidiary made on February 4, 2003. During the nine months ended September 30, 2002, the interest expense was primarily due to the amortization of the fair value of warrants granted in connection with subordinated promissory notes we issued in February 2001.

Interest Income. Interest income was \$0.3 million, or 2% of revenue, in the nine months ended September 30, 2003 due to interest earned on short-term, investment grade, interest-bearing securities. During the nine months ended September 30, 2002, interest income was \$0.4 million, or 5% of revenue, which was interest earned from the proceeds of our May 22, 2002 initial public offering.

LIQUIDITY AND CAPITAL RESOURCES

Our operating activities, including our discontinued retail golf operations, used cash of \$23.1 million for the nine months ended September 30, 2003 and \$14.6 million for the nine months ended September 30, 2002. Cash used in operating activities for the nine months ended September 30, 2003 resulted from net cash used by discontinued operations of \$1.0 million and net cash used by continuing operations of \$22.1 million. Cash used in operating activities for the nine months ended September 30, 2002 resulted from net cash used by discontinued operations of \$2.3 million and net cash used by continuing operations of \$12.4 million. Our working capital was \$12.6 million as of September 30, 2003. Cash used by continuing operations in the nine months ended September 30, 2003 resulted primarily from operating losses from continuing operations of \$18.2 million and a decrease in accounts payable and accrued liabilities of \$6.1 million.

Our investing activities used cash of \$0.4 million for the nine months ended September 30, 2003 for the acquisition of property and equipment of \$2.7 million and investment in patents and trademarks of \$0.3 million. These expenditures were partially offset by the net proceeds from the sale of marketable securities of \$2.6 million.

Our financing activities provided \$6.3 million in cash for the nine months ended September 30, 2003, which consists of \$5.5 million in proceeds from borrowings from Kookmin Bank and \$0.9 million in proceeds from exercised stock options.

We currently anticipate substantially lower capital expenditures for at least the next 12 months, given the completion of construction and purchase of manufacturing equipment for our plant in Pyongtaek, South Korea. We anticipate that our capital expenditures will be approximately \$3.0 to \$4.0 million for the full year 2003 for the acquisition of furniture, fixtures, and other business equipment. This amount is subject to change, however, depending upon the nature and the amount of the orders that we actually receive from customers.

Our capital requirements during the next 12 months will depend on numerous factors, including the success of our existing products, the development of new applications for Liquidmetal alloys, the resources we devote to develop and support our Liquidmetal alloy products, and the success of pursuing strategic licensing and funded product development relationships with external partners. During the next 12 months, we expect to continue to devote additional capital to our research and development activities, to further develop and strengthen our manufacturing technology, and to provide for working capital and other general corporate purposes. These expenses and capital expenditures could consume a material amount of our cash resources, however, the amount of these requirements will depend on the nature and amount of orders we receive for the purchase of our bulk Liquidmetal alloy products.

Our business is based on commercializing an entirely new and unique technology, and our current business plan contains a variety of assumptions and expectations that are subject to uncertainty, including assumptions and expectations about order flow, unit volumes, manufacturing efficiencies, product cost and pricing, continuing technology improvements, customer adoption practices, strategic licensing relationships and other relevant matters. These assumptions take into account recent significant cost reductions, as well as recent improvements to our manufacturing processes. We have experienced losses from continuing operations during the last two fiscal years and the nine months ended September 30, 2003 and have an accumulated deficit of \$95.2 million as of September 30, 2003. Cash used in continuing operations for the nine months ended September 30, 2003 and the fiscal year ended December 31, 2002 was \$22.1 million and \$16.9 million, respectively, and it is likely that cash flow from continuing operations will be negative throughout the fourth quarter of 2003 and 2004. At September 30, 2003, our principal source of liquidity is \$8.6 million of cash and cash equivalents. Such conditions raise substantial doubt that we will be able to continue as a going concern for a reasonable period of time without receiving additional funding. These operating results occurred while we were developing and attempting to commercialize and manufacture products from an entirely new and unique technology. This business plan required significant spending related to start-up costs and capital expenditures. These factors have placed a significant strain on our financial resources. We have sought to generate additional financial resources by reducing operating costs and are seeking additional sources of financing, including debt or equity funding. Our ultimate success depends on our ability to obtain additional financing, to continue reducing operating costs and, ultimately to generate higher revenue and attain profitability. We cannot be certain that additional capital, whether through selling additional debt or equity securities or obtaining a line of credit or other loan, will be available to us or, if available, will be on terms acceptable to us. If we issue additional securities to raise funds, these securities may have rights, preferences, or privileges senior to those of our common stock, and our current stockholders may experience dilution.

In March 1996, we entered into a distribution agreement whereby we granted to a third party exclusive rights to market and sell golf products incorporating Liquidmetal technology to certain Japanese sporting equipment companies. The third party paid us a \$1.0 million distribution fee as part of this agreement, of which a portion was refundable according to a formula based on the gross profit earned by the third party. The remaining unearned distribution fee of \$0.8 million has not been refunded as of March 31, 2003, and we do not believe the third party is entitled to a refund. On March 28, 2003, the distribution agreement was terminated and we entered into a new agreement to pay to the same third party a commission on the net sales price of all Liquidmetal golf equipment that is shipped by our company or its affiliates to Japanese golf companies for sale into the Japanese end-market. This commission will apply to golf equipment shipped by our company or its affiliates during the period beginning on March 28, 2003 and ending on March 28, 2006. If, by March 28, 2006, we have not paid \$0.4 million in commission payments, the balance between commissions paid and \$0.4 million will be paid by April 30, 2006, thereby guaranteeing the third party a \$0.4 million minimum payment during the term of the agreement. We will recognize the unearned distribution fee of \$0.8 million as revenue proportionately with the payment of commissions under the letter agreement.

USE OF 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 overallotment option, at a price of \$15.00 per share (which sale is referred to herein as the "Offering"). The Offering generated aggregate cash proceeds during the second quarter 2002 of \$78.4 million. The net proceeds were \$70.7 million after deducting underwriting commissions of \$5.5 million and other transaction fees of \$2.2 million. The managing underwriters for the Offering were Merrill Lynch & Co., UBS Warburg, and Robert W. Baird & Co.

As of September 30, 2003, we have used the \$70.7 million of net proceeds from the Offering. We used approximately \$7.8 million of the net proceeds from the Offering to repay all outstanding promissory notes and accrued interest, \$11.1 million to fund the construction of our manufacturing facility in South Korea, \$14.3 million to purchase equipment used to manufacture Liquidmetal parts, \$0.4 million to purchase assets related to production and sale of equipment used in the production process of Liquidmetal alloy products, and \$0.3 million to purchase the 51% interest in our majority owned Dongyang subsidiary. During the third quarter of 2002, we used \$2.0 million to invest in the common stock of Growell Metal, which supplies a portion of the Liquidmetal alloy ingots used in our manufacturing operations in Korea. We have since sold such stock. We used the remaining proceeds of \$32.7 million for working capital, excluding \$2.1 million paid to Paul Azinger for amounts due under the terms of his terminated endorsement agreement with our discontinued retail golf operations.

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. subsidiaries 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 shareholders' 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 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which such liabilities are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs should be capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after September 15, 2002. Adoption of SFAS No. 143 did not have a material impact on our financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated With Exit or Disposal Activities*. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires costs associated with exit or disposal activities to be recognized when the costs are incurred, rather than at a date of commitment to an exit or disposal plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on our financial statements.

In December 2002, SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, was issued by the FASB. This standard amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this standard amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. We implemented SFAS No. 148 effective January 1, 2003 regarding disclosure requirements for condensed financial statements for interim periods. We have not yet determined whether we will voluntarily change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("Interpretation 45"). Interpretation 45 changes the accounting for and the disclosure of guarantees. Interpretation 45 requires that guarantees meeting the characteristics described in the Interpretation be initially recorded at fair value in contrast to FASB No. 5, which requires recording a liability when a loss is probable and reasonably estimable. The disclosure requirements of Interpretation 45 are effective for financial statements and annual periods ending after December 31, 2002. The initial recognition and initial measurement provisions of Interpretation 45 are effective on a prospective basis to guarantees issued or modified after December 30, 2002. The adoption of Interpretation 45 did not have a material impact on our financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 (SFAS 150), *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. Many of these instruments previously were classified as equity or temporary equity and as such, SFAS No. 150 represents a significant change in practice in the accounting for a number of mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

In January 2003, the FASB issued FASB Interpretation No. 46 *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin ("ARB") No. 51, Consolidated Financial Statements ("FIN 46")*. FIN 46 clarifies the application of ARB No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The adoption of FIN 46, as it relates to variable interest entities created after January 31, 2003, did not impact the Company's condensed consolidated financial statements. Additional provisions of FIN 46, which will become effective for the Company beginning on January 1, 2004, have not had, and are not anticipated by management to have a, material effect on the Company's consolidated financial statements.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various markets risks as a part of our operations, 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. Some of the proceeds of our initial public offering are invested in short-term, interest-bearing, investment grade securities. The value of these securities will be subject to interest rate risk and could fall in value if interest rates rise.

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 increase.

Foreign Exchange Rates. As a result of our operation of a manufacturing facility in South Korea, a substantial portion of our costs will be denominated in the 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.

Item 4 – Controls and Procedures

Liquidmetal Technologies, Inc. (the “Company”) has carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that these disclosure controls and procedures are effective in timely alerting them to material information relating to the Company, including its consolidated subsidiaries, required to be included in this quarterly report on Form 10-Q. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of our evaluation.

PART II
OTHER INFORMATION

Item 1 – Legal Proceedings.

We may be involved in various legal proceedings in the normal course of business. As of the date of this report on Form 10-Q, we are not a party to any proceedings that involve amounts that would have a material effect on our financial position or results of operations if such proceedings were resolved unfavorably.

Item 2 – Change in Securities and Use of Proceeds.

Pursuant to our Registration Statement on Form S-1, as amended, initially filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002 (Registration No. 333-73716), 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 September 10, 2002 pursuant to an overallotment 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 2002 second quarter of \$78.4 million. The net proceeds were \$70.7 million after deducting underwriting commissions of \$5.5 million and other transaction fees of \$2.2 million. The managing underwriters for the Offering were Merrill Lynch & Co., UBS Warburg and Robert W. Baird & Co.

As of September 30, 2003, we have used the \$70.7 million of net proceeds from the Offering. We used approximately \$7.8 million of the net proceeds from the Offering to repay all of our outstanding promissory notes and accrued interest, \$11.1 million to fund the construction of our manufacturing facilities in South Korea, \$14.3 million to purchase equipment used to manufacture Liquidmetal parts, \$0.4 million to purchase assets related to the production and sale of equipment used in the production process of Liquidmetal alloy products, and \$0.3 million to purchase the 51% interest in our majority owned Dongyang subsidiary. During the third quarter of 2002, we used \$2.0 million to invest in the common stock of Growell Metal, which supplies a portion of the Liquidmetal alloy ingots used in our manufacturing process in Korea. We have since sold such stock. We used approximately \$32.7 million of the net proceeds for working capital, excluding \$2.1 million paid to Paul Azinger for amounts due under the terms of his endorsement agreement.

Item 6 – Exhibits and Reports on Form 8-K.

(a) Exhibits

The following documents are filed as an exhibit to this Report:

Exhibit Number	Description of Document
10.1	Second Amendment of Lease, dated October 3, 2003, between Liquidmetal Technologies, Inc. and Plaza Associates IV, Ltd.
10.2	Amendment No. 2 to Employment Agreement, dated September 1, 2003, between Liquidmetal Technologies, Inc. and James Kang.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-15 (e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-15 (e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350
32.2	Certification of Chief Operating and Financial Officer pursuant to 18 U.S.C. 1350

(b) Reports on Form 8-K

1. A Report on Form 8-K was filed on July 31, 2003 (Items 7 and 12.). The report contained information regarding Liquidmetal Technologies, Inc.'s earnings release issued on July 31, 2003.

SIGNATURES

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

LIQUIDMETAL TECHNOLOGIES, INC.
(Registrant)

Date: November 14, 2003 /s/ John Kang

John Kang
President & Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2003 /s/ Brian McDougall

Brian McDougall
Executive Vice President & Chief Operating and Financial Officer
(Principal Financial Officer)

SECOND AMENDMENT OF LEASE

THIS SECOND AMENDMENT OF LEASE ("Second Amendment") is made this 3rd day of October, 2003, by and between PLAZA IV ASSOCIATES, LTD., ("Landlord"), and LIQUIDMETAL TECHNOLOGIES, INC., ("Tenant"), and amends the Lease Agreement ("Lease Agreement") dated October 4, 2001, likewise by and between them, as that Lease Agreement was earlier amended by the Amendment of Lease ("First Amendment") dated May 7, 2002, likewise by and between them, said Lease Agreement and First Amendment being collectively referred to in this Second Amendment as "the Lease." For good and valuable considerations, the receipt and adequacy of which are hereby mutually and respectively acknowledged by them, Landlord and Tenant hereby covenant, contract, acknowledge and agree as follows:

1. Unless otherwise provided in this Second Amendment, the capitalized terms used in this Second Amendment shall have the same meanings as those ascribed to them in the Lease.

The Lease, as amended by this Second Amendment, shall be known in this Second Amendment as "the Second Amended Lease."

Landlord's notice address is now:

Plaza IV Associates, Ltd.
A Florida Limited Partnership

Suite 2135
100 North Tampa Street
Tampa, FL 33602

Landlord's payment address is now:

Plaza IV Associates, Ltd.
PO Box 550357
Tampa, FL 33655-0357

This Second Amendment has been thoroughly negotiated by the parties and each has been instrumental in its preparation. Therefore, its terms and provisions shall be construed neither in favor of, nor against, either party under the rule of construction against the draftsman. The laws of the State of Florida shall govern the enforcement and interpretation of this Second Amendment.

As required by F.S. 404.056(8), Landlord hereby notifies Tenant as follows: "RADON GAS: Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon gas that exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your county public health unit."

Tenant hereby agrees that it will not divulge or disclose to third parties (other than its own attorneys, accountants, auditors and like professionals having in each instance a bona fide "need to know") the terms, provisions and conditions of the Second Amended Lease (as may be hereafter amended or modified). Tenant's breach of said agreement shall constitute a Default under Item 20 of the Lease Agreement, no curative notice to Tenant from Landlord being required.

This Second Amendment is expressly contingent upon Landlord and AmSouth Bank ("AmSouth"; another tenant in the Building) executing by October 31, 2003, a third amendment of lease ("the AmSouth Third Amendment") whereby AmSouth will lease from Landlord the Surrendered Premises (as hereinafter defined and known in

the AmSouth Third Amendment as "Suite 3100"). If (for any or no reason whatsoever) this contingency does not duly, timely and fully occur, then this Second Amendment shall be and become completely and absolutely null and void and of no force or effect whatsoever and the Lease shall continue in full force and effect, just as if, and to the extent that, the parties had never contemplated this Second Amendment or executed it.

2. The parties hereby agree and confirm that Tenant currently leases from Landlord, and Landlord currently leases to Tenant, that certain area (collectively, "the Total Premises") comprised of

composed of (a) the Premises [see Item 1 (c) of the Lease Agreement]

- (i) Suite 3150
 - (ii) Suite 3160 and
 - (iii) Suite 3170
- and

(b) the Expansion Space [see Item 45 of the Lease Agreement and the contents of the First Amendment].

One of the general purposes of this Second Amendment is, as described elsewhere in this Second Amendment, to reduce [and possibly (see paragraph 5. of this Second Amendment) eliminate] the area of the space leased by Tenant from Landlord, and by Landlord to Tenant, in the Building under the Second Amended Lease.

3. Effective (and not later than) December 15, 2003, ("the Effective Date") Tenant shall absolutely and completely vacate (a) the Expansion Space (approximately 6,040 square feet of net rentable area), (b) Suite 3160 (approximately 2,385 square feet of net rentable area), and (c) Suite 3170 (approximately 3,307 square feet of net rentable area), the total area of the spaces the subject of (a) - (c) inclusive above being hereinafter referred to as "the Surrendered Premises." The parties hereby conclusively and irrevocably agree that there are 11,732 square feet of net rentable within the Surrendered Premises, despite the fact that said figure may not be actually correct. Accordingly, and during the period beginning with the Effective Date and ending at midnight on January 31, 2007, the Premises, subject to the other contents (e.g., the next immediately following paragraph of this paragraph 3.), shall consist of only Suite 3150. The parties hereby conclusively and irrevocably agree that there are 8,136 square feet of net rentable area within Suite 3150, despite the fact that said figure may not be actually correct.

Despite the contents of the next-to-last sentence of the first paragraph of this paragraph 3., Tenant, in order that Landlord will not have a lapse in the Rent and Additional Rent it is entitled to receive under the Lease, shall continue to pay Landlord base Rent and Additional Rent on the Total Premises for a period of time ("the AmSouth Suite 3100 Construction Period") beginning with the Effective Date and ending with the date that is the day immediately before the earlier of (a) the date that is exactly sixty (60) days immediately following the Effective Date or (b) the date AmSouth and/or its contractor fully completes the build-out and construction ("the Work") of the Surrendered Premises for AmSouth's use and occupancy thereof, the earlier of (a) or (b) above being hereinafter referred to as "the Suite 3100 Commencement Date" (as likewise so defined in the proposed AmSouth Third Amendment).

During the period ("the Suite 3150 Term") beginning with the Suite 3100 Commencement Date and ending at midnight on January 31, 2007, Tenant shall, as regards Suite 3150, pay to Landlord base Rent in accordance with the following schedule:

Period -----	Monthly Base Rent -----
Suite 3100 Commencement Date through October 31, 2004	\$19,579.58
November 1, 2004, through October 31, 2005	\$20,332.50
November 1, 2005, through January 31, 2007	\$21,085.42

Said base Rent, plus applicable tax(es), shall be (a) in addition to the Additional Rent as described in the Second Amended Lease, plus applicable tax(es) on said Additional Rent and (b) paid by Tenant to Landlord in equal monthly installments for each of the above-described periods, each monthly payment, plus applicable tax(es), to be made in advance and on or before the first day of the applicable month.

During the Suite 3150 Term Tenant shall, as regard the Surrendered Premises, likewise (and in addition to the other monies payable by Tenant to Landlord under the Second Amended Lease) pay (in general accordance with Items 4 and 5 of the Lease Agreement) to Landlord (as Additional Rent) a monetary amount equal to the difference between (a) the Operating Expense and Utility Base and the Real Estate Taxes Base the subject of Items Item (i) and (j) of the Lease Agreement (which Bases the parties hereby agree total \$9.35 per net rentable square foot per annum) and (b) a base equal to the Operating Expenses, Utility Costs and Real Estate Taxes actually incurred (on a per net rentable square foot per annum basis) for the operation of the Building and its appurtenances for the calendar year 2004 for the Surrendered Premises.

During the 3150 Term Tenant's Proportionate share shall be 1.474 percent (8,136 divided by 552,080).

4. Effective the date of this Second Amendment, each, every, any and all of Tenant's rights under Items 45 and 46 of the Lease Agreement are hereby cancelled and nullified, to include, but not be limited to, any monetary allowance(s) the subject of said Item 45.

5. Landlord and Tenant hereby acknowledge that AmSouth has an option (which option AmSouth may or may not exercise) under the AmSouth Third Amendment to lease Suite 3150. Accordingly, upon not less than nine (9) months' prior written notice from Landlord to Tenant so requiring and/or requesting, Tenant shall within said nine (9) months absolutely and completely vacate Suite 3150. Despite such vacating by Tenant of Suite 3150, Tenant shall continue to pay Landlord, as regards said Suite 3150, the Rent and Additional Rent (and taxes) the subject of the Second Amended Lease through and including the date that is the earliest of (a) the date that is exactly sixty (60) days immediately following the date Tenant so vacates Suite 3150, (b) the date the build-out and construction of Suite 3150 is fully completed by AmSouth and/or its contractor for the use and occupancy thereof by AmSouth in accordance with said option or (c) the date that is exactly sixty (60) days following the expiration of the aforesaid nine (9) month period. After the date that is the earliest of (a) - (c) inclusive above, the term of the Second Amended Lease shall end, but Tenant shall remain obligated to Landlord for any obligations, duties, etc., that remain unfulfilled under the Second Amended Lease, as of such ending date.

6. In partial consideration of this Second Amendment,

(A) Tenant not later than November 6, 2003, shall pay Harbert Realty Services, a licensed Florida real estate broker, a commission equal to Twenty-six Thousand Seven Hundred Ninety-seven and 02/00 Dollars. (\$26,797.02),

(B) Tenant not later than November 6, 2003, shall pay CB Richard Ellis a commission equal to Six Thousand Six Hundred Ninety-nine and 25/100 Dollars (\$6,699.25) and

(C) effective the Effective Date, Tenant surrenders and relinquishes to Landlord twelve (12) parking spaces (3 reserved and 9 unreserved) in the Building's parking garage.

With the exception of the brokers the subject of (A) and (B) above, Tenant warrants that there are no claims for broker's commissions or finder's fees in connection with its execution of this Second Amendment and agrees to indemnify and save Landlord completely harmless from any liability or lien that may arise from any such claim(s), including reasonable attorney's fees.

7. Except as expressly stated in this Second Amendment, the Lease shall remain in full force and effect and the parties hereby ratify and confirm same, as thus amended.

IN WITNESS WHEREOF, the parties, by and through their undersigned, duly-authorized representatives, have executed this Second Amendment for the purposes therein described.

WITNESSES:

TENANT:
LIQUIDMETAL TECHNOLOGIES, INC.

_____(Sign)

By: /s/ David Binnie

_____(Print)

Name: David Binnie

_____(Sign)

Title Senior Vice President

_____(Print)

Date: _____

LANDLORD:
PLAZA IV ASSOCIATES, LTD.,
A Florida Limited Partnership

By: Tampa Plaza IV Company, Ltd.,
a Florida Limited Partnership,
Manager

_____(Sign)

By: /s/ Richard A. Beard, III

_____(Print)

Name: Richard A. Beard, III

_____(Sign)

Title: General Partner

_____(Print)

Date: _____

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

This is Amendment No. 2, dated September 1, 2003 ("Amendment No. 2"), to an Employment Agreement dated May 1, 2000, as amended by Amendment No. 1 dated June 28, 2001 (collectively, the "Employment Agreement"), between Liquidmetal Technologies, Inc., a Delaware corporation (the "Company"), and James Kang (the "Employee").

BACKGROUND

WHEREAS, pursuant to the terms of the Employment Agreement, Employee is employed as the Chairman of the Board of Directors of the Company; and

WHEREAS, effective as of the date hereof, the Board of Directors of the Company has appointed Employee as Company "Founder", and Employee will cease serve as Chairman; and

WHEREAS, the Company and the Employee desire to amend the Employment Agreement to reflect the foregoing change in office.

NOW, THEREFORE, the parties hereto intending to be legally bound hereby, and in consideration of the mutual covenants herein contained, agree as follows:

TERMS

1. The foregoing recitals are true and correct and incorporated herein by reference. Any capitalized terms used but not defined herein shall have the same meaning ascribed to them in the Employment Agreement.

2. Section 2 of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

2. DUTIES. Employee will serve as an executive officer of the Company with the title of "Founder." The Employee will devote Employee's entire business time, attention, skill, and energy exclusively to the business of the Company, will use the Employee's best efforts to promote the success of the Company's business, and will cooperate fully with the Board of Directors in the advancement of the best interests of the Company. Furthermore, the Employee shall assume and competently perform such reasonable responsibilities and duties as may be assigned to the Employee from time to time by the Board of Directors. To the extent that the Company shall have any parent company, subsidiaries, affiliated corporations, partnerships, or joint ventures (collectively "Related Entities"), the Employee shall perform such duties to promote these entities and to promote and protect their respective interests to the same extent as the interests of the Company without additional compensation.

3. This Amendment No. 2 may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one document.

4. This Amendment No. 2, together with the Employment Agreement, contains the final, complete, and exclusive expression of the parties' understanding and agreement concerning the matters contemplated herein and supersedes any prior or contemporaneous agreement of representation, oral or written, among them.

5. This instrument shall be binding upon, and shall inure to the benefit of, each of the parties' respective personal representatives, heirs, successors, and assigns.

6. This instrument shall be governed by, and construed and enforced in accordance with the laws of the State of Florida.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 2 on the day and year first written above.

LIQUIDMETAL TECHNOLOGIES, INC.

By: /s/ Brian McDougall

Brian McDougall, Chief Operating and
Financial Officer

EMPLOYEE

By: /s/ James Kang

James Kang, individually

CERTIFICATION

I, John Kang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liquidmetal Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit 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)) 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) 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

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditor's and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to

adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

/s/ John Kang

John Kang, President and
Chief Executive Officer

CERTIFICATION

I, Brian McDougall, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liquidmetal Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit 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)) 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) 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

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditor's and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to

adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

/s/ Brian McDougall

Brian McDougall, Executive
Vice President and Chief
Operating and Financial Officer

WRITTEN STATEMENT OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. 1350

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Chief Executive Officer of Liquidmetal Technologies, Inc. (the "Company"), hereby certifies, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2003, (the "Report") fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Kang

John Kang, Chief Executive Officer
November 14, 2003

WRITTEN STATEMENT OF THE CHIEF OPERATING
AND FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. 1350

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Chief Operating and Financial Officer of Liquidmetal Technologies, Inc. (the "Company"), hereby certifies, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2003, (the "Report") fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian McDougall

Brian McDougall, Chief Operating and Financial Officer
November 14, 2003