

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from to

Commission File No. 001-31332

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

33-0264467

(I.R.S. Employer  
Identification No.)

20321 Valencia Circle

Lake Forest, CA 92630

(Address of principal executive offices, zip code)

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

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

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

Yes ☐ No ☒

The number of common shares outstanding as of November 3, 2017 was 905,669,673.

**LIQUIDMETAL TECHNOLOGIES, INC.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2017**

**FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q of Liquidmetal Technologies, Inc. contains “forward-looking statements” that may state our management’s plans, future events, objectives, current expectations, estimates, forecasts, assumptions or projections about the company and its business. Any statement in this report that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as “believes,” “estimates,” “projects,” “expects,” “intends,” “may,” “anticipates,” “plans,” “seeks,” and similar words or expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. It is important to note that our actual results could differ materially from what is expressed in our forward-looking statements due to the risk factors described in the section of our Annual Report on Form 10-K for the year ended December 31, 2016 entitled “Risk Factors,” as well as the following risks and uncertainties:

- Our ability to fund our operations in the long-term through financing transactions on terms acceptable to us, or at all;
- Our history of operating losses and the uncertainty surrounding our ability to achieve or sustain profitability;
- Our limited history of developing and selling products made from our bulk amorphous alloys;
- Our limited history of licensing our technology to third parties;
- Lengthy customer adoption cycles and unpredictable customer adoption practices;
- Our ability to identify, develop, and commercialize new product applications for our technology;
- Competition from current suppliers of incumbent materials or producers of competing products;
- Our ability to identify, consummate, and/or integrate strategic partnerships;
- The potential for manufacturing problems or delays; and
- Potential difficulties associated with protecting or expanding our intellectual property position.

We undertake no obligation, other than as required by applicable law, to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1 – Financial Statements**

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash	\$ 43,277	\$ 58,896
Restricted cash	5	5
Trade accounts receivable	4	95
Inventory	722	390
Prepaid expenses and other current assets	408	312
<b>Total current assets</b>	<b>\$ 44,416</b>	<b>\$ 59,698</b>
Property and equipment, net	11,943	1,139
Patents and trademarks, net	430	494
Other assets	14	36
<b>Total assets</b>	<b>\$ 56,803</b>	<b>\$ 61,367</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	202	331
Accrued liabilities	471	1,070
Deferred revenue	8	13
Warrant liabilities, current	1,582	2,224
<b>Total current liabilities</b>	<b>\$ 2,263</b>	<b>\$ 3,638</b>
Long-term liabilities:		
Warrant liabilities, long-term	3,765	2,047
Other long-term liabilities	856	856
<b>Total liabilities</b>	<b>\$ 6,884</b>	<b>\$ 6,541</b>
Shareholders' equity:		
Preferred Stock, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	-	-
Common stock, \$0.001 par value; 1,100,000,000 shares authorized; 901,910,986 and 886,090,164 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively.	901	886
Warrants	18,179	18,179
Additional paid-in capital	276,315	272,520
Accumulated deficit	(245,403)	(236,689)
Non-controlling interest in subsidiary	(73)	(70)
<b>Total shareholders' equity</b>	<b>49,919</b>	<b>54,826</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 56,803</b>	<b>\$ 61,367</b>

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue				
Products	\$ 36	\$ 154	\$ 142	\$ 329
Licensing and royalties	-	-	-	27
<b>Total revenue</b>	<b>36</b>	<b>154</b>	<b>142</b>	<b>356</b>
Cost of sales	87	165	216	336
<b>Gross profit (loss)</b>	<b>(51)</b>	<b>(11)</b>	<b>(74)</b>	<b>20</b>
Operating expenses				
Selling, marketing, general and administrative	1,739	1,679	4,791	5,461
Research and development	500	548	1,331	1,730
<b>Total operating expenses</b>	<b>2,239</b>	<b>2,227</b>	<b>6,122</b>	<b>7,191</b>
<b>Operating loss</b>	<b>(2,290)</b>	<b>(2,238)</b>	<b>(6,196)</b>	<b>(7,171)</b>
Change in value of warrant liabilities, gain (loss)	(1,674)	563	(2,563)	(1,885)
Change in value of option liabilities, loss	-	-	-	(2,613)
Loss on contract modification	-	(2,126)	-	(2,126)
Interest expense	-	(1)	-	(9)
Interest income	13	-	42	-
<b>Net loss and comprehensive loss</b>	<b>(3,951)</b>	<b>(3,802)</b>	<b>(8,717)</b>	<b>(13,804)</b>
Net loss attributable to non-controlling interest	-	2	3	6
<b>Net loss and comprehensive loss attributable to</b>				
<b>Liquidmetal Technologies shareholders</b>	<b>\$ (3,951)</b>	<b>\$ (3,800)</b>	<b>\$ (8,714)</b>	<b>\$ (13,798)</b>
<b>Net loss per common share attributable to Liquidmetal</b>				
<b>Technologies shareholders, basic and diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>Number of weighted average shares - basic and diluted</b>	<b>899,432,109</b>	<b>582,332,818</b>	<b>894,198,803</b>	<b>558,918,003</b>

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**For the Nine Months Ended September 30, 2017**  
**(\$ in thousands, except share data)**  
**(unaudited)**

	Preferred Shares	Common Shares	Common Stock	Warrants part of Additional Paid- in Capital	Additional Paid-in Capital	Accumulated Deficit	Non- Controlling Interest	Total
<b>Balance, December 31, 2016</b>	<u>-</u>	<u>886,090,164</u>	<u>\$ 886</u>	<u>\$ 18,179</u>	<u>\$ 272,520</u>	<u>\$ (236,689)</u>	<u>\$ (70)</u>	<u>\$ 54,826</u>
Stock option exercises		8,464,440	8		883			891
Stock-based compensation					1,018			1,018
Warrant exercises		7,356,382	7		1,894			1,901
Net loss						(8,714)	(3)	(8,717)
<b>Balance, September 30, 2017</b>	<u>-</u>	<u>901,910,986</u>	<u>\$ 901</u>	<u>\$ 18,179</u>	<u>\$ 276,315</u>	<u>\$ (245,403)</u>	<u>\$ (73)</u>	<u>\$ 49,919</u>

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

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

	<b>For the Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities:</b>		
Net loss	\$ (8,717)	\$ (13,804)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	429	415
Stock-based compensation	1,018	1,083
Change in value of warrant liabilities, loss	2,563	1,885
Change in value of option liabilities, loss	-	2,613
Loss on contract modification	-	2,126
Changes in operating assets and liabilities:		
Trade accounts receivable	91	13
Inventory	(332)	(144)
Prepaid expenses and other current assets	(96)	(44)
Other assets	22	(5)
Accounts payable and accrued liabilities	(741)	(36)
Deferred revenue	(5)	(64)
<b>Net cash used in operating activities</b>	<b>(5,768)</b>	<b>(5,962)</b>
<b>Investing Activities:</b>		
Purchases of property and equipment	(11,156)	(105)
Decrease in restricted cash	-	2,003
Investment in patents and trademarks	-	(22)
<b>Net cash (used in) provided by investing activities</b>	<b>(11,156)</b>	<b>1,876</b>
<b>Financing Activities:</b>		
Repayment of short-term debt		(700)
Proceeds from exercise of stock options	891	15
Proceeds from exercise of warrants	414	-
Proceeds from common stock issuance, net of issuance costs	-	8,400
<b>Net cash provided by financing activities</b>	<b>1,305</b>	<b>7,715</b>
<b>Net (decrease) increase in cash</b>	<b>(15,619)</b>	<b>3,629</b>
<b>Cash at beginning of period</b>	<b>58,896</b>	<b>2,773</b>
<b>Cash at end of period</b>	<b>\$ 43,277</b>	<b>\$ 6,402</b>
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities:</b>		
Accrued stock issuance costs	-	(750)
Cashless exercise of warrants	1,487	-
Accrued capital expenditures	(13)	-

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2017 and 2016**  
**(numbers in thousands, except share and per share data)**  
**(unaudited)**

## **1. Description of Business**

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

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

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

## **2. Basis of Presentation and Recent Accounting Pronouncements**

The accompanying unaudited interim consolidated financial statements as of and for the three and nine months ended September 30, 2017 and September 30, 2016 have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All intercompany balances and transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2017. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 10, 2017.

### Revenue Recognition

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

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

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



**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2017 and 2016**  
**(numbers in thousands, except share and per share data)**  
**(unaudited)**

Fair Value Measurements

The estimated fair values of financial instruments reported in the consolidated financial statements have been determined using available market information and valuation methodologies, as applicable. The fair value of cash and restricted cash approximate their carrying value due to their short maturities and are classified as Level 1 instruments within the fair value hierarchy.

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities;
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

As of September 30, 2017, the following table represents the Company's fair value hierarchy for items that are required to be measured at fair value on a recurring basis:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Warrant liabilities (current)	1,582	-	1,582	-
Warrant liabilities (long-term)	3,765	-	3,765	-

As of December 31, 2016, the following table represents the Company's fair value hierarchy for items that are required to be measured at fair value on a recurring basis:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Warrant liabilities (current)	2,224	-	2,224	-
Warrant liabilities (long-term)	2,047	-	2,047	-

Recent Accounting Pronouncements*Leases*

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2017 and 2016**  
**(numbers in thousands, except share and per share data)**  
**(unaudited)**

*Revenue from Contracts with Customers*

In May 2014, the FASB issued an accounting standards update which modifies the requirements for identifying, allocating, and recognizing revenue related to the achievement of performance conditions under contracts with customers. This update also requires additional disclosure related to the nature, amount, timing, and uncertainty of revenue that is recognized under contracts with customers. This guidance is effective for fiscal and interim periods beginning after December 15, 2017 and is required to be applied retrospectively to all revenue arrangements. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

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

### **3. Significant Transactions**

#### Manufacturing Facility Purchase

On February 16, 2017, the Company purchased a 41,000 square foot manufacturing facility located in Lake Forest, CA, where operations commenced during July 2017. The purchase price for the property was \$7,818.

#### 2016 Purchase Agreement

On March 10, 2016, the Company entered into a Securities Purchase Agreement (the "2016 Purchase Agreement") with Liquidmetal Technology Limited, a Hong Kong company (the "Investor"), which is 100% owned by the Company's Chairman and CEO, Professor Lugee Li ("Professor Li"). The 2016 Purchase Agreement provided for the purchase by the Investor of a total of 405,000,000 shares of the Company's common stock for an aggregate purchase price of \$63,400. The transaction occurred in multiple closings, with the Investor having purchased 105,000,000 shares at a purchase price of \$8,400 (or \$0.08 per share) at the initial closing on March 10, 2016 and the remaining 200,000,000 shares at \$0.15 per share and 100,000,000 shares at \$0.25 per share for an aggregate purchase price of \$55,000 on October 26, 2016.

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

Further, the 2016 Purchase Agreement provided that the Investor would have the right to designate three members of the Company's board of directors, with one such member serving as Chairman. The 2016 Purchase Agreement also provided that, with certain limited exceptions, if the Company issues any shares of common stock at any time through the fifth anniversary of the 2016 Purchase Agreement, the Investor will have a preemptive right to subscribe for and to purchase at the same price per share (or at market price, in the case of issuance of shares pursuant to stock options) the number of shares necessary to maintain its ownership percentage of Company-issued shares of common stock.

#### Eontec License Agreement

On March 10, 2016, in connection with the 2016 Purchase Agreement, the Company and DongGuan Eontec Co., Ltd., a Hong Kong corporation ("Eontec"), entered into a Parallel License Agreement (the "License Agreement") pursuant to which the Company and Eontec agreed to cross-license their respective technologies. The Company's Chairman and CEO, Professor Li, is also a major shareholder and Chairman of Eontec.

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

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Nine Months Ended September 30, 2017 and 2016**  
**(numbers in thousands, except share and per share data)**  
**(unaudited)**

During March 2017, the Company signed contracts with Eontec to purchase two hot-crucible amorphous metal molding machines (“Machines”) at a total purchase price of \$780. The Machines were delivered to the Company’s new manufacturing facility located in Lake Forest, CA in April 2017 and are set to be operational during the second half of 2017.

#### Line of Credit Facility

In February 2015, the Company entered into a \$2,000 line of credit facility, with a fixed interest rate of 2.1%, which originally matured on February 13, 2016. The facility was extended through August 25, 2016, with reductions in available borrowings and associated collateral requirements to \$1,000. On August 26, 2016, the Company fully repaid all outstanding principal and accrued interest balances due under the facility. As of such date, all collateral to the facility was released. Interest expense applicable to these borrowings was \$0 for both the three and nine months ended September 30, 2017. This compares to \$1 and \$9 for the three and nine months ended September 30, 2016, respectively.

#### Apple License Transaction

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

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

#### Other License Transactions

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

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

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

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

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#### 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets totaled \$408 and \$312 as of September 30, 2017 and December 31, 2016, respectively. Included within these totals are the following:

	September 30, 2017	December 31, 2016
Prepaid service invoices	\$ 68	\$ 65
Prepaid manufacturing and mold costs	52	27
Prepaid insurance premiums	288	220
Total	<u>408</u>	<u>312</u>

#### 5. Inventory

Inventory totaled \$722 and \$390 as of September 30, 2017 and December 31, 2016, respectively. Included within these totals are the following:

	September 30, 2017	December 31, 2016
Raw materials	\$ 680	\$ 350
Work in progress	42	25
Finished goods	-	15
Total	<u>722</u>	<u>390</u>

#### 6. Property and Equipment, net

Property and equipment consist of the following:

	September 30, 2017	December 31, 2016
Land, building, and improvements	\$ 8,927	\$ -
Machinery and equipment	4,907	2,725
Computer equipment	245	236
Office equipment, furnishings, and improvements	173	564
Total	14,252	3,525
Accumulated depreciation	(2,309)	(2,386)
Total property and equipment, net	<u>\$ 11,943</u>	<u>\$ 1,139</u>

Depreciation expense for the three and nine months ended September 30, 2017 was \$161 and \$365, respectively. Depreciation expense for the three and nine months ended September 30, 2016 was \$98 and \$340, respectively. For the three and nine months ended September 30, 2017, \$8 and \$22 of depreciation expense, respectively, was included in cost of sales and \$153 and \$343 was included in selling, marketing, general and administrative expenses, respectively. For the three and nine months ended September 30, 2016, \$7 and \$11 of depreciation expense, respectively, was included in cost of sales and \$91 and \$329 was included in selling, marketing, general and administrative expenses, respectively.

On February 16, 2017, the Company purchased a 41,000 square foot building located at 20321 Valencia Circle, Lake Forest, California 92630. In July 2017, the Company commenced use of the facility, primarily for manufacturing and office space. The total purchase price for the property was \$7,818, exclusive of closing costs. The Company has funded the purchase through available cash on hand.

During March 2017, the Company signed contracts with Eontec to purchase two hot-crucible amorphous metal molding machines at a total purchase price of \$780, of which \$702 had been paid as of September 30, 2017. The machines were delivered to the Company's new manufacturing facility in April 2017 and are anticipated to be operational during the fourth quarter of 2017.

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## **7. Patents and Trademarks, net**

Net patents and trademarks totaled \$430 and \$494 as of September 30, 2017 and December 31, 2016, respectively, and primarily consisted of purchased patent rights and internally developed patents.

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

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

The Company amortizes capitalized patents and trademarks over an average of 10 to 17 year periods. Amortization expense for patents and trademarks was \$21 and \$64 for the three and nine months ended September 30, 2017, respectively. This compares to \$25 and \$74 for the three and nine months ended September 30, 2016, respectively.

## **8. Other Assets**

Other assets totaled \$14 and \$36 as of September 30, 2017 and December 31, 2016, respectively, and consisted of long-term deposits.

## **9. Accrued Liabilities**

Accrued liabilities totaled \$471 and \$1,070 as of September 30, 2017 and December 31, 2016, respectively. Included within these totals are the following:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Accrued payroll, vacation, and bonuses	\$ 177	\$ 606
Accrued severance	243	301
Accrued audit fees	51	72
Straight-line rent accruals	-	91
<b>Total</b>	<b>471</b>	<b>1,070</b>

## **10. Warrant Liabilities**

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

During June 2012, the Company issued warrants to purchase a total of 15,000,000 shares of common stock to Visser Precision Cast, LLC under a Master Transaction Agreement (the “Visser MTA Agreement”). These warrants had an original exercise price of \$0.22 per share and an expiration date of June 1, 2017 and were originally valued at \$4,260. These warrants also had certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As a result of subsequent issuances of the Company’s common stock, which resulted in an anti-dilution impact, the exercise price of these warrants was reduced to \$0.16 as of March 22, 2017 and December 31, 2016. In addition, the number of shares to be issued under the warrants as a result of the anti-dilution provision increased to 21,317,094 as of March 22, 2017 and December 31, 2016. On March 22, 2017 Visser Precision Cast exercised, on a cashless basis, all 21,317,094 warrants, resulting in the issuance of 4,241,386 shares of the Company’s common stock. Upon exercise, the Company reclassified \$975 of the associated warrant liability to additional paid in capital, with \$4 being allocated to common stock and \$971 to additional paid in capital. The change in warrant value for these warrants for the three and nine months ended September 30, 2017 was a (gain) loss of \$0 and (\$553), respectively. This compares to a (gain) loss of \$(292) and \$657 for the three and nine months ended September 30, 2016, respectively.

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On July 2, 2012, the Company issued warrants to purchase a total of 18,750,000 shares of common stock in connection with a private placement transaction in which the Company issued \$12,000 in principal amount of senior convertible notes (the "July 2012 Private Placement"). These warrants had an exercise price of \$0.384 per share, expire on January 2, 2018, and were originally valued at \$5,053. These warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As a result of contractually defined price resets, and issuances by the Company under the 2016 Purchase Agreement, the 2014 Purchase Agreement, and the 2013 Purchase Agreement, which resulted in an anti-dilution impact, the exercise price of these warrants was reduced to \$0.17 as of September 30, 2017 and December 31, 2016. As of September 30, 2017, there were warrants to purchase a total of 7,046,875 shares of common stock outstanding, which were valued at \$1,582 using the Black-Scholes valuation model utilizing the following assumptions: (i) expected life of 0.26 years, (ii) volatility of 46%, (iii) risk-free interest rate of 1.2%, and (iv) dividend rate of 0. The change in warrant value for these warrants for the three and nine months ended September 30, 2017 was a loss of \$735 and \$1,398, respectively. This compares to a (gain) loss of \$(172) and \$539 for the three and nine months ended September 30, 2016, respectively.

During May and September 2017, investors party to the July 2012 Private Placement exercised a total of 3,493,875 warrants at an exercise price of \$0.17 per share. As a result of these warrant exercises, the Company issued 3,114,996 shares of common stock, for total consideration of \$414, and associated warrant liabilities of \$512 were reclassified to additional paid in capital.

On March 10, 2016, the Company issued warrants to purchase a total of 10,066,809 shares of common stock as part of the 2016 Purchase Agreement. These warrants have an exercise price of \$0.07 per share, expire on March 10, 2026, and were originally valued at \$760. These warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As of September 30, 2017, these warrants were valued at \$3,765 under the Black-Scholes valuation model utilizing the following assumptions: (i) expected life of 8.44 years, (ii) volatility of 107%, (iii) risk-free interest rate of 2.3%, and (iv) dividend rate of 0. The change in fair value for these warrants for the three and nine months ended September 30, 2017 was a loss of \$939 and \$1,718, respectively. This compares to a (gain) loss of \$(99) and \$689 for the three and nine months ended September 30, 2016, respectively.

The following table summarizes the change in the Company's warrant liabilities as of September 30, 2017:

	<b>Visser MTA Agreement</b>	<b>July 2, 2012 Private Placement</b>	<b>2016 Purchase Agreement</b>	<b>Total</b>
Beginning Balance - December 31, 2016	\$ 1,528	\$ 696	\$ 2,047	\$ 4,271
Change in value of warrant liabilities, (gain) loss	(553)	1,398	1,718	2,563
Exercises	(975)	(512)	-	(1,487)
Ending Balance - September 30, 2017	<u>\$ -</u>	<u>\$ 1,582</u>	<u>\$ 3,765</u>	<u>\$ 5,347</u>
Included in current liabilities	\$ -	\$ 1,582	\$ -	\$ 1,582
Included in long-term liabilities	\$ -	\$ -	\$ 3,765	\$ 3,765

The Company had warrants to purchase 17,113,684 and 41,924,653 shares of common stock outstanding as of September 30, 2017 and December 31, 2016, respectively, which were valued and classified as liabilities under FASB ASC 815.

## 11. Option Liabilities

As part of the 2016 Purchase Agreement, the Company granted the Investor the right to purchase shares of the Company's common stock in the future at predetermined prices, of which the Investor was contractually obligated to effect following the satisfaction of certain conditions by the Company. These options allowed the Investor to purchase 200,000,000 shares of the Company's common stock at a price of \$0.15 per share and 100,000,000 shares of the Company's common stock at a price of \$0.25 per share. Given that the number of shares to be issued upon exercise of these options was in excess of the number of shares authorized for issuance, these options were originally required to be classified as liabilities under FASB ASC 815. The 200,000,000 share option and the 100,000,000 share option were initially valued at \$489 and \$22, respectively. Following the filing of an amendment to the Company's Certificate of Incorporation, which allowed for adequate authorized shares, these options were revalued as of May 19, 2016 and reclassified to permanent shareholders' equity. On May 19, 2016, the 200,000,000 share option and the 100,000,000 share option were valued at \$2,931 and \$193, respectively, under the Black-Scholes valuation model utilizing the following assumptions: (i) expected life of 0.25 years, (ii) volatility of 85%, (iii) risk-free interest rate of 0.31%, and (iv) dividend rate of 0. The change in fair value for these options was a loss of \$0 and \$2,613 for the three and nine months ended September 30, 2016, respectively.

On August 11, 2016, the Company and the Investor entered into an amendment to the 2016 Purchase Agreement. Under the amendment, the Company agreed to extend the deadline for the Investor's purchase of 300,000,000 additional shares of Company common stock under the 2016 Purchase Agreement from the original deadline of August 17, 2016 to a new deadline of December 31, 2016. Other than the extension of the deadline, the amendment did not materially modify the terms of the 2016 Purchase Agreement. As a result of this amendment the Company recorded an additional \$2,126 of expense to additional paid in capital as a loss on contract modification during the year ended December 31, 2016. On October 26, 2016, the Investor fully exercised these options through the purchase of 300,000,000 shares of the Company's common stock.



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

Other long-term liabilities were \$856 as of September 30, 2017 and December 31, 2016, and consisted of long-term, aged payables to vendors, individuals, and other third parties that have been outstanding for more than 5 years. The Company is in the process of researching and resolving the balances for settlement and/or escheatment in accordance with applicable state law.

## **13. Stock Compensation Plans**

Under the Company's 2002 Equity Incentive Plan (the "2002 Plan"), which provided for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries, the Company granted options to purchase the Company's common stock. A total of 10,000,000 shares of the Company's common stock were available for issuance under the 2002 Plan. The 2002 Plan expired by its terms in April 2012, but remains in effect only with respect to the equity awards that had been granted prior to its expiration. Under the 2002 Plan, the Company had outstanding grants of options to purchase 189,000 and 265,000 shares of the Company's common stock as of September 30, 2017 and December 31, 2016, respectively.

On June 28, 2012, the Company adopted its 2012 Equity Incentive Plan, with the approval of the Company's shareholders, which provided for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. All options granted under this plan had exercise prices that were equal to the fair market value on the dates of grant. During the nine months ended September 30, 2017, the Company granted options to purchase 2,557,262 shares of common stock. Under this plan, the Company had outstanding grants of options to purchase 21,660,218 and 23,947,402 shares of the Company's common stock as of September 30, 2017 and December 31, 2016, respectively.

On January 27, 2015, the Company adopted its 2015 Equity Incentive Plan, which provided for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. A total of 40,000,000 shares of the Company's common stock are authorized for issuance under this plan. All options granted under this plan had exercise prices that were equal to the fair market value on the dates of grant. During the nine months ended September 30, 2017, the Company granted options to purchase 2,017,131 shares of common stock. Under this plan, the Company had outstanding grants of options to purchase 15,070,000 and 23,370,000 shares of the Company's common stock as of September 30, 2017 and December 31, 2016, respectively.

Stock based compensation expense attributable to these plans was \$322 and \$1,018 for the three and nine months ended September 30, 2017, respectively. This compares to \$365 and \$1,083 for the three and nine months ended September 30, 2016, respectively.

In connection with the separation of former executives and directors, the Company has modified previously granted equity awards to allow for the acceleration of vesting of equity awards, and the extension of the timing to exercise vested awards, following the respective separation dates. The Company incurred incremental stock-based compensation expense of \$89 and \$261 during the three and nine months ended September 30, 2017, respectively. This compares to \$0 and \$9 during the three and nine months ended September 30, 2016, respectively.

## **14. Shareholders' Equity**

### Common Stock

In June 2012, the Company issued 30,000,000 shares of common stock to Visser Precision Cast in connection with the Visser MTA Agreement.

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

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

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

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

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

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

In connection with the execution of the 2016 Purchase Agreement on March 10, 2016, the Company issued 105,000,000 shares of the Company’s common stock, at a price of \$0.08 per share, for gross proceeds of \$8,400.

On May 19, 2016, the Company’s shareholders approved an amendment to the Company’s Certificate of Incorporation increasing the number of authorized shares of common stock from 700,000,000 shares to 1,100,000,000 shares.

On October 26, 2016, the Company issued and sold to the Investor under the 2016 Purchase Agreement an aggregate of 300,000,000 shares of the Company’s common stock for an aggregate purchase price of \$55,000, comprised of 200,000,000 shares at a price of \$0.15 per share and 100,000,000 shares at a price of \$0.25 per share.

In 2012, the Company entered into a non-exclusive engagement agreement with an investment banking firm. The services provided by the firm did not result in the identification of any practicable investment transactions and the agreement was considered effectively terminated by the Company in 2013. During 2016, the Company was notified by a representative of the firm that the firm did not consider the engagement agreement to be terminated and that previous financings and other funding transactions completed by the Company may be subject to success fees. In November 2016, the Company reached a settlement with respect to any and all amounts allegedly due under the engagement agreement in the amount of \$750. Such amounts were reflected as a reduction of proceeds from stock issuances during the year ended December 31, 2016 and a corresponding reduction to additional paid in capital.

#### Warrants

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

#### Non-Controlling Interest

The Company’s Liquidmetal Golf subsidiary has the exclusive right and license to utilize the Company’s Liquidmetal alloy technology for purposes of golf equipment applications. The Company owns 79% of the outstanding common stock of Liquidmetal Golf. As of September 30, 2017, non-controlling interest was a deficit of \$73. As of December 31, 2016, non-controlling interest was a deficit of \$70.

### **15. Loss Per Common Share**

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

Options to purchase 36,919,218 shares of common stock, at prices ranging from \$0.07 to \$0.47 per share, were outstanding at September 30, 2017, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company’s net loss. Warrants to purchase 17,113,684 shares of common stock, with prices ranging from \$0.07 to \$0.17 per share, outstanding at September 30, 2017, were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company’s net loss.

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



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## **16. Commitments and Contingencies**

### Alloy Purchase Commitments

As of September 30, 2017 and December 31, 2016, the Company has signed firm purchase commitments for alloy supplies that will be delivered over a thirty (30) month period. Total commitments were \$308 and \$689 as of September 30, 2017 and December 31, 2016, respectively.

### Operating Lease Commitments

The Company previously leased its offices and warehouse facilities under various lease agreements, certain of which were subject to escalations based upon increases in specified operating expenses or increases in the Consumer Price Index. During June 2017, the Company terminated the remaining portion of the lease agreements, effective June 30, 2017. The termination resulted in the Company paying certain fees, related to new tenant accommodations and broker fees, equaling \$125, which were off-set against previously recorded deferred rent expenses. This resulted in an additional expense of \$17, which is included in rent expense. Additionally, concurrent with ceasing of operations at these facilities, the Company accelerated depreciation of remaining installed leasehold improvements in the amount of \$30. As of September 30, 2017, the Company has no further obligations under these lease agreements.

Rent expense was \$0 and \$125 for the three and nine months ended September 30, 2017, respectively. This compares to \$56 and \$169 for the three and nine months ended September 30, 2016, respectively.

## **17. Related Party Transactions**

On November 17, 2016, the Company and Thomas Steipp, the Company's former President and Chief Executive Officer, entered into a Separation and Mutual Release Agreement pursuant to which Mr. Steipp resigned as an officer, director, and employee of the Company (the "Separation Agreement"). The Separation Agreement provided for the payment of severance compensation to Mr. Steipp in the form of a lump sum of \$300 (subject to tax withholdings) and reimbursement for COBRA healthcare coverage for a period of 12 months. In addition, it provided for the accelerated vesting of 3,990,400 of the unvested stock options held by Mr. Steipp as of the separation date and the extension of the exercise period of his options until the second anniversary of the date of the Separation Agreement. This resulted in a total of 10,777,949 stock options being exercisable by Mr. Steipp as of the separation date and resulted in an additional \$297 of stock-based compensation expense during the year ended December 31, 2016. In connection with the Separation Agreement, Mr. Steipp and the Company granted each other mutual general releases subject to customary exceptions. As of September 30, 2017 and December 31, 2016, the Company had accrued liabilities totaling \$10 and \$301, respectively, relating to the Separation Agreement.

On August 16, 2017, the Company and Tony Chung, the Company's former Chief Financial Officer, entered into a Separation Agreement and General Release pursuant to which Mr. Chung resigned as an officer and employee of the Company (the "Tony Chung Separation Agreement"). The Tony Chung Separation Agreement provided for the payment of severance compensation to Mr. Chung in the form of a continuation of his base annual salary of \$240 (subject to tax withholdings) for a period of 12 months and reimbursement for COBRA healthcare coverage for a period of 12 months. In addition, it provided for the accelerated vesting of 247,650 of the unvested stock options held by Mr. Chung as of the separation date and the extension of the exercise period of his options until the first anniversary of the date of the Tony Chung Separation Agreement. This resulted in a total of 2,889,749 stock options being exercisable by Mr. Chung as of the separation date and resulted in an additional \$89 of stock-based compensation expense during both the three and nine months ended September 30, 2017. In connection with the Tony Chung Separation Agreement, Mr. Chung and the Company granted each other mutual general releases subject to customary exceptions. As of September 30, 2017 and December 31, 2016, the Company had accrued liabilities totaling \$231 and \$0, respectively, relating to the Tony Chung Separation Agreement.

On March 10, 2016, the Company entered into the 2016 Purchase Agreement with Liquidmetal Technology Limited, providing for the purchase of 405,000,000 shares of the Company's common stock for an aggregate purchase price of \$63,400. Liquidmetal Technology Limited is a newly formed company owned by Professor Li. In connection with the 2016 Purchase Agreement and also on March 10, 2016, the Company and Eontec, entered into a license agreement pursuant to which the Company and Eontec entered into a cross-license of their respective technologies. Eontec is a publicly held Hong Kong corporation of which Professor Li is the Chairman and major shareholder. As of September 30, 2017, Professor Li is a greater-than 5% beneficial owner of the Company and serves as the Company's Chairman, President, and Chief Executive Officer. Equipment and services procured from Eontec were \$28 and \$757 during the three and nine months ended September 30, 2017, respectively. This compares to \$0 during the corresponding periods ended September 30, 2016.

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

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

*This management’s discussion and analysis, as well as other sections of this Quarterly Report on Form 10-Q, may contain “forward-looking statements” that involve risks and uncertainties, including statements regarding our plans, future events, objectives, expectations, estimates, forecasts, assumptions, or projections. Any statement that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as “believe,” “estimate,” “project,” “expect,” “intend,” “may,” “anticipate,” “plan,” “seek,” and similar words or expressions identify forward-looking statements. These statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results, and undue reliance should not be placed on these statements. These risks and uncertainties include, but are not limited to, the matters discussed under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and other risks and uncertainties discussed in other filings made with the Securities and Exchange Commission (including risks described in subsequent reports on Form 10-Q and Form 8-K and other filings). We disclaim any intention or obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.*

### Overview

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

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

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

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

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

## **Licensing Transactions**

### Eontec License Agreement

On March 10, 2016, in connection with the 2016 Purchase Agreement, we entered into a Parallel License Agreement (the “License Agreement”) with DongGuan Eontec Co., Ltd., a Hong Kong corporation (“Eontec”) pursuant to which we each agreed to cross-license our respective technologies. The Company’s Chairman and CEO, Professor Lugee Li, is also a major shareholder and Chairman of Eontec.

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

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

During March 2017, we signed contracts with Eontec to purchase two hot-crucible amorphous metal casting machines (“Machines”) at a total purchase price of \$780. The Machines were delivered to our new manufacturing facility located in Lake Forest CA in April 2017 and are anticipated to be operational during the fourth quarter of 2017.

### Apple License Transaction

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

Under the agreements relating to the license transaction with Apple, we were obligated to contribute, to CIP, all intellectual property developed through February 2016. We are also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction.

### Visser Precision Cast, LLC License Transaction

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

In addition, the settlement amended and restated the two warrants we issued to Visser in June 2012 to purchase 15,000,000 shares of our common stock at an exercise price of \$0.22 per share. The amended and restated warrant agreement includes the effect of anti-dilution adjustments and is exercisable for 21,317,094 shares at an exercise price \$0.16 per share under the anti-dilution provisions of the warrants. On March 22, 2017 Visser exercised, on a cashless basis, all 21,317,094 warrants, resulting in the issuance of 4,241,386 shares of the our common stock. Upon exercise, we reclassified \$975 of the associated warrant liability to permanent equity, with \$4 being allocated to common stock and \$971 to additional paid in capital. (see Note 10 in the accompanying footnotes to the consolidated financial statements).

### Other License Transactions

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

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

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

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

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

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

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

- Revenue recognition
- Impairment of long-lived assets and definite-lived intangibles
- Deferred tax assets
- Valuation of liability classified warrants and options and embedded derivatives
- Share based compensation

Our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Annual Report”) contains further discussions on our critical accounting policies and estimates.

## Results of Operations

Comparison of the three and nine months ended September 30, 2017 and 2016

	For the three months ended September 30,				For the nine months ended September 30,			
	2017	% of Products Revenue	2016	% of Products Revenue	2017	% of Products Revenue	2016	% of Products Revenue
	(unaudited)		(unaudited)		(unaudited)		(unaudited)	
	in 000's		in 000's		in 000's		in 000's	
Revenue:								
Products	\$ 36		\$ 154		\$ 142		\$ 329	
Licensing and royalties	-		-		-		27	
<b>Total revenue</b>	<u>36</u>		<u>154</u>		<u>142</u>		<u>356</u>	
Cost of sales	\$ 87	242%	165	107%	\$ 216	152%	336	102%
<b>Gross profit (loss)</b>	<u>(51)</u>	-142%	<u>(11)</u>	-7%	<u>(74)</u>	-52%	<u>20</u>	6%
Selling, marketing, general and administrative	1,739	4831%	1,679	1090%	4,791	3374%	5,461	1660%
Research and development	<u>500</u>	1389%	<u>548</u>	356%	<u>1,331</u>	937%	<u>1,730</u>	526%
<b>Operating loss</b>	<u>(2,290)</u>		<u>(2,238)</u>		<u>(6,196)</u>		<u>(7,171)</u>	
Change in value of warrant liabilities, gain (loss)	(1,674)		563		(2,563)		(1,885)	
Change in value of option liabilities, loss	-		-		-		(2,613)	
Loss on contract modification	-		(2,126)		-		(2,126)	
Interest expense	-		(1)		-		(9)	
Interest income	<u>13</u>		<u>-</u>		<u>42</u>		<u>-</u>	
<b>Net loss</b>	<u>(3,951)</u>		<u>(3,802)</u>		<u>(8,717)</u>		<u>(13,804)</u>	

### Revenue and expenses

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

**Revenue.** Total revenue decreased to \$36 for the three months ended September 30, 2017 from \$154 for the three months ended September 30, 2016. Total revenue decreased to \$142 for the nine months ended September 30, 2017 from \$356 for the nine months ended September 30, 2016. The decrease for both periods was attributable to a higher mix of small scale pre-production orders during the respective 2017 period as compared to larger tooling and production projects during the respective 2016 period.

**Cost of sales.** Cost of sales was \$87, or 242% of products revenue, for the three months ended September 30, 2017, an decrease from \$165, or 107% of products revenue, for the three months ended September 30, 2016. Cost of sales was \$216, or 152% of products revenue, for the nine months ended September 30, 2017, a decrease from \$336, or 102% of products revenue, for the nine months ended September 30, 2016. The increase in our cost of sales as a percentage of product revenue for the nine months ended September 30, 2017 was primarily attributable to overall product mix and the timing of tooling components associated with pre-production projects. The cost to manufacture products and parts from our bulk amorphous alloys is variable and differs based on the unique design of each product. Given the continued development and refinement of our manufacturing efforts during the nine months ended September 30, 2017, our cost of sales as a percentage of products revenue is not necessarily representative of our future cost percentages and is expected to show continued improvement over time with increases in volume and continuous refinements to our internal processes. When we begin increasing our products revenues with shipments of routine, commercial products and parts through our manufacturing facility and/or third party contract manufacturers, we expect our cost of sales percentages to decrease, stabilize and be more predictable.

*Gross profit (loss).* Our gross profit (loss) decreased to \$(51) from \$(11) for the three month periods ended September 30, 2017 and 2016, respectively. Our gross profit (loss), as a percentage of products revenue, decreased to (142)% from (7)% for the three month periods ended September 30, 2017 and 2016, respectively. Our gross profit (loss) decreased to \$(74) from \$20 for the nine month periods ended September 30, 2017 and 2016, respectively. Our gross profit (loss), as a percentage of products revenue, decreased to (52)% from 6% for the nine month periods ended September 30, 2017 and 2016, respectively. As discussed above under “Cost of sales”, early pre-production orders are resulting in a higher cost mix, relative to revenue, than would otherwise be incurred in an on-site production environment, with higher volumes and more established operating processes, or through contract manufacturers. As such, our gross profit (loss) percentages have fluctuated and may continue to fluctuate based on volume and quoted production prices per unit and may not be representative of our future business. When we begin increasing our products revenues with shipments of routine, commercial products and parts through future orders to our manufacturing facility and/or third party contract manufacturers, we expect our gross profit (loss) percentages to stabilize, increase and be more predictable.

*Selling, marketing, general and administrative.* Selling, marketing, general and administrative expenses were \$1,739 and \$4,791 for the three and nine months ended September 30, 2017, respectively, compared to \$1,679 and \$5,461 for the three and nine months ended September 30, 2016, respectively. The change in expenses for both periods was due to lower costs associated with employee compensation, inclusive of a full reduction in incentive bonus accruals, offset by additional accruals under employee severance agreements.

*Research and development.* Research and development expenses decreased to \$500 and \$1331 for the three and nine months ended September 30, 2017, respectively, from \$548 and \$1,730 for the three and nine months ended September 30, 2016, respectively. The decrease in expense for both periods was mainly due to decreases in employee compensation and lower internal project costs due to the completion of biocompatibility study efforts, which were largely conducted in 2016. We continue to (i) perform research and development of new Liquidmetal alloys and related processing capabilities, (ii) develop new manufacturing techniques, and (iii) contract with consultants to advance the development of Liquidmetal alloys and related production processes.

*Operating loss.* Operating loss was \$2,290 and \$6,196 for the three and nine months ended September 30, 2017, respectively. This compares to \$2,238 and \$7,171 for the three and nine months periods ended September 30, 2016, respectively. Fluctuations in our operating loss are primarily attributable to variations in operating expenses, as discussed above.

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

#### Other income and expenses

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

*Change in value of warrant liabilities.* The change in value of warrant liabilities was a non-cash loss of \$(1,674) and \$(2,563) for the three and nine months ended September 30, 2017, respectively. This compares to a non-cash gain (loss) of \$563 and \$(1,885) for the three and nine months ended September 30, 2016, respectively. These adjustments result from periodic valuation adjustments related to fluctuations in our stock price, and other inputs, for warrants issued in connection with the Visser MTA, the July 2012 Private Placement, and the 2016 Purchase Agreement. Changes in the value of our warrants are non-cash and do not affect the core operations of our business or liquidity.

*Change in value of option liabilities.* The change in value of option liabilities was \$0 for both the three and nine months ended September 30, 2017. This compares to a non-cash loss of \$0 and \$2,613 for the three and nine months ended September 30, 2016, respectively. These adjustments result from periodic valuation adjustments related to fluctuations in our stock price, and other inputs, for written call options issued in connection with the 2016 Purchase Agreement. Due to the reclassification of these liabilities to permanent equity in May 2016 there will not be a prospective earnings impact in future periods. Changes in the value of option liabilities are non-cash and do not affect the core operations of our business or liquidity. Similar transactions are not expected in future periods.

*Loss on contract modification.* During the three and nine months ended September 30, 2016, we incurred an additional \$2,126 of expense related to the extension of the exercise term for the written call options under the 2016 Purchase Agreement. Such expense was recorded directly to additional paid in capital. This compares to \$0 for both the three and nine months ended September 30, 2017.

*Interest expense.* Interest expense relates to interest incurred under our line of credit agreement. Such amounts were \$0 for both the three and nine months ended September 30, 2017. This compares to \$1 and \$9 for the three and nine months ended September 30, 2016, respectively.

*Interest income.* Interest income relates to interest earned from our cash deposits for the respective periods. Such amounts were \$13 and \$42 for the three and nine months ended September 30, 2017, respectively. This compares to \$0 for both the three and nine months ended September 30, 2016.



## **Liquidity and Capital Resources**

### Cash used in operating activities

Cash used in operating activities totaled \$5,768 and \$5,962 for the nine months ended September 30, 2017 and 2016, respectively. The cash was primarily used to fund operating expenses related to our business and product development efforts.

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

Cash (used in) provided by investing activities totaled (\$11,156) and \$1,876 for the nine months ended September 30, 2017 and 2016, respectively. Investing outflows primarily consist of capital expenditures to support our manufacturing efforts including the purchase of our new manufacturing facility and additional production equipment. Also included in investing cash flows are changes in restricted cash to support line of credit collateral requirements of which \$2,003 was recorded as an in-flow during the nine months ended September 30, 2016.

### Cash provided by financing activities

Cash provided by financing activities totaled \$1,305 and \$7,715 for the nine months ended September 30, 2017 and 2016, respectively. Cash provided by financing activities is comprised of cash received for the issuance of shares following the exercise of stock options and warrants during the nine months ended September 30, 2017 and cash received from the issuance of shares under the 2016 Purchase Agreement during the nine months ended September 30, 2016.

### Financing arrangements and outlook

During 2016, we raised a net total of \$62,650 through the issuance of 405,000,000 shares of our common stock in multiple closings under the 2016 Purchase Agreement (see Note 3 in the accompanying footnotes to the consolidated financial statements).

As of September 30, 2017, we had \$43,277 of capital to support future operations.

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

## **Off Balance Sheet Arrangements**

As of September 30, 2017, we did not have any off-balance sheet arrangements.

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

None.

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

### Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Vice President of Finance (Principal Financial Officer), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2017. Based on their evaluation, our Chief Executive Officer and Vice President of Finance have concluded that our disclosure controls and procedures were effective as of September 30, 2017.

### Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II**  
**OTHER INFORMATION**

**Item 1 – Legal Proceedings**

There have been no significant developments with respect to legal proceedings specifically affecting Liquidmetal Technologies, Inc. or its subsidiaries since the filing of the 2016 Annual Report.

**Item 1A – Risk Factors**

For a detailed discussion of the risk factors that should be understood by any investor contemplating an investment in our stock, please refer to Part I, Item 1A “Risk Factors” in the 2016 Annual Report. There have been no material changes from the risk factors previously disclosed in Part I, Item 1A “Risk Factors” in the 2016 Annual Report.

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

During the period covered by this Quarterly Report on Form 10-Q, we did not issue or sell any unregistered equity securities.

**Item 3 – Defaults Upon Senior Securities**

None.

**Item 4 – Mine Safety Disclosures**

None.

**Item 5 – Other Information**

None.



**Item 6 – Exhibits**

The following documents are filed as exhibits to this Report:

Exhibit Number	Description of Document
10.1	<a href="#"><u>Separation Agreement and General Release, dated August 16, 2017, between Liquidmetal Technologies, Inc., and Tony Chung (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on August 22, 2017).</u></a>
31.1	<a href="#"><u>Certification of Principal Executive Officer, Lugee Li, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of Principal Financial Officer, Bryce Van, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer, Lugee Li, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certification of Vice President of Finance, Bryce Van, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.1	The following financial statements from Liquidmetal Technologies, Inc.’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (unaudited), formatted in XBRL: (i) Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2017 and 2016, (iii) Consolidated Statement of Shareholders’ Equity for the nine months ended September 30, 2017, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and (v) Notes to Consolidated Financial Statements.

**SIGNATURES**

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

LIQUIDMETAL TECHNOLOGIES, INC.  
(Registrant)

Date: November 7, 2017

/s/ Lugee Li

\_\_\_\_\_  
Lugee Li

President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 7, 2017

/s/ Bryce Van

\_\_\_\_\_  
Bryce Van

Vice President of Finance  
(Principal Financial and Accounting Officer)

## CERTIFICATIONS

I, Lugee Li, certify that:

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

Date: November 7, 2017    /s/ Lugee Li  
Lugee Li  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATIONS**

I, Bryce Van, certify that:

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

Date: November 7, 2017    /s/ Bryce Van  
Bryce Van  
Vice President of Finance  
(Principal Financial and Accounting 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 certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lugee Li  
Lugee Li, President and Chief Executive Officer  
November 7, 2017

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

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Vice President of Finance of Liquidmetal Technologies, Inc. (the “Company”), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bryce Van

Bryce Van, Vice President of Finance

November 7, 2017