As filed with the Securities and Exchange Commission on April 19, 2006

Registration No. 333-130251

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to

FORM S-1

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**3399**	**33-0264467**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

Liquidmetal Technologies, Inc.
25800 Commercentre Drive, Suite 100
Lake Forest, California 92630
(949) 206-8000
(Address, including zip code, and telephone number, including area code, of registrant’s principal executive offices)

Ricardo A. Salas
President and Chief Executive Officer
Liquidmetal Technologies, Inc.
25800 Commercentre Drive, Suite 100
Lake Forest, California 92630
Phone: (949) 206-8000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

with a copy to:
Curt P. Creely
Foley & Lardner LLP
100 North Tampa Street, Suite 2700
Tampa, Florida 33602
Phone: (813) 229-2300/Fax: (813) 221-4210

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement, as determined by the selling stockholders.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(5)	Amount of Registration Fee
Common Stock issuable upon conversion of 6% Senior Secured Notes Due July 2007	2,356,002 shares	$ 1.18(1)	$ 2,780,083	$ 298
Common Stock issuable upon conversion of 7% Senior Secured Convertible Notes Due August 2007	4,938,936 shares	$ 2.00(2)	$ 9,877,872	$ 1,057

Common Stock issuable upon exercise of warrants	3,777,715 shares	$	2.00(3)	$	7,555,430	$	809
Common Stock issuable upon exercise of non-qualified stock options	376,345 shares	$	1.18(1)	$	444,088	$	48
TOTAL	11,448,998 shares(4)			$	20,657,473	$	2,212(6)

(1) The price is estimated, solely for the purpose of calculating the registration fee, in accordance with Rules 457(g) and 457(c) under the Securities Act, based on the average of the high and low prices of the Registrant's Common Stock as of December 6, 2005 on the OTC Bulletin Board.
(2) The price is estimated in accordance with Rule 457(g) under the Securities Act, solely for the purpose of calculating the registration fee and is $2.00, the conversion price of the 7% Senior Secured Convertible Notes Due August 2007.
(3) The price is estimated in accordance with Rule 457(g) under the Securities Act, solely for the purpose of calculating the registration fee and is $2.00, the exercise price of the warrants issued in June 2005 and August 2005.
(4) Pursuant to Rule 416 under the Securities Act, this registration statement also covers such number of additional shares of common stock to prevent dilution resulting from stock splits, stock dividends, or similar transactions.
(5) Estimated soley for calculating the registration fee pursuant to Rule 457(a).
(6) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

LIQUIDMETAL TECHNOLOGIES, INC.

11,448,998 Shares

Common Stock

This prospectus covers a total aggregate of up to 11,448,998 shares of our common stock, par value $.001 per share, that may be offered from time to time by the selling stockholders identified on pages 20-25 of this prospectus. The shares being offered by this prospectus consist of:

- up to 2,356,002 shares issuable upon the conversion of principal and accrued but unpaid interest under our 6% Senior Secured Notes Due July 2007;
- up to 4,938,936 shares issuable upon the conversion of principal and accrued but unpaid interest under our 7% Senior Secured Convertible Notes Due August 2007;
- up to 3,777,715 shares issuable upon the exercise of common stock purchase warrants issued by us in connection with previous private placements; and
- up to 376,345 shares issuable upon the exercise of a non-qualified stock option agreement granted to one individual.

This prospectus also covers any additional shares of common stock that may become issuable upon any anti-dilution adjustment pursuant to the terms of such notes and warrants.

We are registering these shares of our common stock for resale by the selling stockholders named in this prospectus, or their transferees, pledgees, donees or successors. We will not receive any proceeds from the sale of these shares by the selling stockholders. These shares are being registered to permit the selling stockholders to sell shares from time to time in the public market, in amounts, at prices and on terms determined at the time of offering. The selling stockholders may sell this common stock through ordinary brokerage transactions, directly to market makers of our shares or through any other means described in the section entitled "Plan of Distribution" beginning on page 81.

Before purchasing any of the shares covered by this prospectus, carefully read and consider the risk factors in the section entitled "Risk Factors" beginning on page 5.

Our common stock is quoted on the OTC Bulletin Board under the symbol "LQMT.OB." On March 20, 2006, the last reported sales price of our common stock was $1.33 per share.

Our principal executive offices are located at 25800 Commercentre Drive, Suite 100, Lake Forest, California 92630, and our telephone number at that address is (949) 206-8000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the sale of this common stock or determined that the information in this prospectus is accurate and complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 19, 2006.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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This prospectus is a part of the registration statement that we filed with the Securities and Exchange Commission. The selling stockholders named in this prospectus may from time to time sell the securities described in this prospectus.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The common stock is not being offered in any jurisdiction where the offer is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock.

We have registered the following trademark, which is used in this prospectus: "Liquidmetal." In this prospectus, we use the terms "company," "we," "us" and "our" to refer to Liquidmetal Technologies, Inc. In this prospectus "Liquidmetal" or "Liquidmetal Technologies" refer to Liquidmetal Technologies, Inc.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because this is a summary, it is not complete and does not contain all of the information that may be important to you. For a more complete understanding of us and this offering of our common stock, we encourage you to read this prospectus in its entirety, especially the risks of investing in our common stock discussed under "Risk Factors" and our consolidated financial statements, including the notes thereto, appearing elsewhere in this prospectus.

Liquidmetal Technologies, Inc.

We are a materials technology company that develops and commercializes products made from amorphous alloys. Our Liquidmetal® family of alloys consists of a variety of proprietary coatings, powders, bulk alloys, and composites that utilize the advantages offered by amorphous alloy technology. We develop, manufacture, and sell products and components from bulk amorphous alloys to customers in various industries, and we also partner with third-party licensees such as Rawlings, Head, and Socket Communications and distributors such as Matech and LLPG to develop and commercialize bulk Liquidmetal alloy products. We believe that our proprietary bulk alloys are the only commercially viable bulk amorphous alloys currently available in the marketplace. In addition to our bulk alloys, we market and sell a line of proprietary amorphous alloy-based industrial coatings under the Liquidmetal® Armacor™ coatings brand.

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

Our Strategy

Our goal is to develop and commercialize a wide variety of products made from Liquidmetal alloys. The key elements of our strategy include:

- Identifying and developing new applications for our Liquidmetal alloy technology;
- Focusing our marketing and internal manufacturing activities on select products with expected higher gross margins;
- Further developing our manufacturing processes, capabilities, and efficiencies for bulk Liquidmetal alloy;
- Pursuing strategic partnerships in order to more rapidly develop and commercialize products; and
- Advancing and further developing the Liquidmetal® brand to increase awareness of our company and technology.

Applications for Liquidmetal Alloys

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

- *Components for electronic products*. We produce components for electronic devices using our bulk Liquidmetal alloys and believe that our alloys offer enhanced performance and design benefits for these components in certain applications. Specifically, we currently produce internal hinge housings for certain Samsung cellular phone models and casings for certain SanDisk flash memory drives.
- *Sporting goods and leisure products*. We are developing a variety of applications for Liquidmetal alloys in the sporting goods and leisure products area. In 2003, Rawlings Sporting Goods Company launched a new line of baseball and softball bats that utilize a Liquidmetal alloy coating, and HEAD NV Sport launched a new line of HEAD® Liquidmetal® tennis racquets that incorporates Liquidmetal alloy in composite form in their racquet design. In 2005, we have also launched goods that utilize Liquidmetal alloy including skis. Other potential applications for our alloys in this industry include golf clubs, eyewear, fishing, hunting, and other sport products.
- *Medical devices*. We are engaged in product development efforts relating to various medical devices that could be made from Liquidmetal alloys. We believe that the unique properties of bulk Liquidmetal alloys provide a combination of performance and cost benefits that could make them a desirable replacement to incumbent materials, such as stainless steel and titanium, currently used in various medical device applications.
- *Industrial coatings and powders*. We continue to market and sell amorphous alloy industrial coatings and powders under the Liquidmetal® Armacor™ coatings brand name. Liquidmetal alloy coatings are used primarily as a protective coating for industrial machinery and equipment.
- *Defense applications*. We are working with the U.S. Department of Defense, as well as a variety of defense-related research and development agencies and large defense contractors, to develop various defense-related applications for Liquidmetal alloys. For example, we are currently developing prototype kinetic energy penetrator rods for use in armor-piercing ammunition systems.

Risk Factors / Going Concern

We are subject to a number of risks that you should be aware of before you decide to buy our common stock. These risks are discussed more fully in the “RISK FACTORS” section of this prospectus.

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2005 and 2004 was $11.2 million and $12.7 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2005 and 2004, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. Accordingly, we anticipate that we will need additional funding during the next 12 months, and we plan to seek to raise such funds through public or private equity financing, bank debt financing, or from other sources. Specifically, we anticipate that we could need $1 to $5 million over the next twelve months to pursue our current operating plan, although this amount may be lower depending on the orders we receive for our products. The amount of funding that we plan to seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products, particularly components for cellular phones and flash memory drive casings, and our ability to continue to improve our manufacturing processes. However, adequate funds may not be available when needed, and if we raise additional funds by issuing equity securities, existing stockholders may be diluted. If we don’t receive sufficient funding to operate under our current plan, we intend to reduce operations and expenses and shift our focus to the pursuit of licensing transactions and other strategic transactions that are less capital intensive.

Corporate Information

We were originally incorporated in California in 1987, and we reincorporated in Delaware in May 2003. Our principal executive offices are located at 25800 Commercentre Dr., Suite 100, Lake Forest, California 92630. Our telephone number at that address is (949) 206-8000. Our Internet website address is www.liquidmetal.com and all of our filings with the Securities and Exchange Commission are available free of charge on our website. Any information that is included on or linked to our Internet site is not a part of this prospectus.

The Offering

Common stock offered

Up to 11,448,998 shares are being offered by the selling stockholders. Of these shares:

- up to 2,356,002 shares are issuable to various selling stockholders upon the conversion of principal and accrued but unpaid interest under our 6% Senior Secured Notes Due July 2007 (the “July 2007 Notes”), which notes were issued by us to such selling stockholders on July 29, 2004;
- up to 4,938,936 shares are issuable to various selling stockholders upon the conversion of principal and accrued but unpaid interest under our 7% Senior Secured Convertible Notes Due August 2007 (the “August 2007 Notes”), which notes were issued by us to such selling stockholders on August 2, 2005;
- up to 893,750 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on June 13, 2005 and having an exercise price of $2.00 per share;
- up to 2,883,965 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on August 2, 2005 and having an exercise price of $2.00 per share; and
- up to 376,345 shares are issuable to one individual upon the exercise of an outstanding non-qualified stock option agreement issued by us on January 1, 2001 and having an exercise price of $1.16 per share.

Shares outstanding after the offering

53,695,619 shares

Use of proceeds

We will not receive any proceeds from the sale of the shares offered by the selling stockholders. Any proceeds we receive from the selling stockholders upon their exercise of the warrants or option to purchase the shares included in the shares that are being offered by them hereunder will be used for general working capital.

Risk factors

See “RISK FACTORS” and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the shares.

OTC Bulletin Board symbol

LQMT.OB

The number of shares of common stock that will be outstanding immediately after this offering is based on 42,246,621 shares outstanding as of March 20, 2006 and assumes the full conversion of the convertible promissory notes and the full exercise of the warrants and option identified above. There is no guarantee that all or any of such notes, warrants, or option will be converted or exercised. The number of shares of common stock to be outstanding after this offering does not include 7,644,723 shares issuable pursuant to common stock options outstanding as of March 20, 2006 under our equity incentive plans, of which options to purchase 6,210,784 shares were exercisable as of such date at a weighted-average exercise price of $5.52 per share, and 6,730,585 additional shares of common stock reserved for future grants under our equity compensation plans.

The convertible notes identified above are convertible into such number of shares of our common stock as is determined by dividing the outstanding principal balance of such notes plus any accrued but unpaid interest by the conversion price then in effect. As of March 20, 2006, approximately $2.3 million in aggregate principal amount of July 2007 Notes were outstanding at a conversion price of $1.00 per share, and approximately $9.9 million in aggregate principal amount of August 2007 Notes were outstanding at a conversion price of $2.00 per share. The warrants and option identified above are exercisable at the price per share indicated above. However, the above-described notes and warrants contain anti-dilution provisions that may result in a reduction of these conversion and exercise prices if we issue shares in the future for consideration below the existing conversion or exercise prices. Such anti-dilution provisions may cause a decrease in the voting power and value of your investment in our shares. See “DESCRIPTION OF CAPITAL STOCK—Anti-Dilution Provisions in Notes and Warrants.”

In this prospectus, unless otherwise stated or the context otherwise requires, references to “Liquidmetal,” “we,” “us,” “our,” “our company,” “the Company” and similar references refer to Liquidmetal Technologies, Inc. and its subsidiaries.

Summary Consolidated Financial Data

The following summary consolidated financial data as of and for our years ended December 31, 2005, 2004, 2003, 2002 and 2001 have been derived from our audited consolidated financial statements. The following information should be read together with “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of future results.

These statements should be read in conjunction with restatement footnote 2 in the notes to consolidated financial statements in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

	Years Ended December 31,				
	2005	2004	2003	2002 (restated)	2001 (restated)

					(in thousands, except per share data)
Consolidated Statements Of Operation Data:					
Revenue.	$ 16,365	$ 17,429	$ 13,658	$ 9,138	$ 3,882
Cost of sales	15,129	12,168	18,162	5,656	1,924
Gross profit	1,236	5,261	(4,504)	3,482	1,958
Operating expenses:					
Selling, general, and administrative expenses	8,534	11,591	17,729	13,099	5,239
Research and development expenses	1,120	1,467	8,780	11,825	1,726
Impairment of Goodwill	—	—	184	—	—
Impairment of long lived assets	4,487	—	2,684	—	—
Total operating expenses	14,141	13,058	29,377	24,924	6,965
Loss before interest, other income, income taxes, minority interest and discontinued operations	(12,905)	(7,797)	(33,881)	(21,442)	(5,007)
Loss from extinguishments of debt	(1,247)	(1,663)	—	—	—
Change in value of warrants, net	3,985	747	—	—	—
Change in value of beneficial conversion feature	3,849	—	—	—	—
Other income	—	302	—	—	—
Interest expense	(4,945)	(3,603)	(390)	(1,109)	(1,103)
Interest income	17	37	304	506	8
Gain on sale of marketable securities held for sale	—	—	1,178	832	—
Loss before minority interest and discontinued operations	(11,246)	(11,977)	(32,789)	(21,213)	(6,102)
Minority interest in loss of consolidated subsidiary	—	—	21	118	—
Loss from continuing operations	(11,246)	(11,977)	(32,768)	(21,095)	(6,102)
Discontinued Operations:					
Income (loss) from discontinued operations, net	—	(749)	(964)	83	(5,973)
Gain (loss) from disposal of discontinued operations, net	—	—	127	1,556	(11,949)
Net loss	$ (11,246)	$ (12,726)	$ (33,605)	$ (19,456)	$ (24,024)
Loss per share from continuing operations	$ (0.27)	$ (0.29)	$ (0.79)	$ (0.54)	$ (0.18)
Gain (Loss) per share from discontinuing operations	$ —	$ (0.02)	$ (0.02)	$ 0.04	$ (0.54)
Net loss per share	$ (0.27)	$ (0.31)	$ (0.81)	$ (0.50)	$ (0.72)
Weighted average shares - basic and diluted	41,833	41,610	41,505	38,714	33,323

	As of December 31, 2005 (in thousands)
Consolidated Balance Sheet Data:	
Cash and cash equivalents	$ 1,392
Working capital	(10,154)
Total assets	21,563
Long-term obligations, including current portion, net of discount	7,681
Stockholders’ deficit	(1,386)

RISK FACTORS

An investment in our common stock involves risk. You should carefully consider the risks we describe below before deciding to invest in our common stock. The market price of our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. In assessing these risks, you should also refer to the other information included in this prospectus, including our consolidated financial statements, including the notes thereto, and appearing elsewhere in this prospectus. This discussion contains forward-looking statements. See “Forward-Looking Statements” for a discussion of uncertainties, risks and assumptions associated with these statements.

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

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2005, 2004, and 2003 was $11.2 million, $12.7 million and $33.6 million, respectively. We had an accumulated deficit of approximately $136.6 million at December 31, 2005. Of this accumulated deficit, $44.5 million was attributable to losses generated by our discontinued equipment manufacturing and retail golf businesses through December 31, 2005. We anticipate that we may continue to incur operating losses for the foreseeable future. Consequently, it is possible that we may never achieve positive earnings and, if we do achieve positive earnings, we may not be able to achieve them on a sustainable basis.

We may require additional funding, which may not be available on favorable terms or at all.

Our future capital requirements will depend on the amount of cash generated by our operations. Our projections of cash flows from operations and, consequently, future cash needs are subject to substantial uncertainty. In addition, in our audit report on our financial statements for our fiscal years ended December 31, 2005 and 2004, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. Accordingly, we anticipate that we will need additional funding during the next 12 months, and we plan to seek to raise such funds through public or private equity financing, bank debt financing, or from other sources. Specifically, we anticipate that we could need $1 to $5 million over the next twelve months to pursue our current operating plan, although this amount may be lower depending on the orders we receive for our products. The amount of funding that we plan to seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products, particularly components for cellular phones and flash memory drive casings, and our ability to

continue to improve our manufacturing processes. However, adequate funds may not be available when needed, and if we raise additional funds by issuing equity securities, existing stockholders may be diluted. In addition, if shares of our common stock or securities convertible into or exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than the conversion and exercise prices of our currently outstanding convertible notes and warrants, then anti-dilution provisions in such convertible notes and warrants would be triggered, thus possibly causing even greater dilution to our then-existing stockholders if the notes are converted or the warrants are exercised. See “RISK FACTORS— Our convertible notes and warrants contain anti-dilution provisions that, if triggered, could cause substantial dilution to our then-existing stockholders.”

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

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

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

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

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

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

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

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

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

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

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

Our experience has shown that our customers will perform numerous tests and extensively evaluate our components and products before incorporating them into their finished products. The time required for testing, evaluating, and designing our components and products into a customer’s products, and in some cases, obtaining regulatory approval,

can take a significant amount of time, with an additional period of time before a customer commences volume production of products incorporating our components and products, if ever. Moreover, because of this lengthy development cycle, we may experience a delay between the time we accrue expenses for

research and development and sales and marketing efforts and the time when we generate revenue, if any. We may incur substantial costs in an attempt to transition a customer from initial testing to prototype and from prototype to final product. If we are unable to minimize these transition costs, or to recover the costs of these transitions from our customers, our operating results will be adversely affected.

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

For the near future, we expect that a significant portion of our revenue will be concentrated in a limited number of customers. For example, for the year ended December 31, 2005, revenues from one customer, Samsung, represented approximately 10% of total revenue from continuing operations, and for the year ended December 31, 2004, revenue from two customers represented approximately 62% of total revenue from continuing operations, and for the year ended December 31, 2003, revenue from two customers represented approximately 26% of total revenue from continuing operations. Revenues from direct suppliers to Samsung represented approximately 14% and 62% of total revenues from continuing operations for the year ended December 31, 2005 and 2004, respectively. Also, revenues from defense related contracts with the United States of America represented 10%, and Growell Metal represented 12%, of revenue from continuing operations for the year ended 2004. A reduction, delay, or cancellation of orders from one or more of these customers or the loss of one or more customer relationships could significantly reduce our revenue. Unless we establish long-term sales arrangements with these customers, they will have the ability to reduce or discontinue their purchases of our products on short notice.

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

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

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

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

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

The future growth and success of our bulk amorphous alloy business will depend in part on our ability to establish and retain a technological advantage over other materials for our targeted applications. For many of our targeted applications, we will compete with manufacturers of similar products that use different materials. These different materials may include plastics, titanium alloys, or stainless steel, among others. For example, we have targeted the cellular phone component market as an application for bulk Liquidmetal alloys. In this market, we believe we will compete with other manufacturers of cellular phone components who use plastics or metal to construct their components. These other manufacturers may be able to manufacture their cellular phone components, particularly those made from plastics, at significantly less cost than our alloys. In other markets, we will compete directly with suppliers of the incumbent material. In addition, in each of our targeted markets, our success will depend in part on the ability of our customers to compete

successfully in their respective markets. Thus, even if we are successful in replacing an incumbent material in a finished product, we will remain subject to the risk that our customer will not compete successfully in its own market.

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

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

Future advances in materials science could render Liquidmetal alloys obsolete.

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

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

Our business is based upon the commercialization of a new and unique materials technology. Our future growth and success will depend in part on our ability to retain key members of our management and scientific staff, who are familiar with this technology and the potential applications and markets for it. For example, as a result of their experience and knowledge of our alloy technology, we believe that our future growth and success will depend in large part on the efforts of John Kang, our Chairman of the board of directors, and Dr. Atakan Peker, our Vice President of Technology. We do not have “key man” or similar insurance on any of these individuals. If we lose their services or the services of other key personnel, our financial results or business

prospects may be harmed. Additionally, our future growth and success will depend in part on our ability to attract, train, and retain scientific engineering, manufacturing, sales, marketing, and management personnel. We cannot be certain that we will be able to attract and retain the personnel necessary to manage our operations effectively. Competition for experienced executives and scientists from numerous companies and academic and other research institutions may limit our ability to hire or retain personnel on acceptable terms. In addition, many of the companies with which we compete for experienced personnel have greater financial and other resources than we do. Moreover, the employment of non-citizens may be restricted by applicable immigration laws.

On December 15, 2005, an indictment naming as defendants ten former officers and directors of Medical Manager Corporation, including our Chairman, John Kang, was filed in the United States District Court for the District of South Carolina (Beaufort Division). Medical Manager Corporation was a publicly traded company in which Mr. Kang was formerly the President and Chief Executive Officer. Mr. Kang was charged in counts for conspiracy to commit securities fraud, conspiracy to commit mail fraud and conspiracy to launder money instruments relating to a series of acquisitions that were made by Medical Manager during the years 1996 through 2003, the accounting practices of Medical Manager during that time frame, and the filing of various financial statements during that time frame. Although the indictment is unrelated to Mr. Kang's service as a director and officer of our company, Mr. Kang resigned as our President and Chief Executive Officer on December 30, 2005; however, he continues to serve as Chairman of the Board of our company and continues to work for the company on a full-time basis. Mr. Kang has pled "not guilty" to the indictment and plans to contest the charges vigorously. At this time, however, we cannot estimate the potential impact on our company, if any, that might result from these charges.

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

As a part of our business strategy, we intend to pursue strategic partnering transactions that provide access to new technologies, products, markets, and manufacturing capabilities. These transactions could include licensing agreements, joint ventures, or even business combinations. We believe that these transactions will be particularly important

to our future growth and success due to the size and resources of our company and the newness of our technology. For example, we may determine that we may need to license our technology to a larger manufacturer in order to penetrate a particular market. In addition, we may pursue transactions that will give us access to new technologies that are useful in connection with the composition, processing, or application of Liquidmetal alloys. We may not be able to successfully identify any potential strategic partnerships. Even if we do identify one or more potentially beneficial strategic partnering, we may not be able to consummate these transactions on favorable terms or obtain the benefits we anticipate from such a transaction.

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

We have relatively limited experience in manufacturing our products and may be required to manufacture a range of products in high volumes while ensuring high quality and consistency. Although we currently own and operate a 166,000 square feet and a 14,400 square feet manufacturing facilities in South Korea and China, respectively, we cannot guarantee that these facilities will be able to produce the intended products with production yields, quality controls, and production costs that provide us with acceptable margins or profitability or satisfy the requirements of our customers.

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

We expect that we will continue to manufacture a substantial portion of our initial bulk Liquidmetal alloy products in our South Korean facility and derive a material portion of our revenues from customers in South Korea. For our fiscal years ended December 31, 2005, 2004, and 2003, approximately 31%, 54%, and 34% of our revenues came from customers located in South Korea, respectively. As a result, our manufacturing operations and financial results are subject to risks of political instability, including the risk of conflict between North Korea and South Korea and tensions between the United States and North Korea. In addition, we anticipate that the trend of foreign customers accounting for a significant portion of our total revenues may continue. Specifically, we expect to continue to derive a significant amount of revenue from sales to customers located in Asia. A downturn in the economies of Asian countries where our products will be sold, particularly South Korea's economy, could materially harm our business.

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

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

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

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

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

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

We expect to conduct business in various foreign currencies and will be exposed to market risk from changes in foreign currency exchange rates and interest rates. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on our business, results of operations, and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on our operations cannot be accurately predicted. To the extent that the percentage of our non-U.S. dollar revenue derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates will increase further. Moreover, as a result of operating a manufacturing facility in South Korea, a substantial portion of our costs are and will continue to be denominated in the South Korean won. Adverse changes in the exchange rates of the South Korean won to the U.S. dollar will affect our costs of goods sold and operating margins and could result in exchange losses. The average foreign exchange rates for the years ended December 31, 2005, 2004, and 2003 were 1,028, 1,151, and 1,195 South Korean Won to the U.S. dollar, respectively. The fluctuations in the exchange rates resulted in foreign currency translation gains of $0.3 million, $1.7 million, and $0.2 million for the years ended December 31, 2005, 2004, and 2003, respectively.

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

We have an exclusive license from Caltech to several patents and patent applications relating to amorphous alloy technology, and we have obtained several of our own patents. We also have the exclusive right to Caltech's inventions, proprietary information, know-how, and other technology relating to bulk amorphous alloys existing as of September 1, 2001. Our success depends in part on our ability to obtain and maintain patent and other proprietary right protection for our technologies and products in the United States and other countries. If we are unable to obtain or maintain these protections, we may not be able to prevent third parties from using our proprietary rights. Specifically, we must:

- protect and enforce our license agreement with Caltech and our own patents and intellectual property;
- exploit our license of the patented technology under our license agreement with Caltech as well as our own patents; and
- operate our business without infringing on the intellectual property rights of third parties.

Caltech owns several issued United States patents covering the composition and method of manufacturing of the family of Liquidmetal alloys. We also hold several United States and corresponding foreign patents covering the manufacturing processes of Liquidmetal alloys and their use. The patents relating to our coatings expire on various dates between 2005 and 2022, and those relating to our bulk amorphous alloys between 2013 and 2025. If we are unable to protect our proprietary rights prior to the expiration of these patents, we may lose the advantage we have established as being the first to market bulk amorphous alloy products. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and we may encounter significant problems and costs in protecting our proprietary rights in these foreign countries.

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

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

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

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

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

As of December 31, 2005, our long-term debt was $15.1 million, including the current portion of such debt. Our long-term debt (including the current portion) includes the following:

- $2.8 million in principal outstanding under our Korean subsidiary's loan from Kookmin Bank of South Korea;

- $2.4 million in principal outstanding under convertible notes issued in our August 19, 2004 private exchange; and

- $9.9 million in principal outstanding under convertible notes issued in our August 2, 2005 private placement.

Under our loan from Kookmin Bank, we are obligated to make equal monthly payments of principal and interest of $0.11 million each through the period ending in September 2007. Under our 6% Senior Secured Notes due July 2007 and 7% Senior Secured Notes due August 2007, we are required to make cash interest payments to the noteholders of $0.22 million per quarter until such notes are converted or paid. Unless such notes are converted, the $2.4 million in aggregate principal amount under our 6% Senior Secured Notes due July 2007 will become due in July 2007, provided that the holders of such notes may demand payment thereunder in July 2006. The $9.9 million in aggregate principal amount under our 7% Senior Secured Notes due August 2007 will become due in August 2007.

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

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

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

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

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

In addition, our convertible notes and related documents contain restrictive covenants pursuant to which we generally may not (i) incur any indebtedness that would be senior to, or on the same rank as, the convertible notes with respect to payment or security, (ii) grant any liens or security interests in any of our assets which serve as collateral for the convertible notes (which collateral consists of substantially all of our assets), (iii) with certain exceptions, sell any of the assets that constitute collateral for the notes, (iv) become a guarantor for a third-party's obligation (other than guarantees in the ordinary course of business not in excess of $0.5 million in the aggregate), (v) acquire any shares or securities of any other person or entity in excess of an aggregate of $1.0 million over any rolling 12-month period, (vi) purchase or otherwise acquire any assets in excess of an aggregate of $3.0 million over any rolling 12-month period, (vii) engage in any transaction resulting in the issuance to any person of more than 40% of the equity of our company, or (viii) engage in any merger or sale of all or substantially all of our business assets. These covenants may curtail our ability to raise capital in the future or otherwise restrict our ability to enter into a transaction that we believe would be in the best interest of our stockholders.

If we default on the convertible notes that we have issued, the noteholders may accelerate the amounts due under such notes and may foreclose on the security interests that secure the notes.

As of March 20, 2006, we had approximately $12.2 million in principal amount of convertible notes outstanding. Approximately $2.3 million in principal amount of convertible notes will become due in July 2007, with the balance becoming due in August 2007. Interest on our convertible notes is payable quarterly in cash. These notes are secured by substantially all of the assets of our company. We will be deemed to be in default under these notes if we fail to pay any principal or interest when it becomes due, and we will also be deemed to be in default if we breach any other material provision of our other agreements with the noteholders and we fail to cure such breach within thirty days of notice of default. Upon a default under these notes, the noteholders have the right to accelerate the maturity date of the notes and demand that they be immediately repaid by us. If we fail to pay such notes, either at maturity or upon acceleration, then the noteholders may elect to foreclose upon the assets securing the notes.

We have not complied with Section 404 of the Sarbanes-Oxley Act of 2002 for our fiscal years ended December 31, 2005 and 2004.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX, the SEC has adopted rules requiring a public company to include a report of management on the company's internal controls over financial reporting in its annual report on Form 10-K. In addition, the public accounting firm auditing a public company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. Although these requirements were first applicable to our annual report on Form 10-K for our fiscal year ended December 31, 2004, for the reasons described below, we were unable to comply with these requirements for our 2004 and 2005 fiscal years. As a result, investors may not be able to rely on our financial statements for the fiscal years ended December 31, 2004 and 2005.

Our inability to comply with the requirements of Section 404 of SOX for our 2004 fiscal year resulted primarily from a restatement of pre-2004 financial results that consumed substantially all of the time and resources of our finance staff during the second half of 2004. As a result of this restatement process, our Form 10-K for our 2003 fiscal year was not filed until November 2004, and our former auditor determined that it would not be possible to complete management's assessment of, and our auditor's audit of, our internal controls over financial reporting as of December 31, 2004. Accordingly, our former auditor issued a disclaimer of opinion with respect to our internal controls over financial reporting as of December 31, 2004, and such disclaimer of opinion was filed with our amended Form 10-K filed on May 10, 2005. Subsequently, our former auditor resigned in November 2005, and we did not engage our current auditor until January 20, 2006, and as a result, our current auditor was not able to conduct an audit of our internal controls over financial reporting as of December 31, 2005. Therefore, our current auditor issued a disclaimer of opinion with respect to our internal controls over financial reporting as of December 31, 2005, and such disclaimer of opinion was filed with our Form 10-K for our 2005 fiscal year.

The filing of these disclaimers does not comply with the SEC's rules and regulations under Section 404, and this noncompliance has resulted in us being in violation of Section 13(a) under the Securities Exchange Act of 1934. Section 13(a) establishes the general requirement that public companies must file with the SEC, in accordance with such rules and regulations as the SEC may prescribe, such information, documents, and reports as the SEC may from time to time require for the protection of investors, including Form 10-Ks and 10-Qs.

In general, the SEC has broad authority under the Securities Exchange Act of 1934 to institute investigations, to seek injunctions, to seek monetary penalties, and to otherwise pursue enforcement actions for violations of Section 13(a), including a failure to file a Form 10-K or for the omission of necessary statements in a Form 10-K. Therefore, a violation under Section 404 of SOX or Section 13(a) of the Securities Exchange Act of 1934 could potentially subject an issuer to these same investigations and penalties. Section 404 of SOX is a relatively new legal requirement, and there is very little precedent establishing the consequences or appropriate response to a public company's failure to comply with Section 404. Accordingly, although we have discussed our Section 404 noncompliance with the SEC, we cannot predict what action, if any, the SEC may take against our company as a result of a failure to be compliant with our obligations under Section 404 of SOX or Section 13(a) of the Securities Exchange Act of 1934.

Effective December 27, 2005, the SEC announced final rulings on revisions to accelerated filer definition and deadlines for periodic reports. The ruling revised the definition of the term "accelerated filer" to permit an accelerated filer that has voting and non-voting common equity held by non-affiliates of less than $50 million to exit accelerated filer status at the end of the fiscal year in which its equity falls below $50 million and to file its annual report for that year and subsequent periodic reports on a non-accelerated basis. As of the fiscal year ended December 31, 2005, we are still considered an accelerated filer and were required to comply with SOX 404 requirements for the 2005 fiscal year.

In addition to the foregoing, although our common stock was admitted to the OTC Bulletin Board for quotation on June 15, 2005, as a result of our noncompliance with Section 404 for our 2005 fiscal year, it may not have been appropriate for the OTC Bulletin Board to admit our common stock for quotation on June 15, 2005. Consequently, there is no assurance that our common stock will remain eligible for quotation on the OTC Bulletin Board.

We have identified material weaknesses in our internal control over financial reporting and have determined that our disclosure controls and procedures are not effective.

Our former independent auditors, Stonefield Josephson, Inc., have notified the Audit Committee of our Board of Directors that they believed there were reportable conditions during 2004 and 2005 which constituted material weaknesses in our internal controls. The following material weaknesses have been identified:

- Lack of adequate segregation of duties in our South Korean operations in accounts receivable involving cash receipts, shipping, delivery of products and customer invoice reconciliations.

- Lack of adequate segregation of duties in our Coatings Division in Texas in order processing and invoicing.

- Lack of adequate controls and documentation in our South Korean operations to evidence proper customer invoicing and revenue recognition in the proper period.

- Lack of progress in documenting, assessing and evaluating our internal controls in our South Korean operations.

- Lack of controls over internal access to our SAP system of reporting by unauthorized users.

- Manual performance of numerous procedures that could be automated using current reporting systems.

In addition to the foregoing, after a review of our operating results for the fiscal year ended December 31, 2004 and for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005, and pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our Chief Executive Officer and our Chief Financial Officer have determined that, as of each such date, our disclosure controls and procedures were not effective to provide reasonable assurance that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Our management reached this conclusion based on the above-described material weaknesses.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. We have in the past discovered, as described above, and may in the future discover, areas of our disclosure and internal controls that need improvement. We are in the process of addressing these issues to ensure that our internal control over financial reporting and disclosure controls and procedures are improved so as to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. If, however, we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed.

We cannot be certain that our efforts to improve the material weaknesses in our internal control over financial reporting and the ineffectiveness of our disclosure controls and procedures will be successful or that we will be able to maintain adequate controls over our financial processes and reporting in the future. We will need to commit substantial resources, including substantial time from our management team's accounting personnel and from external consultants, to implement and integrate into our organization improved disclosure controls and additional procedures generally and to improve systems to report financial information on a timely basis. Any failure or delay to develop or maintain effective controls, or difficulties encountered in their implementation or in other effective improvement of our internal and disclosure controls could materially harm our operating results or cause us to fail to meet our reporting obligations. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a significant negative effect on the trading price of our securities.

The restatement of our 2003 and 2002 consolidated financial statements has had a material adverse impact on us.

We previously determined that our consolidated financial statements for the years ended December 31, 2003 and 2002, as described in more detail in Note 2 to our consolidated financial statements included in the form 10-K for the year ended December 31, 2003, filed on November 10, 2004, should be restated. As a result of this restatement, we have become subject to a number of additional risks and uncertainties, including the following.

- We incurred substantial unanticipated costs for accounting and legal fees in 2004 in connection with the restatement.

- Due to the time and resources necessary to complete the restatement, we and our independent auditor determined that it was not possible to complete the management's assessment and auditor's audit of our internal controls over financial reporting as of December 31, 2004, as required by Section 404 of the Sarbanes-Oxley Act of 2002, and, accordingly, our independent auditor issued a disclaimer of opinion with respect to our internal control over financial reporting for such year. Our failure to comply with these requirements has resulted in us being in violation of Section 13(a) of the Securities Exchange Act of 1934.

- The restatement has resulted in a series of stockholder class action and derivative lawsuits against us. See "RISK FACTORS — We are currently a defendant in several stockholder class-action lawsuits and derivative actions."

We are currently a defendant in several stockholder class-action lawsuits and derivative actions.

We and certain of our present and former officers and directors were named as defendants in nine purported class action complaints filed in the United States District Court for the Middle District of Florida, Tampa Division, and the Central District of California, Southern Division, alleging violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. In August 2004, four complaints were consolidated in the Middle District of Florida under the caption *Primavera Investors v. Liquidmetal Technologies, Inc., et al.*, Case No. 8:04-CV-919-T-23EAJ. John Lee, Chris Cowley, Dwight Mamanteo, Scott Purcell and Mark Rabold were appointed co-lead plaintiffs (the "Lead Plaintiffs"), but Mr. Mamanteo later withdrew. In September 2004, the five complaints filed in the Central District of California were transferred to the Middle District of Florida for consolidation with the *Primavera Investors* action. The Lead Plaintiffs served their Consolidated Amended Class Action Complaint on January 12, 2005. The Amended Complaint alleges that the Prospectus issued in connection with our initial public offering in May 2002 contained material misrepresentations and omissions regarding our historical financial condition and regarding a personal stock transaction by our former chief executive officer. The Lead Plaintiffs further generally allege that during the proposed Class Period of May 21, 2002, through May 13, 2004, the defendants engaged in improper revenue recognition with respect to certain of our business transactions, failed to maintain adequate internal controls, and knowingly disclosed unrealistic but favorable information about market demand for and commercial viability of our products to artificially inflate the value of our stock. The Amended Complaint seeks unspecified compensatory damages and other relief. We, along with other defendants, filed a Motion to Dismiss Plaintiffs' Consolidated Amended Class Action Complaint in March 2005. The Motion to Dismiss was denied in December 2005, and the defendants served their Answer and Affirmative Defenses to the Consolidated Amended Class Action Complaint on December 16, 2005. The Lead Plaintiffs Motion for Class Certification is presently due in April 2006. We intend to vigorously defend against the class action. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of this lawsuit may harm our business and have a material adverse impact on our financial condition.

In addition to the above, certain of our present and former officers and directors, as well as the company as a nominal defendant, have been named in three shareholder derivative actions. Two shareholder derivative complaints were filed in California state court styled *Brian Clair, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00551, and *Joseph Durgin, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00553, both commenced in the Superior Court of Orange County, California. A third shareholder derivative complaint was filed in the United States District Court for the Middle District of Florida, Tampa Division, styled *Robert Story v. John Kang, et al.*, Case No. 8:04-CV-1587-T-23TBM. These shareholder derivative lawsuits allege that the defendants breached various fiduciary duties and otherwise violated state law based primarily upon the same underlying facts and circumstances as alleged in the federal shareholder class action. The plaintiffs seek unspecified compensatory damages, restitution and disgorgement of profits, equitable and/or injunctive relief as permitted by law and other relief.

The two shareholder derivative complaints in California state court have been consolidated. We, along with other defendants, have thrice succeeded in having the Plaintiffs' complaints dismissed for their failure to adequately plead demand futility. Most recently, on September 15, 2005, we, along with other defendants, filed a demurrer to the Plaintiffs' Consolidated Second Amended Shareholder Derivative Complaint dated August 16, 2005. In hearings on October 19, 2005, and January 20, 2006, the presiding judge sustained the demurrer, dismissing the second amended complaint but giving the plaintiffs until February 3, 2006, within which to serve a third amended complaint. The plaintiffs filed their Consolidated Third Amended Shareholder Derivative Complaint on February 3, 2006. We anticipate filing a demurer, seeking dismissal of the third amended complaint.

In the Florida derivative action, the Plaintiff filed a First Amended Shareholder Derivative Complaint on November 22, 2004. We, along with other defendants, filed a Motion to Dismiss in December 2004, to which the Plaintiff responded in opposition in February 2005. On January 20, 2006, the presiding judge granted our Motion to Dismiss, dismissing the compaint based upon the plaintiff's failure to adequately plead futility. On February 17, 2006, the plaintiff filed its Notice of Appeal of the Court's Order granting the Motion to Dismiss. The plaintiff's initial brief is presently due on May 4, 2006. We intend to vigorously defend against the derivative actions. We cannot currently predict the impact or

resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of this lawsuit may harm our business and have a material adverse impact on our financial condition.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new SEC regulations, are creating uncertainty for public companies. As a result of these new rules and the size and limited resources of our company, we will incur additional costs associated with our public company reporting requirements, and we may not be able to comply with some of these new rules. For example, we have not been able to comply with Section 404 of the Sarbanes-Oxley Act of 2002 for our 2005 and 2004 fiscal years. In addition, these new rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and this could make it difficult for us to attract and retain qualified persons to serve on our board of directors.

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

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

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

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

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

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

The existence of minority stockholders in our Liquidmetal Golf subsidiary creates potential for conflicts of interest.

We directly own 79% of the outstanding capital stock of Liquidmetal Golf, our subsidiary that has the exclusive right to commercialize out technology in the golf market. The remaining 21% of Liquidmetal Golf stock is owned by approximately 95 stockholders of record. As a result, conflicts of interest may develop between us and the minority stockholders of Liquidmetal Golf. To the extent that our officers and directors are also officers or directors of Liquidmetal Golf, matters may arise that place the fiduciary duties of these individuals in conflicting positions. John Kang, our Chairman, is also director of Liquidmetal Golf. In addition, James Kang, Founder and Director, is also a director of Liquidmetal Golf.

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

During 2005, the highest bid price for our common stock was $2.85 per share, while the lowest bid price during that period was $0.64 per share. The trading price of our common stock could continue to fluctuate widely due to:

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

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

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

As of March 20, 2006, we had outstanding approximately $2.3 million in aggregate principal amount of July 2007 Notes with a conversion price of $1.00 per share and $9.9 million in aggregate principal amount of August 2007 Notes with a conversion price of $2.00 per share. We also had outstanding warrants to purchase an aggregate of 3,777,715 shares at an exercise price of $2.00 per share. Each of these notes and warrants contain weighted-average anti-dilution provisions whereby, if we issue shares in the future for consideration below such conversion or exercise prices, then (with certain exceptions, including the issuance of stock options) the conversion price for our convertible notes would automatically be reduced (allowing the holders of the notes to receive additional shares of common stock upon conversion) and the exercise price of the warrants would automatically be reduced. If our available funds and cash generated from operations are insufficient to satisfy our liquidity requirements in the future, then we may need to raise substantial additional funds in the future to support our working capital requirements and for other purposes. If shares of our common stock or

securities convertible into or exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than the conversion and exercise prices of our convertible notes and warrants, then these anti-dilution provisions would be triggered, thus possibly causing substantial dilution to our then-existing stockholders if the notes are converted or the warrants are exercised. Further, subsequent sales of the shares in the public market could depress the market price of our stock by creating an excess in supply of shares for sale.

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

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

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

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

- authorize our board of directors, without stockholder approval, to issue up to 10,000,000 shares of “blank check” preferred stock that could be issued by our board of directors to increase the number of outstanding shares and prevent a takeover attempt;

- limit stockholders’ ability to call a special meeting of our stockholders;

- provide for a classified board of directors; and

- establish advance notice requirements to nominate directors for election to our board of directors or to propose matters that can be acted on by stockholders at stockholder meetings.

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

FORWARD-LOOKING STATEMENTS

This prospectus may contain “forward-looking statements” that relate to our management’s current expectations, estimates, forecasts, and projections about our company and its business. Any statement in this prospectus that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as “believe,” “estimate,” “project,” “expect,” “intend,” “may,” “anticipate,” “plans,” “seeks,” and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or result. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. It is important to note that our actual results could differ materially from what is expressed in our forward-looking statements due to, among other things, the matters discussed in the “RISK FACTORS” section of this prospectus, as well as the following risks and uncertainties:

- Our history of losses and uncertainty surrounding our ability to achieve profitability;
- Our limited history of manufacturing products from bulk amorphous alloys;
- Lengthy customer adoption cycles and unpredictable customer adoption practices;
- Our ability to identify, develop, and commercialize new product applications;
- Competition from other materials;
- Our ability to consummate strategic partnerships in the future;
- The potential for manufacturing problems or delays;
- Potential difficulties associated with protecting or expanding our intellectual property position; and
- Pending stockholder litigation against out company.

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

SELLING STOCKHOLDERS

On behalf of the selling stockholders named in the table below (including their donees, pledgees, transferees or other successors-in-interest who receive any of the shares covered by this prospectus), we are registering, pursuant to the registration statement of which this prospectus is a part, all 11,448,998 shares of our common stock which will become issuable upon:

- the conversion of 6% Senior Secured Notes Due July 2007 (the “July 2007 Notes”), which notes were issued by us to such selling stockholders on July 29, 2004;
- the conversion of 7% Senior Secured Convertible Notes Due August 2007 (the “August 2007 Notes”), which notes were issued by us to such selling stockholders on August 2, 2005;
- the exercise of outstanding common stock purchase warrants issued by us on June 13, 2005 and having an exercise price of $2.00 per share;
- the exercise of outstanding common stock purchase warrants issued by us on August 2, 2005 and having an exercise price of $2.00 per share; and
- the exercise of an outstanding non-qualified stock option issued by us to one individual, Paul Azinger, on January 1, 2001 and having an exercise price of $1.16 per share.

Other than Mr. Azinger, the selling stockholders are investors that provided financing to us or are those that acted as placement agents in our private placement financings. We are registering the shares to permit the selling stockholders to offer these shares for resale from time to time. The selling stockholders may sell all, some or none of the shares covered by this prospectus. All information with respect to beneficial ownership has been furnished to us by the respective selling stockholders. For more information, see “Plan of Distribution.” None of the selling stockholders, other than Ricardo A. Salas and CK Cho, has had any material relationship with us within the past three years other than as a result of the ownership of shares of our common stock. Ricardo A. Salas was elected as President, Chief Executive Officer, and a director of our company as of December 30, 2005. CK Cho was appointed as a director of our company in December of 2004.

The table below lists the selling stockholders and information regarding their ownership of common stock as of March 20, 2006:

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
			NUMBER	PERCENTAGE(4)
Jess S. Morgan & Co., Inc.(7)	2,946,909(1)	2,299,684	647,225	2%
Prana, LLC. (8)	211,000(1)	211,000	0	*
Rodd Friedman	212,156(1)	212,156	0	*
Bear Stearns f/b/o Rosen Capital LP M/P/P Plan and Bruce Rosen TTEE(6)(9)	49,500(1)	49,500	0	*
Caydal, LLC(10)	93,000(1)	50,000	43,000	*
Marlin Fund, LP (11)	290,251(1)	290,251	0	*
Marlin Fund II, LP(11)	54,000(1)	54,000	0	*
Marlin Fund Offshore, Ltd. c/o Hemisphere Management (B.V.I.) Limited(12)	330,751(1)	330,751	0	*

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
			NUMBER	PERCENTAGE(4)
Larry Bouts	25,000(1)	25,000	0	*
Really Cool Group Ltd.(13)	135,000(1)	100,000	35,000	*
Myron Neugeboren	90,000(1)	42,000	48,000	*
Jonas Brachfeld	12,000(1)	12,000	0	*
Greg Osborn(6)	61,250(1)	61,250	0	*
Richard Molinsky	30,000(1)	30,000	0	*
Richard and Joanne Kane	20,000(1)	20,000	0	*
Ricardo Salas	1,200,978(1)	263,876	937,102	2%
Wry Ltd.(14)	30,000(1)	30,000	0	*
Keith Barksdale(6)	46,250(1)	46,250	0	*
CK Cho	712,853(1)	527,751	185,102	*
Eric Brachfeld(6)	65,969(1)	65,969	0	*
Edward Neugeboren(6)(15)	48,770(1)	42,970	5,800	*
Dolphin Direct Equity Partners, L.P.(16)	62,500(1)	62,500	0	*
Dolphin Offshore Partners, L.P.(16)	375,000(1)	375,000	0	*
Harvard Developments Inc.(17)	481,826(1)	481,826	0	*

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3) NUMBER	PERCENTAGE(4)
Echo Capital Growth Corporation(18)	300,000(1)	300,000	0	*
Terrence L. Mealy	265,913(1)	265,913	0	*
Shinnston Enterprises Ltd.(19)	100,000(1)	100,000	0	*
Shea Diversified Investments, Inc.(20)	1,125,000(1)	1,125,000	0	*
Commonwealth Associates, L.P.(5)(21)	150,000(1)	150,000	0	*
Neal I. Goldman	225,000(1)	225,000	0	*
LBJ Holdings, LLC(22)	112,500(1)	112,500	0	*
John Stout(23)	466,142(1)	75,000	391,142	*

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
			NUMBER	PERCENTAGE(4)
MicroCapital Fund Ltd.(24)	375,000(1)	375,000	0	*
MicroCapital Fund L.P.(24)	750,000(1)	750,000	0	*
Journeys End Partners, LLC(25)	225,000(1)	225,000	0	*
Wynnefield Partners Small Cap Value LP(26)	537,330(1)	315,000	222,330	*
Wynnefield Partners Small Cap Value LP I(26)	727,420(1)	412,500	314,920	*
Wynnefield Small Cap Value Offshore Fund, Ltd.(26)	709,420(1)	397,500	311,920	*
Min Capital Corp Retirement Trust(27)	112,500(1)	112,500	0	*
Indigo Securities, LLC(5)(28)	34,500(1)	34,500	0	*
Michael Falk	100,694	100,694	0	*
Robert O'Sullivan(6)	100,694	100,694	0	*
Shea Ventures, LLC(29)	31,826	31,826	0	*
Ed Shea	4,551	4,551	0	*
Billy Walters	16,136	16,136	0	*
Amos Investments, LLC(30)	15,913	15,913	0	*
Keith Rosenbloom	7,468	7,468	0	*
Carl Kleidman	22,468	22,468	0	*
Joseph Pallotta	16,019	16,019	0	*
Inder Tallur	2,886	2,886	0	*
Daniel Parker Living Trust(31)	1,994	1,994	0	*
Douglas Levine	976	976	0	*
Greg Manocherian	106	106	0	*
Jeffrey Frank	46,125	46,125	0	*
Valiant Enterprises, LLC(32)	36,900	36,900	0	*
Bonnie Giusto	1,500	1,500	0	*
Scott Lee	2,500	2,500	0	*

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
			NUMBER	PERCENTAGE(4)
Tom Hodges	250	250	0	*
Vicki Johannes	1,000	1,000	0	*
Cecilio Rodriguez	3,500	3,500	0	*
Paul Azinger	376,345(2)	376,345	0	*

* Less than 1.0%.

(1) Includes the number of shares of common stock issuable pursuant to the July 2007 Notes, August 2007 Notes, and/or the above-described common stock purchase warrants.

(2) Represents the number of shares issuable pursuant to Mr. Azinger's non-qualified stock option agreement dated January 1, 2001.

(3) Assumes that the stockholders dispose of all the shares of common stock covered by this prospectus and do not acquire or dispose of any additional shares of common stock. The selling stockholders are not representing, however, that any of the shares covered by this prospectus will be offered for sale, and the selling stockholders reserve the right to accept or reject, in whole or in part, any proposed sale of shares. On August 2, 2005, we entered into an amended and restated registration rights agreement with the selling stockholders listed above (other than Mr. Azinger). See the section of this prospectus entitled "DESCRIPTION OF CAPITAL STOCK— Registration Rights". Under the amended and restated registration rights agreement, we are required to file a resale registration statement for the shares underlying all of our outstanding convertible notes and warrants to enable the resale of such shares by the selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act. To account for potential adjustments in the number of shares issuable pursuant to such notes and/or warrants, the agreement provides that we are required to include in such registration statement no less than the sum of 1.2 times the number of shares issuable upon the conversion of such notes and the exercise of such warrants as of the date of the amended and registration rights

agreement. Accordingly, the full number of shares set forth in this column may not ultimately become issuable to the selling stockholders under such notes and/or warrants.

(4) The percentage of common stock beneficially owned is based on 42,246,621 shares of common stock outstanding on March 20, 2006.

(5) These selling stockholders are broker-dealers who acquired their notes and warrants as compensation for serving as placement agents in the private placements in which the notes and warrants were issued.

(6) These selling stockholders (or their ultimate beneficial owners) have represented to us that they are affiliates of broker-dealers and that they each acquired the notes, warrants, or underlying shares to be resold in the ordinary course of business and that, at the time of acquisition, each had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

(7) Mr. Gary N. Levenstein, President of the Investment Division of Jess S. Morgan & Co., Inc., exercises sole voting and investment power over such shares.

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(8) Mr. Renee Vallese, Managing Partner of Prana, LLC, exercises sole voting and investment power over such shares.

(9) Mr. Bruce Rosen, the Managing Director of Rosen Capital L.P. M/P/P, exercises sole voting and investment power over such shares.

(10) Mr. Kevin Daly, Managing Member of Caydal, LLC, exercises sole voting and investment power over such shares.

(11) Mr. Michael W. Masters, the Managing Member of Masters Capital Management, the General Partner of the selling stockholder, exercises sole voting and investment power over such shares.

(12) Mr. Michael W. Masters, the Managing Member of Masters Capital Management, the Investment Manager of the selling stockholder, exercises sole voting and investment power over such shares.

(13) Includes 35,000 shares held in a trust for which Really Cool Group Ltd. has voting and investment power. Really Cool Group Ltd. disclaims beneficial ownership of these shares.

Mr. Jonathan Segal, director of Really Cool Group Ltd., exercises sole voting and investment power over such shares.

(14) Mr. Jonathan Segal, director of Wry Ltd., exercises sole voting and investment power over such shares.

(15) Includes 5,800 shares held in a trust for which Edward Neugeboren has voting and investment power. Edward Neugeboren disclaims beneficial ownership of these shares.

(16) Mr. Peter E. Salas, General Partner and authorized signatory of the selling stockholder, exercises sole voting and investment power over such shares.

(17) Mr. Paul J. Hill, President and Chief Operating Officer of Harvard Developments Inc., exercises sole voting and investment power over such shares.

(18) Mr. Paul J. Hill, President of Echo Capital Growth Corporation, exercises sole voting and investment power over such shares.

(19) Mr. James K. Murray, Jr., Chairman of Shinnston Enterprises Ltd., exercises sole voting and investment power over such shares.

(20) Voting and investment power over the shares is held by: Edmund H. Shea, Jr. (Secretary), John C. Morrissey (Vice President), John Shea (President), Peter Shea (Vice President and Treasurer) and Ron Lakey (Assistant Secretary).

(21) Mr. Robert O'Sullivan, President and Chief Executive Officer of Commonwealth Associates, L.P., exercises sole voting and investment power over such shares.

(22) Voting and investment power over the shares is held by: Brian Potiker (Vice President of HSP Group, Inc., Manager of LBJ Holdings, LLC), Jori Potiker (Vice President of HSP Group, Inc.), Lowell Potiker (Vice President of HSP Group, Inc.), and HSP Group, Inc. (Sheila Potiker, owner of 100% of the stock of HSP Group, Inc.).

(23) Includes 4,600 shares held by John Stout's spouse or children.

(24) Ian P. Ellis, Portfolio Manager for MicroCapital Fund, exercises sole voting and investment power over such shares.

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(25) Mr. Gerald Cramer, Manager of Journeys End Partners, LLC, exercises sole voting and investment power over such shares.

(26) Nelson Obus, Managing Member of the selling stockholder, exercises sole voting and investment power over such shares.

(27) Mr. Robert Friedman, Trustee, exercises sole voting and investment power over such shares.

(28) Mr. Eric Brachfeld, Managing Partner of Indigo Securities, LLC, exercises sole voting and investment power over such shares.

(29) Voting and investment power over the shares is held by: Edmund H. Shea, Jr. (Manager), John C. Morrissey (Vice President), John Shea (Manager), Peter Shea (Manager) and Ron Lakey (Manager).

(30) Mr. James K. Murray, Jr., Managing Member of Amos Investments, LLC, exercises sole voting and investment power over such shares.

(31) Mr. Henry Fuldner, Trustee, exercises sole voting and investment power over such shares.

(32) Jerry Apodaca, Member of Valiant Enterprises, LLC, exercises sole voting and investment power over such shares.

USE OF PROCEEDS

The selling stockholders will receive all of the proceeds from the sale of the common stock offered by this prospectus. We will not receive any of the proceeds from the sale of common stock by the selling stockholders, although we may receive proceeds from the exercise of warrants by the selling stockholders or the exercise of Mr. Azinger's stock option, if exercised. We cannot guarantee that the warrants or the option will be exercised by the selling stockholders.

DIVIDEND POLICY

Historically, we have not paid any dividends on our common stock, and we do not anticipate paying any dividends on our common stock in the foreseeable future. We expect to retain any earnings generated from our operations for use in our business. Any future determination as to the payment of dividends will be at the discretion of our Board of Directors and will depend upon our future operating results, financial condition and capital requirements, general business conditions and such other factors as our Board of Directors deems relevant.

MARKET FOR AND PRICE RANGE OF THE COMMON STOCK

Our common stock is currently quoted on the Nasdaq OTC Bulletin Board under the symbol "LQMT.OB." From the period July 16, 2004 through June 14, 2005, we were delisted from the Nasdaq Stock Market and our common stock was quoted on the "pink sheets". We were admitted for quotation on the Nasdaq's OTC Bulletin Board on June 15, 2005. On April 18, 2006, the last reported sales price of our common stock was $1.75 per share. As of March 20, 2006, we had 244 record holders of our common stock.

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

2005	**High**	**Low**
Fourth Quarter	$ 1.76	$ 0.64
Third Quarter	$ 2.15	$ 1.52
Second Quarter	$ 2.25	$ 1.28
First Quarter	$ 2.85	$ 1.10
2004	**High**	**Low**
Fourth Quarter	$ 4.00	$ 1.75
Third Quarter	$ 2.33	$ 0.71
Second Quarter	$ 3.68	$ 0.55
First Quarter	$ 4.52	$ 2.50

SELECTED FINANCIAL DATA

The following table shows our selected consolidated financial data as of and for the years ended December 31, 2001 through 2005. The selected consolidated financial data as of and for the years ended December 31, 2003 2004, and 2005 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The following information should be read with "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus.

These statements should be read in conjunction with restatement footnote 2 in the notes to consolidated financial statements in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

	For the Years Ended December 31,				
	2005	2004	2003	2002 (restated)	2001 (restated)
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	16,365	$ 17,429	$ 13,658	$ 9,138	$ 3,882
Cost of sales	15,129	12,168	18,162	5,656	1,924
Gross Profit	1,236	(5,261)	(4,504)	3,482	1,958
Operating expenses:					
Selling, general and administrative	8,534	11,591	17,729	13,099	5,239
Research and development	1,120	1,467	8,780	11,825	1,726
Impairment of goodwill	—	—	184	—	—
Impairment of long lived assets	4,487	—	2,684	—	—
Total operating expenses	14,141	13,058	29,377	24,924	6,965
Income (loss) before interest, other income, income taxes, minority interest and discontinued operations	(12,905)	(7,797)	(33,881)	(21,442)	(5,007)
Loss from extinguishments of debt	(1,247)	(1,663)	—	—	—
Change in value of warrants, net	3,985	747	—	—	—
Change in value of beneficial conversion feature	3,849	—	—	—	—
Other income	—	302	—	—	—
Interest expense, net	(4,928)	(3,566)	(86)	(603)	(1,095)
Gain on sale of marketable securities held-for-sale	—	—	1,178	832	—
Income (loss) before income taxes, minority interest and discontinued operations	(11,246)	(11,977)	(32,789)	(21,213)	(6,102)
Income taxes	—	—	—	—	—
Minority interest in loss of consolidated subsidiary	—	—	21	118	—
Income (loss) from continuing operations	(11,246)	(11,977)	(32,768)	(21,095)	(6,102)
Income (loss) from operations of discontinued operations, net	—	(749)	(964)	83	(5,973)
Gain (loss) from disposal of discontinued operations, net	—	—	127	1,556	(11,949)
Net loss	$ (11,246)	$ (12,726)	$ (33,605)	$ (19,456)	$ (24,024)
Income (loss) per share from continuing operations – basic and diluted	$ (0.27)	$ (0.29)	$ (0.79)	$ (0.54)	$ (0.18)
Weighted average common shares used to compute income (loss) per share from continuing operations – basic and diluted	41,833	41,610	41,505	38,714	33,323

	As of December 31,				
	2005	2004	2003	2002 (restated)	2001 (restated)
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 1,392	$ 742	$ 3,127	$ 25,058	$ 2,230
Working capital (deficiency)	(10,154)	(10,241)	(698)	25,812	(9,573)
Total assets	21,563	28,508	30,852	24,845	6,680
Long-term debt, including current portion, net of discount	7,681	8,609	4,047	—	2,988
Shareholders' equity (deficiency)	(1,386)	8,860	16,163	50,599	(7,504)

SUPPLEMENTARY FINANCIAL INFORMATION

The following information presents our unaudited quarterly operating results for 2005 and 2004. The data has been prepared by Liquidmetal Technologies, Inc. on a basis consistent with the Consolidated Financial Statements included elsewhere in this registration statement, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof. These operating results are not necessarily indicative of our future performance.

During the fourth quarter of 2005, although annual revenues decreased relative to 2004, we had an increase in revenue of $1.1 million compared to the third quarter due to increases in orders from our consumer electronics casings customers for Liquidmetal bulk alloy parts for cellular phone components and other consumer electronics casings, and increases in demand for Liquidmetal coatings products from the oil drilling industry. The increases in were a result of expanded sales and marketing efforts into various electronic components including sliding hinges, brackets and antenna. The Company

experienced an increase gross profit of $0.3 million for the fourth quarter of 2005 from the third quarter due to increase in mix of higher margin products. Significant portion of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher margin products in the future will cause the gross profit to improve over time. In addition, the company wrote-down $0.3 million of primarily raw material inventory considered to be long term as the carrying value of the inventory held as an impairment charge. While we may use the excess raw materials beyond one year to fulfill future demand, we did not foresee use of this inventory in the foreseeable future.

We have restated our third quarter financial statements originally filed on form 10-Q on December 1, 2005, to properly account for the beneficial conversion feature of the senior convertible notes issued in August 2005. Accounting for this feature resulted in a benefit of $1.0 million in our earnings from the change in value of beneficial conversion feature and an increase to interest expense of $0.1 million from additional amortization of debt discounts related to the revaluation of the beneficial conversion feature of the senior convertible debt issued in August 2005. In addition, the company wrote-down $0.8 million of primarily raw material inventory considered to be long term as the carrying value of the inventory held as an impairment charge. While we may use the excess raw materials beyond one year to fulfill future demand, we did not foresee use of this inventory in the foreseeable future.

Included in the second quarter of 2005 was an impairment charge for long lived assets of $3.4 million. Impairment charge represents write-down of $1.7 million of raw materials considered to be long term inventory and $1.7 million of idle equipment. While we may use the excess raw materials beyond one year to fulfill future demand, we did not foresee use of this inventory in the foreseeable future. Further, while we have marketed the idle equipment for ultimate sale since early 2004, we were unable to sell this equipment.

During the fourth quarter of 2004, although our revenues were comparable to prior year, we had a decrease in revenue of $2.1 million compared to the third quarter due to an unanticipated and temporary decrease in orders from one of our customers, Samsung. In addition, included in our fourth quarter cost of sales is a $0.4 million charge related to certain hinge finished goods used in Samsung's cell phone models which were nearing its end of life. The Company experienced a gross loss of $0.4 million for the fourth quarter due to the one time charge of cost of sales and also due to the fact that our cost of sales from our Liquidmetal bulk alloy segment includes primarily fixed costs from our labor and equipment expenses.

Pursuant to Accounting Principles Board Opinion No. 30, Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, we reclassified our consolidated financial statements to reflect the discontinuation of our equipment manufacturing operations and retail golf business. The revenue, costs and expenses, assets and liabilities, and cash flows of the equipment manufacturing and our retail golf businesses were segregated in our accompanying Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Loss, and Consolidated Statements of Cash Flows. The net operating results, net assets, and net cash flows of the equipment manufacturing and retail golf businesses were reported as discontinued operations in our annual consolidated financial statements and in the condensed consolidated financial statements included in this report.

	For the Three Months Ended			
	12/31/05	Restated 9/30/05	6/30/05	3/31/05
	(In thousands, except per share data) (Unaudited)			
Consolidated Statements of Operations Data:				
Revenue	$ 5,453	$ 4,342	$ 3,727	$ 2,843
Cost of sales	4,576	3,756	3,962	2,835
Gross (loss) profit	877	586	(235)	8
Operating expenses				
Selling, general, and administrative	2,013	2,364	1,567	2,590
Research and development	314	196	213	397
Impairment of long lived assets	260	833	3,394	—
Total operating expenses	2,587	3,393	5,174	2,987
Loss from operations	(1,710)	(2,807)	(5,409)	(2,979)
Loss from exinguishments of debt	—	(1,247)	—	—
Change in value of warrants, net	2,840	1,112	(100)	133
Change in value of beneficial conversion feature	2,867	982	—	—
Interest expense, net	(1,487)	(1,283)	(908)	(1,251)
Loss from operation before income taxes and discontinued operations Gain (loss) from continuing operations	2,511	(3,243)	(6,417)	(4,097)
Income taxes	—	—	—	—
Net gain (loss)	$ 2,511	$ (3,243)	$ (6,417)	$ (4,097)
Loss per share from continuing operations - basic and diluted	$ 0.06	$ (0.08)	$ (0.15)	$ (0.10)
Weighted average common shares used to compute loss per share from continuing operations - basic and diluted	42,180	41,933	41,610	41,610

	For the Three Months Ended			
	12/31/04	9/30/04	6/30/04	3/31/04
	(In thousands, except per share data) (Unaudited)			
Consolidated Statements of Operations Data:				
Revenue	$ 2,471	$ 4,615	$ 4,055	$ 6,288
Cost of sales	2,895	3,241	2,475	3,557
Gross profit (loss)	(424)	1,374	1,580	2,731
Operating expense:				
Selling, general, and administrative	2,413	3,569	2,544	3,065
Research and development	407	374	345	341
Total operating expenses	2,820	3,943	2,889	3,406
Loss from operations	(3,244)	(2,569)	(1,309)	(675)
Loss on extinguishments of debt	—	(1,663)		
Change in value of warrants, net	(99)	(434)	694	586
Other income (expense), net	—	302	—	—
Interest income (expense), net	(358)	(1,805)	(1,144)	(259)
Loss from operation before income taxes and discontinued operations	(3,701)	(6,169)	(1,759)	(348)
Income taxes	—	—	—	—
Loss from continuing operations	(3,701)	(6,169)	(1,759)	(348)
Loss from discontinued operations, net of tax	—	—	(356)	(393)
Net loss	$ (3,701)	$ (6,169)	$ (2,115)	$ (741)
Loss per share from continuing operations - basic and diluted	$ (0.09)	$ (0.15)	$ (0.04)	$ (0.01)
Weighted average common shares used to compute loss per share from continuing operations - basic and diluted	41,610	41,610	41,610	41,610

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements. See "Forward-Looking Statements" for a discussion of uncertainties, risks and assumptions associated with these statements.

Overview

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

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

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

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

We maintain certain of our raw material inventories in amounts in excess of our operating cycle of one year due to the nature of our manufacturing process, production lead time, and the recyclability of our raw material. These inventories were classified as long-term inventory as of December 31, 2004. We have determined that its current and projected raw material requirements are not sufficient enough to warrant the use of such raw

materials in the foreseeable future. As a result, we determined that the carrying value of raw materials held by its subsidiary, Liquidmetal Korea, exceeded its fair value in the amount of $2.7 million during the fiscal year 2005.

Idle equipment consists of certain equipment held by the Company for use in expansion of bulk alloy parts manufacturing. Due to excess manufacturing capacity, the Company classified the equipment as idle equipment as of December 31, 2005 and 2004. While the equipment may be used internally to meet future capacity requirements, considering our current revenue and foreseeable production requirements, we do not anticipate utilizing this equipment internally in the near future. As a result, we determined that the carrying value of idle equipment held by its subsidiary, Liquidmetal Korea, exceeded its fair value in the amount of $1.7 million during the second quarter of fiscal year 2005.

On August 4, 2004, we established a sub-assembly plant in the city of Weihai in Shandong province of China under Weihai Liquidmetal Company Limited, which is 100 percent owned by Liquidmetal Korea, to facilitate our bulk alloy manufacturing business. Weihai Liquidmetal is consolidated into Liquidmetal Technologies with all intercompany transactions eliminated.

In conjunction with the divestiture of our Dongyang and Taesung subsidiaries in March and June 2004, respectively, we decided to discontinue our equipment manufacturing business in order to conform our operations to our broader corporate business strategy. Pursuant to Accounting Principles Board Opinion No. 30, Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, we reclassified our consolidated financial statements to reflect the discontinuation of our equipment manufacturing operations. The revenue, costs and expenses, assets and liabilities, and cash flows of the equipment manufacturing business were segregated in our financial statements.

Impairment of goodwill represents the write-down of the goodwill balance of Dongyang Yudoro (“Dongyang”), our 51% owned subsidiary in South Korea. During 2003, Dongyang experienced net losses as a result of a continuing economic downturn in markets for its machinery products. These events, along with Dongyang’s operating cash flow losses and uncertainty surrounding its future cash flows, led us to evaluate our investment for recoverability as of December 31, 2003. As a result, we determined that the carrying value of our investment in Dongyang exceeded its fair value as of December 31, 2003 in the amount of $0.2 million. In March 2004, we sold our 51% investment in Dongyang to the 49% minority stockholder.

Impairment of Long-Lived Assets consists of a write-down of the building of our manufacturing facility in South Korea on the basis that the fair value of this building was determined to be less than the book value as of December 31, 2003. Our significant operational difficulties in 2003 along with our history of operating or cash flow losses and uncertainty surrounding our future cash flows, led us to evaluate our long-lived assets for recoverability as of December 31, 2003. As a result, we determined that the carrying value of our manufacturing plant in Pyongtaek, South Korea exceeded its fair value as of December 31, 2003 in the amount of $2.7 million. The fair value of the building was based on the average of two independent appraisals of the building obtained in the first quarter of 2004.

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

Results of Operations

Comparison of the years ended December 31, 2005 and 2004

Revenue. Revenue decreased to $16.4 million in the twelve months ended December 31, 2005 from $17.4 million in the twelve months ended December 31, 2004. The decrease included a $2.6 million decrease from restatement of revenues from 2003 to 2004 as part of our 2003 financial statement restatement which resulted in one-time recognition of revenues during the first quarter of 2004, and $0.9 million decrease from our research and development services related primarily to reduced activity from defense, leisure, and luxury goods applications during 2005. The decreases were offset by a $0.4 million increase in bulk alloy parts primarily to increased sales to sporting goods manufacturers and $1.9 million increase from sale of our coatings products from increased demand for drill pipe coatings during 2005.

Cost of Sales. Cost of sales increased to $15.1 million, or 92% of revenue, during the twelve months ended December 31, 2005 from $12.2 million, or 70% of revenue, in the twelve months ended December 31, 2004. The increase was a result of decreases in bulk Liquidmetal alloy business. Cost of sales as a percentage of revenue has increased as a result of ramp up of lower margin electronic casing and prototypes during the year. Further, significant portion of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher margin products in the future will cause the gross profit to improve over time. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased to $8.5 million, or 52% of revenue, in the twelve months ended December 31, 2005 from $11.6 million, or 67% of revenue, in the twelve months ended December 31, 2004. This decrease was primarily a result of decrease in professional and contracted services of $1.8 million, decrease in advertising and promotions expense of $0.2 million, decrease in bad debt expenses of $0.1 million, decrease in product warranty expense of $0.2 million, decrease in insurance costs of $0.6 million, and decrease in amortization and depreciation costs of $0.2 million. These and other decreases in selling, general and administrative expenses represent the Company’s efforts to manage costs and focus on our core business while continuing to build our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

Research and Development Expenses. Research and development expenses decreased to $1.1 million, or 7% of revenue, in the twelve months ended December 31, 2005 from $1.5 million, or 8% of revenue, in the twelve months ended December 31, 2004. The decrease was primarily a result

of decreases in salaries, wages and related expenses by $0.3 million and decrease in laboratory and prototyping expenses by $0.1 million. The decreases were a result of the Company focusing primarily on our core business associated with our bulk Liquidmetal alloy business while managing our costs. The Company continues to perform research and development efforts on new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants and provide research grants to various institutions to advance the development of Liquidmetal alloys.

Impairment of Long Lived Assets. Impairment of long lived assets increased to $4.5 million, or 27% of revenue, for the twelve months ended December 31, 2005 from $0 for the twelve months ended December 31, 2004. Impairment expense represents primarily write-down of $2.7 million of raw materials considered to be long term inventory and $1.7 million of idle equipment. While we may use the excess raw materials beyond one year to fulfill future customer order, we have determined that our current capacity was not significant enough to warrant holding this inventory as a long term asset. Further, while we have actively marketed the idle equipment for ultimate sale since early 2004, we were unable to sell this equipment. In addition, while the equipment may be used internally to meet future capacity requirements, considering our current revenue, we do not anticipate utilizing this equipment internally in the near future. As such, we have reduced the carrying values of the excess raw material and idle equipment.

Loss from Extinguishments of Debt. Loss from extinguishments of debt decreased to $1.2 million, or 8% of revenue, for the twelve months ended December 31, 2005 from $1.7 million, or 10% of revenue, for the twelve months ended December 31, 2004. The $1.2 million loss from extinguishments of debt was recognized from the exchange of our 6% Convertible Notes due 2006 in August 2005. The $1.7 million loss from extinguishments of debt was recognized from exchange of our 6% Senior Convertible Notes due March 2007 in August 2004.

Change in value of warrants, net. Change in the value of warrants yielded a net gain of $4.0 million, or 24% of revenue, during the twelve months ended December 31, 2005 from the change in value of warrants issued from the senior convertible debt funded in March 2004 and exchanged in August 2004, convertible debt funded in June 2005, and senior convertible debt funded in August 2005 primarily as a result of fluctuations in our stock price.

Change in value of beneficial conversion feature. Change in value of beneficial conversion feature was a gain of $3.8 million, or 24% of revenue, during the twelve months ended December 31, 2005 from the change in value of beneficial conversion feature liability from the senior convertible debt funded in August 2005 primarily as a result of fluctuations in our stock price. There were no amounts recorded as change in value of beneficial conversion feature for the twelve months ended December 31, 2004.

Other Income. Other income was $0.3 million, or 2% of revenue, during the twelve months ended December 31, 2004 from certain stock transactions with John Kang, our Chairman, President, and Chief Executive Officer during 2002 (see "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS"). There were no amounts recorded as other income for the twelve months ended December 31, 2005.

Interest Expense. Interest expense was $4.9 million, or 30% of revenue, for the twelve months ended December 31, 2005 and was $3.6 million, or 21% of revenue, for the twelve months ended December 31, 2004. During each of the twelve months ended December 31, 2005 and 2004, the interest expense was primarily due to the interest accrued on the Kookmin Bank loan funded on February 4, 2003, senior convertible debt funded on March 3, 2004 and

exchanged in August 2004, convertible debt funded on June 13, 2005, and senior convertible debt funded in August 9, 2005, as well as amortization of debt issuance costs and discount on the convertible debt. During 2005, $0.1 million of interest expense was accrued from default interest rates applied to the senior convertible notes effective April 1, 2005 from non-payment of quarterly scheduled interest payments and $1.0 million of late registration penalty fee of our senior convertible debt was accrued as interest expense. The default interest and late registration penalty were paid as of December 31, 2005.

Interest Income. Interest income was $17 thousand for the twelve months ended December 31, 2005, and $37 thousand for the twelve months ended December 31, 2004 from interest earned on cash deposits.

Comparison of the years ended December 31, 2004 and 2003

Revenue. Revenue increased to $17.4 million in the twelve months ended December 31, 2004 from $13.7 million in the twelve months ended December 31, 2003. The increase was due to increases in revenue earned by our bulk Liquidmetal alloy and coatings segments in the twelve months ended December 31, 2004. This increase in revenue consisted of $3.8 million from the sale and prototyping of parts manufactured from bulk Liquidmetal alloys, offset by a decrease of $1.9 million from research and development services related primarily from reduced activity from defense and medical applications. Our coatings business contributed $1.0 million to the increase in revenues as compared to the twelve months ended December 31, 2003 from increased demand for drill pipe coatings.

Cost of Sales. Cost of sales decreased to $12.2 million, or 70% of revenue, during the twelve months ended December 31, 2004 from $18.2 million, or 133% of revenue, in the twelve months ended December 31, 2003. This decrease was a result of the continued maturing of our manufacturing process and represents the Company's efforts to manage costs and focus on our core business while continuing to build production pipeline and manufacturing infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business. The cost of sales for the products sold by the coatings business segment is generally consistent from year to year because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased to $11.6 million, or 66% of revenue, in the twelve months ended December 31, 2004 from $17.7 million, or 130% of revenue, in the twelve months ended December 31, 2003. This decrease was primarily a result of decrease in wages and related expense by $5.0 million, decreases in travel and communication expenses by $0.8 million, decreases in rent by $0.8 million, decrease in relocation expenses by $0.7 million, offset by an increase in professional fees, consultant fees, and contract services by $0.8 million, and an increase in insurance costs by $0.4 million. These and other decreases in selling, general and administrative expenses represent the Company's efforts to manage costs and focus on our core business while continuing to build our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

Research and Development Expenses. Research and development expenses decreased to $1.5 million, or 8% of revenue, in the twelve months ended December 31, 2004 from $8.8 million, or 64% of revenue, in the twelve months ended December 31, 2003. The decrease was primarily a result of decreases in salaries, wages and the related expenses by $3.0 million, decrease in laboratory and prototyping expenses by $2.0 million, decrease in depreciation expense by $0.7 million, decrease in professional fees, consultant fees, and contract services by $0.6 million, decrease in research grants by $0.3

million, and decrease in travel related expenses by $0.2 million. The decreases were a result of the Company focusing primarily on our core business associated with our bulk Liquidmetal alloy business while managing our costs. The Company continues to perform research and development efforts on new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants and provide research grants to various institutions to advance the development of Liquidmetal alloys.

Impairment of Goodwill. Impairment of goodwill was $0.2 million , or 1% of revenue, in the twelve months ended December 31, 2003. Impairment of goodwill represents the write-down of the goodwill balance of Dongyang Yudoro ("Dongyang"), our 51% owned subsidiary in South Korea. During 2003, Dongyang experienced net losses as a result of a continuing economic downturn in the market for its machinery products. These events along with Dongyang's operating, and cash flow losses, and uncertainty surrounding its future cash flows, led us to evaluate our investment for recoverability as of December 31, 2003. As a result, we determined that the carrying value of our investment in Dongyang exceeded its fair value as of December 31, 2003 in the amount of $0.2 million. In March 2004, we sold our 51% investment

in Dongyang to the 49% minority shareholder (see Note 17 to the consolidated financial statements included in this prospectus). There was no impairment charge to goodwill in the twelve months ended December 31, 2004.

Impairment of Long Lived Assets. Impairment of long lived assets was $2.7 million, or 20% of revenue, in the twelve months ended December 31, 2003. Impairment expense represents a write-down of the building of our manufacturing facility in South Korea. Due to the decreased production and usage of our Pyongtaek manufacturing operation, we decided to obtain independent appraisals as to the fair value of this building. Accordingly, the fair value of the building as determined by the average of the two independent appraisals was less than the carrying value of the building as of December 31, 2003. There was no impairment charge to long lived assets in the twelve months ended December 31, 2004.

Loss from Extinguishment of Debt. Loss from extinguishment of debt was $1.7 million, or 10% of revenue, during the twelve months ended December 31, 2004 due to the extinguishment of our March Notes as it relates to the exchange in August 2004. There was no such loss recorded during twelve months ended December 31, 2003.

Change in value of warrants, net. Change in value of warrants was a net gain of $0.7 million, or 4% of revenue, during the twelve months ended December 31, 2004 from the change in valuation of warrant payable issued related to the senior convertible debt funded in March 2004, which was exchanged in August 2004 (see Note 14 to the consolidated financial statements included in this prospectus). There were no such amounts recorded for the twelve months ended December 31, 2003.

Other Income. Other income was $0.3 million, or 2% of revenue, during the twelve months ended December 31, 2004 from certain stock transactions with John Kang, our Chairman, President, and Chief Executive Officer during 2002 (see "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS"). There were no amounts recorded as other income for the twelve months ended December 31, 2003.

Interest Expense. Interest expense was $3.6 million, or 21% of revenue, in the twelve months ended December 31, 2004 and was $0.4 million, or 3% of revenue, in the twelve months ended December 31, 2003. During the twelve months ended December 31, 2004, the interest expense was primarily due to the interest accrued, amortization of debt discount and deferred issuance costs on new senior convertible debt originally sold on March 3, 2004 and exchanged in August 2004, and interest accrued on Kookmin Bank loan funded on February 4, 2003. During the twelve months ended December 31, 2003, interest expense was primarily due to interest accrued on the Kookmin Bank loan to our South Korean subsidiary made on February 4, 2003.

Interest Income. Interest income was $37 thousand for the twelve months ended December 31, 2004 for interest earned on certificate of deposits. Interest income was $0.3 million or 2% of revenue for the twelve months ended December 31, 2003 for interest earned on short-term, investment grade, interest-bearing securities.

Gain from Sale of Investment. In April 2003 we sold our remaining shares of Growell Metal Co., Ltd. that were purchased in July 2002. We recognized a $1.2 million gain on the sale of these shares during the twelve months ended December 31, 2003. There were no such gains in the twelve months ended December 31, 2004.

Liquidity and Capital Resources

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

Cash used for operating activities was $6.5 million for the year ended December 31, 2005. Our cash used for operating activities, including our discontinued equipment manufacturing operations, was $6.3 million for the year ended December 31, 2004. Our working deficit remained unchanged at $10.2 million at December 31, 2005 and 2004 as our current assets and liabilities decreased by approximately $0.4 million. The Company's current asset and liability decrease of approximately $0.4 million was primarily attributable to increase in cash and cash equivalents of $0.7 million, increase in trade accounts receivable of $0.7 million, decrease in current portion of long term debt of $4.6 million, decrease in current portion of other liabilities of $0.6 million, offset by an decrease in restricted cash of $0.8 million, decrease in inventories of $0.6 million, decrease in prepaid expenses and other current assets of $0.3 million, increase in accounts payable and accrued

liability of $1.6 million, increase in settlement payable of $0.1 million, increase in deferred revenue of $0.4 million, increase in short-term debt of $0.6 million, increase in warrant liabilities of $1.2 million, and increase in beneficial conversion feature liabilities of $1.0 million.

Cash used in investing activities was $0.3 million for the year ended December 31, 2005 for the acquisition of property and equipment and investments in patents and trademarks.

Cash provided by financing activities was $7.1 million for the year ended December 31, 2005, which consists of $0.8 million in proceeds from restricted cash, $13.1 million in proceeds from convertible debt funded in June 2005 and senior convertible debt funded in August 2005, $0.2 million in proceeds from borrowings from our short term debt executed in March 2005, $4.4 million in proceeds from factoring agreement executed in April 2005, offset by $11.5 million on repayment of borrowings.

We anticipate that our capital expenditures will be less than $0.5 million for the full year 2006 for the acquisition of furniture, fixtures, and other business equipment. This amount is subject to change, however, depending upon the nature and the amount of the product orders that we actually receive from customers.

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

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2005 and 2004 was $11.2 million and $12.7 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2005 and 2004, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. Accordingly, we anticipate that we will need additional funding during the next 12 months, and we plan to seek to raise such funds through public or private equity financing, bank debt financing, or from other sources. Specifically, we anticipate that we could need $1 to $5 million over the next twelve months to pursue our current operating plan, although this amount may be lower depending on the orders we receive for our products. The amount of funding that we plan to seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products, particularly components for cellular phones and flash memory drive casings, and our ability to continue to improve our manufacturing processes. We evaluate our working capital needs and operating plan assumptions on a monthly basis to determine whether any adjustment to our cash and liquidity outlook is warranted, and we also review potential sources of financing on an ongoing basis. However, adequate funds may not be available when needed, and if we raise additional funds by issuing equity securities, existing stockholders may be diluted. If we don't receive sufficient funding to operate under our current plan, we intend to reduce operations and expenses and shift our focus to the pursuit of licensing transactions and other strategic transactions that are less capital intensive.

Initial Public Offering Proceeds

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

As of December 31, 2003, we used $70.7 million of net proceeds from the Offering. In 2002, we used approximately $7.8 million of the net proceeds from the Offering to repay all outstanding promissory notes and accrued

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

Private Placements of Convertible Notes

On March 3, 2004, we sold $9.9 million of 6.0% senior convertible notes due 2007 (the "March Notes") to investor groups in a transaction led by Michigan Venture Capital Co., Ltd, a South Korea-based institutional investment firm, and IndiGo Ventures LLC, a New York-based investment firm that served as a financial advisor to our company for the transaction. The notes were convertible at any time into our common stock at a price of $3.00 per share. Investors in the private placement received warrants to purchase an aggregate amount of up to approximately 1.2 million shares of common stock, originally exercisable at $3.00 per share for varying periods but no later than 100 days following the effectiveness of a registration statement covering the resale of shares issuable upon exercise of the warrants. In addition, the investors had the right to call for repayment of the notes prior to maturity at any time after the second anniversary of the closing of the transaction.

On August 19, 2004, we completed a private exchange offer for our March Notes. Under terms of the exchange offer, approximately $5.5 million in aggregate principal amount of the March Notes were exchanged for an aggregate of (i) $2.75 million of 6% Senior Secured Notes Due 2007 (the "July 2007 Notes") and (ii) $2.75 million of 10% Senior Secured Notes Due 2005 (the "July 2005 Notes"), collectively referred to as "Exchange Notes". In addition, we redeemed approximately $4.5 million of the March Notes in cash. The Exchange Notes were collateralized by certain patents owned by our company and a second priority mortgage interest in plant facilities and certain equipment at our plant in South Korea. The July 2005 Notes had a maturity date of July 29, 2005, and a conversion price of $2.00 per share (compared to a conversion price of $3.00 per share under the March Notes). The July 2007 Notes have a maturity date of July 29, 2007, and a conversion price of $1.00 per share. Further, the exchange notes are convertible into Common Stock, at the option of our company, if at any time after the issuance of the notes, the closing per share price of the Common Stock exceeded $4.00 (as adjusted for stock splits, reverse splits, stock dividends, and recapitalizations) for 30 consecutive trading days, and further provided that there has been effective registration during such period. Holders of the July 2007 Notes also have the right to call for repayment of the July 2007 Notes prior to maturity at any time after the second anniversary of the completion of the exchange offer. A total of 563,151 warrants to purchase our common stock at an exercise price of $3.00 per share —all of which were previously issued in connection with the purchase of the March Notes—were amended to provide for an extended expiration date of March 1, 2006. The warrant exercise price is subject to price adjustment for anti-dilution purposes. The warrants expired on March 1, 2006.

On June 13, 2005, we completed a private placement (the "June 2005 Private Placement") of 10% Convertible Unsecured Notes Due June 13, 2006 in the aggregate principal amount of $3.25 million (the "June 2006 Notes"), together with warrants to purchase up to an aggregate of 893,750 shares of our company's common stock (the "Warrants"). The June 2006 Notes were unsecured and were due on the earlier of June 13, 2006 or the consummation of a follow-on equity or debt offering or restructuring transaction pursuant to which our company receives gross proceeds of at least $4.0 million. Prior to maturity, the June 2006 Notes were interest-only, with interest payments due quarterly, at the rate of 10% per year. If, within 120 days following the issue date of the June 2006 Notes, our company either failed to redeem the notes for the principal amount and accrued interest thereon or failed to close a "Qualified Financing," then the June 2006 Notes would have been convertible at a conversion price equal to seventy five percent (75%) of the closing price of our company's common stock on the first trading day immediately preceding the conversion date. A "Qualified Financing " was defined in the June 2006 Notes as any debt or equity financing of our company resulting in aggregate gross proceeds to our company of at least $5.0 million and in which the holders of at least sixty percent (60%) of the aggregate principal amount of our company's Long-Term Notes either (i) agree that the equity or debt securities to be issued in such financing shall be pari passu in order of payment to the July 2007 Notes held by them or (ii) exchange their July 2007 Notes for new securities in the financing transaction. We successfully completed a Qualified Financing on August 9, 2005, and the June 2006 Notes never became convertible.

On August 9, 2005, we completed a private placement (the "August 2005 Private Placement") of $9.9 million in principal amount of new 7% Convertible Secured Promissory Notes due August 2007 (the "Senior Notes"). The issuance consisted of $5.0 million cash, exchange of $1.3 million in principal amount of the July 2005 Notes, the exchange of $3.0 million in principal amount of the June 2006 Notes, satisfaction of accrued interest and late registration fees in the amount of $0.6 million on the July 2005 Notes, and satisfaction of accrued interest of $9 thousand on the previously issued June 2006 Notes. The Senior Notes were issued pursuant to a Securities Purchase Agreement dated effective as of August 2, 2005 among the our company, the purchasers of the Senior Notes, and the holders of previously issued July 2005 Notes and June 2006 Notes. Interest payments on the Senior Notes are due quarterly, and failure to make timely interest payments will result in increase in interest rates to 14% per annum on the Senior Notes ("Default Rates"). As of September 30, 2005, we have made timely interest payments. The Senior Notes are convertible into shares of our common stock at $2.00 per share Pursuant to an Amended and Restated Security Agreement. The Senior Notes are secured by substantially all of our assets and rank senior to all other obligations of our company, other than the our loan with Kookmin Bank of South Korea (or any refinancing of such loan), the July 2007 Notes, purchase-money asset financing, trade creditors in the ordinary course of business, and any inventory or receivables-based credit facility that we may obtain in the future, provided that the amount of the credit facility does not exceed 50% of eligible inventory and 80% of eligible receivables. The Senior Notes will automatically convert into shares of our common stock if the common stock has an average closing price of more than $5.00 per share during 30 consecutive trading days. We also issued warrants to the purchasers of the Senior Notes and placement agents giving them the right to purchase up to 2,469,470 and 414,495 shares of our common stock, respectively, with an exercise price of $2.00 per share. The warrants will expire on August 2, 2010.

In connection with the August 2005 Private Placement, we entered into an amended and restated registration rights agreement with the holders of the July 2007 Notes, the holders of the August 2007 Notes, and the holders of the above-described outstanding warrants. This amended and restated registration rights agreement replaced all other registration rights agreements previously entered into by us in connection with the private sale by us of convertible notes and warrants. Under the amended and restated registration rights agreement, we are required to file a resale registration statement for the shares underlying all of our outstanding convertible notes and warrants, as described above, by October 31, 2005, to enable the resale of such shares by the selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act. We are then required to cause such registration statement to become effective within 60 days after we receive the first written comments on the registration statement from the SEC, or if the SEC notifies us that it will not review the registration statement, within five days after such notification. We will be subject to certain monetary penalties, as set forth in the registration rights agreement, if the registration statement is not filed or does not become effective on a timely basis. Specifically, if we do not file the registration statement on a timely basis, we will be obligated to pay a late filing fee to the selling stockholders in the amount of 3% of the warrant exercise price on each of the warrants held by them plus 3% of the principal amount of the outstanding notes held by them. This fee will be payable for each period of 30 business days that the filing of the registration statement is made past the required filing date, and the payments will be due 10 business days following the end of each 30-day period. If the registration statement has not been declared effective by the required effective date, we will be obligated to pay a monthly late registration fee to the selling stockholders in the amount of 2% of the aggregate warrant exercise prices and aggregate note principal amounts for the first 30 business days after the required effective date, and 1% for each 30-business day period thereafter until the registration statement is declared effective. Notwithstanding the foregoing, the late filing fees and late registration fees will not exceed 18% of the aggregate warrant exercise prices and aggregate note principal amounts.

Our convertible notes and related documents contain restrictive covenants pursuant to which we generally may not (i) incur any indebtedness that would be senior to, or on the same rank as, the convertible notes with respect to payment or security, (ii) grant any liens or security interests in any of our assets which serve as collateral for the convertible notes (which collateral consists of substantially all of our assets), (iii) with certain exceptions, sell any of the assets that constitute collateral for the notes, (iv) become a guarantor for a third-party's obligation (other than guarantees in the ordinary course of business not in excess of $0.5 million in the aggregate), (v) acquire any shares or securities of any other person or entity in excess of an aggregate of $1.0 million over any rolling 12-month period, (vi) purchase or otherwise acquire any assets in excess of an aggregate of $3.0 million over any rolling 12-month period, (vii) engage in any transaction resulting in the issuance to any person of more than 40% of the equity of our company, or (viii) engage in any merger or sale of all or substantially all of our business assets. These covenants may curtail our ability to raise capital in the future or otherwise restrict our ability to enter into a transaction that we believe would be in the best interest of our stockholders. We believe that we are currently in compliance with all such covenants. While there can be no assurances that we will be able to maintain compliance with these restrictive covenants in the future, if we violate these covenants and do

not cure such violations within 30 days of written notice from the noteholders, the noteholders may demand payment in full our convertible notes, collect penalty interest, and exercise other remedies that are available under notes.

On December 6, 2005, we received a letter from a representative of the holders of the August 2007 Notes demanding the payment of a late filing fee by us for the period following October 31, 2005, but under the terms of the amended and restated registration rights agreement, we do not believe that we are obligated to pay any late filing fees unless and until we fail to file the registration statement by December 13, 2005, which is the last day of the first 30-business day period following October 31, 2005. The letter also stated that the letter was serving as a notice of default under the Senior Notes as a result of our failure to file a registration statement by October 31, 2005, although under the terms of the Senior Notes, we have thirty days after delivery of the

letter in which to cure such default. On December 9, 2005, we filed the registration statement and have cured the default notice received on December 6, 2005.

Debt Financing

On March 17, 2006, in exchange for a $1.0 million loan, we issued a $1.0 million 10% subordinated promissory note due October 16, 2006 (the "March 2006 Note") to Atlantic Realty Group, Inc., a company controlled by Jack Chitayat, a former director of our company. The March 2006 Note is unsecured and subordinated to all prior indebtedness of the company. All accrued interest and unpaid principal are due October 16, 2006. The proceeds from the March 2006 Note is to be used solely for working capital purposes. In connection with the March 2006 Note, we issued warrants to Atlantic Realty to purchase an aggregate amount of up to 125,000 shares of common stock exercisable at $2.00 per share. The warrants will expire on March 17, 2009 and include price adjustment provisions for anti-dilution purposes. There are no registration rights of the shares issauble from the exercise of the warrants. Further, cashless exercise of the warrants is permitted.

Our Liquidmetal Korea Co., Ltd. subsidiary also has an outstanding loan from Kookmin Bank in the Republic of Korea. As of December 31, 2005, the outstanding balance under this loan was $2.8 million. The loan is payable in monthly installments of $0.11 million per month through September 2007.

Off Balance Sheet Arrangements

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

We have made no arrangements of the types described in any of the categories that may have a material current or future effect on our financial condition, liquidity or results of operations.

Contractual Obligations

The following table summarizes our company's obligations and commitments as of December 31, 2005:

Contractual Obligations (1)	Payments Due by Period (in thousands)				
	Total	> 1 year	1-3 Years	3-5 Years	After 5 years
Long-term debt (2)	$ 15,036	$ 1,343	$ 13,693	$ —	$ —
Short-term debt (3)	550	550	—	—	—
Capital lease obligation (4)	69	62	7	—	—
Operating leases and rents	1,223	706	439	78	—
Growell settlement payable (5)	3,331	3,331	—	—	—
Consulting services payable	78	78	—	—	—
Dongyang payable	11	11	—	—	—
	$ 20,298	$ 6,081	$ 14,139	$ 78	$ —

(1) Contractual cash obligations include Long-Term Debt comprised of $2,369 of Senior Convertible Notes issued in 2004, $9,878 of Convertible Notes issued in 2005, and $2,790 of Kookmin Notes, Short-Term Debt comprised of $550 advances received under factoring, loan, and security agreement, and future minimum lease payments under capital and operating leases, liabilities incurred from settlement with a former customer (Growell) and divesture of our equipment manufacturing business, and purchase commitments from a consultant.

(2) Does not include interest payments of $1,623, un-amortized discounts for beneficial conversion feature and warrants, deferred issuance costs of $6,493 of our convertible notes.

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

(4) Includes imputed interest of $3.

(5) On March 21, 2006, we entered into an Amendment to Settlement Agreement (the "Settlement Amendment") with Innometal Co., Ltd., formerly known as Growell Metal Co., Ltd. ("Innometal"). We previously entered into a Settlement Agreement with Innometal on January 10, 2004 in satisfaction and settlement of certain outstanding accounts receivable and potential claims between Innometal and us (the "Original Settlement Agreement"). Under the Settlement Amendment, Innometal and we have agreed that the company's obligation of $3,331 under the Settlement Agreement will be fully satisfied through the issuance to Innometal of 1,700,000 shares of our common stock. We issued 1,700,000 shares to Innometal on March 22, 2006. The shares were issued to Innometal in a private placement exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). Specifically, the shares were issued by virtue of Section 4(2) of the Securities Act in that the issuance did not involve a public offering, Innometal has adequate access to information about the company, and appropriate restrictive legends were affixed to all certificates representing the shares issued to Innometal. The shares received by Innometal under the Settlement Amendment are "restricted securities" within the meaning of Rule 144 under the Securities Act, and Innometal has not been granted any registration rights by the company with respect to such shares.

As an inducement for Innometal to enter into the Settlement Amendment, James Kang, a director and founder of the company, has entered into a buy-sell agreement with Innometal whereby Mr. Kang has agreed to personally purchase from Innometal, and Innometal has agreed to sell to Mr. Kang, the 1,700,000 shares issued to Innometal under the Settlement Amendment, with such purchase and sale to take place on October 31, 2006. The aggregate purchase price for the shares payable by Mr. Kang under this buy-sell agreement will be approximately $2,800. In order to secure his obligations under the buy-sell agreement, Mr. Kang has pledged to Innometal 500,000 shares of the company's common stock currently held by him. Mr. Kang will receive no consideration from us in connection with his entering into this buy-sell agreement, and Mr. Kang will not have any registration rights with respect to the shares purchased under the buy-sell agreement.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

Compliance with Section 404 of the Sarbanes-Oxley Act of 2002

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX, the SEC has adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the public accounting firm auditing a public company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. Although these requirements were first applicable to our annual report on Form 10-K for our fiscal year ending December 31, 2004, we were unable to comply with these requirements for such fiscal year. As disclosed in our amended Form 10-K filed with the SEC on May 10, 2005, the time and resources necessary to complete the restatement of prior periods' financial statements delayed our ability to complete the internal documentation, assessment and evaluation of internal control over financial reporting, all of which are required to be undertaken to comply with Section 404 of SOX. This delay prevented our independent auditor from being able to satisfactorily complete a timely audit of our internal control over financial reporting as of December 31, 2004.

Due to these delays, we and our independent auditor determined that it would not be possible to complete the management's assessment and auditor's audit of our internal controls over financial reporting as of December 31, 2004, and accordingly our independent auditor has issued a disclaimer of opinion with respect to our internal control over financial reporting as of December 31, 2004, and such disclaimer was filed with our amended Form 10-K filed on May 10, 2005. The filing of this disclaimer does not comply with the SEC's rules and regulations under Section 404, and this noncompliance has resulted in us being in violation of Section 13(a) under the Securities Exchange Act of 1934. Section 13(a) establishes the general requirement that public

companies must file with the SEC, in accordance with such rules and regulations as the SEC may prescribe, such information, documents, and reports as the SEC may from time to time require for the protection of investors, including Form 10-Ks and 10-Qs.

In general, the SEC has broad authority under the Securities Exchange Act of 1934 to institute investigations, to seek injunctions, to seek monetary penalties, and to otherwise pursue enforcement actions for violations of Section 13(a), including a failure to file a Form 10-K or for the omission of necessary statements in a Form 10-K. Therefore, a violation under Section 404 of SOX or Section 13(a) of the Securities Exchange Act of 1934 could potentially subject an issuer to these same investigations and penalties. Section 404 of SOX is a relatively new legal requirement, and there is very little precedent establishing the consequences or appropriate response to a public company's failure to comply with Section 404. Accordingly, although we have discussed our Section 404 noncompliance with the SEC, we cannot predict what action, if any, the SEC may take against our company as a result of a failure to be compliant with our obligations under Section 404 of SOX or Section 13(a) of the Securities Exchange Act of 1934.

Effective December 27, 2005, the SEC announced final rulings on revisions to accelerated filer definition and deadlines for periodic reports. The ruling revised the definition of the term "accelerated filer" to permit an accelerated filer that has voting and non-voting common equity held by non-affiliates of less than $50 million to exit accelerated filer status at the end of the fiscal year in which its equity falls below $50 million and to file its annual report for that year and subsequent periodic reports on a non-accelerated basis. As of the fiscal year ended December 31, 2005, we are considered an accelerated filer and are required to comply with SOX 404 requirements for the 2005 fiscal year.

In addition to the foregoing, although our common stock was admitted to the OTC Bulletin Board for quotation on June 15, 2005, as a result of our noncompliance with Section 404 for our 2005 fiscal year, it may not have been appropriate for the OTC Bulletin Board to admit our common stock for quotation on June 15, 2005. Consequently, there is no assurance that our common stock will remain eligible for quotation on the OTC Bulletin Board.

On January 16, 2006, our management completed and concluded its documentation, assessment and evaluation of its internal controls over financial reporting as of December 31, 2005. During the course of its assessment, management identified the control deficiencies described in Item 9A of our Form 10-K for the 2005 fiscal year. However, our independent auditors, Stonefield Josephson Inc., resigned on December 1, 2005, and on January 20, 2006, we engaged Choi, Kim & Park LLP ("CKP") as our new independent registered public accounting firm. While we have advised CKP of the foregoing weaknesses in internal controls, due to the untimeliness of the foregoing events, CKP was unable to conduct an audit of our internal control over financial reporting pursuant to Section 404 of SOX, and thus, have issued a disclaimer of an opinion on the company's internal control over financial reporting as of December 31, 2005.

Recent Accounting Pronouncements

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 05-2 "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.'" Issuers of convertible debt are required by Statement 133 to evaluate whether it is necessary to separate the "embedded" conversion feature from the debt contract and account for the conversion feature as if it were a separate derivative instrument. If the issuer determines that the embedded conversion feature would be classified in equity if it were a freestanding instrument, the conversion feature is not separated from the debt contract. EITF 00-19's criteria must be applied to determine whether a conversion feature qualifies for equity classification, but it exempts a conversion feature embedded in a "conventional convertible debt instrument" from some of the criteria. EITF 05-2 requires convertible instruments that may be settled in a combination of cash or shares, e.g., those

referred to as "Instrument C" in EITF 90-19, and instruments that may be convertible into a variable number of shares are not "conventional." As a result, nonconventional instruments would need to satisfy all requirements of EITF 00-19 to support a conclusion that the conversion feature does not require accounting separate from that for the debt contract. The adoption of this Issue resulted in recognition of the beneficial conversion feature from the senior convertible notes issued in August 2005 as liabilities of $1.0 million as of December 31, 2005 and a gain of $3.8 million from the change in fair value of beneficial conversion feature liabilities for the year ended December 31, 2005.

In June 2005, the EITF reached a consensus on Issue 05-6, "Determining the Amortization Period for Leasehold Improvements," which requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. EITF 05-6 is effective for periods beginning after June 29, 2005. Earlier application is permitted in periods for which financial statements have not been issued. The adoption of this Issue did not have an impact on the Company's financial statements.

In September 2005, the EITF reached a consensus on Issue 05-7 "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," which requires that a change in the fair value of a conversion option brought about by modifying the debt agreement be included in analyzing in accordance with EITF 96-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments" whether a debt instrument is considered extinguished. Under EITF 96-19's requirements, an issuer who modifies a debt instrument must compare the present value of the original debt instrument's cash flows to the present value of the cash flows of the modified debt. If the present value of those cash flows varies by more than 10 percent, the modification is considered significant and extinguishments accounting is applied to the original debt. If the change in the present value of the cash flows is less than 10 percent, the debt is considered to be modified and is subject to EITF 96-19's modification accounting. EITF 05-7's Consensus requires that in applying the 10 percent test the change in the fair value of the conversion option be treated in the same manner as a current period cash flow. The Consensus also requires that, if a modification does not result in an extinguishment, the change in fair value of the conversion option be accounted for as an adjustment to interest expense over the remaining term of the debt. The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon modification of the conversion option of a debt instrument that does not result in an extinguishment. EITF 05-7 is effective for modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005. The Company does not expect the adoption of the EITF to have material impact on the Company's financial statements.

In September 2005, the EITF reached a consensus on Issue No. 05-8, "Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature." Under EITF 05-8, the issuance of convertible debt with a beneficial conversion feature results in a temporary difference for purposes of applying Statement 109. The deferred taxes recognized for the temporary difference should be recorded as an adjustment to paid-in capital. EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" require that the nondetachable conversion feature of a convertible debt security be accounted for separately if it is a beneficial conversion feature. A beneficial conversion feature is recognized and measured by allocating to additional paid-in

capital a portion of the proceeds equal to the conversion feature's intrinsic value. A discount on the convertible debt is recognized for the amount that is allocated to additional paid-in capital. The debt discount is accreted from the date of issuance to the stated redemption date of the convertible instrument or through the earliest conversion date if the instrument does not have a stated redemption date. The U.S. Federal Income Tax Code includes the entire amount of proceeds received at issuance as the tax basis of the convertible debt security. The EITF 05-8 Consensus should be applied retrospectively to all instruments with a beneficial conversion feature accounted for under EITF 98-5 and EITF 00-27 for periods beginning after December 15, 2005. The Company does not expect the adoption of the EITF to have material impact on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements" and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and

corrections of errors made in fiscal years beginning after December 31, 2005. We do not believe the adoption of SFAS No. 154 will have a material effect on its consolidated financial position, results of operations or cash flows.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the Staff's interpretation of SFAS 123(R). This interpretation expresses the views of the staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, this SAB provides guidance related to share-based payment transactions with no employees, the transition from nonpublic to public entity status, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123(R), the modification of employee share options prior to adoption of Statement 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123(R). Our company will adopt SAB 107 in connection with its adoption of SFAS 123(R).

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment", which replaces SFAS No. 123. SFAS No. 123R requires public companies to recognize an expense for share-based payment arrangements including stock options and employee stock purchase plans. The statement eliminates a company's ability to account for share-based compensation transactions using APB 25, and generally requires instead that such transactions be accounted for using a fair value based method. SFAS No. 123R requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of grant, and to recognize the cost over the period during which the employee is required to provide service in exchange for the award. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. SFAS No. 123R is effective for our company in the quarter ending March 31, 2006. Upon adoption of SFAS 123R, companies are allowed to select one of three alternative transition methods, each of which has different financial reporting implications. We are currently evaluating the transition methods, valuation methodologies and other assumptions for employee stock options in light of SFAS No. 123R. Current estimates of option values using the Black-Scholes method may not be indicative of results from valuation methodologies ultimately implemented by our company upon adoption of SFAS No. 123R. Although we have not yet fully quantified the impact this standard will have on our financial statements, it is likely that the adoption of SFAS No. 123R will have a material impact on our company's financial position and results of operations. Stock-based Compensation under Consolidated Financial Statements provides the pro forma net income and earnings per share as if the Company had used a fair-value-based method similar to the methods required under SFAS 123(R) to measure the compensation expense for employee stock awards during the and nine months ended September 30, 2005 and 2004.

In December 2004 the Financial Accounting Standards Board issued two FASB Staff Positions—FSP FAS 109-1, *Application of FASB Statement 109 "Accounting for Income Taxes" to the Tax Deduction on Qualified Production Activities* Provided *by the American Jobs Creation Act of 2004, and FSP FAS 109-2 Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004.* Neither of these affected the Company as it does not participate in the related activities.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this

Statement shall be applied prospectively. We have evaluated the impact of the adoption of SFAS 153, and do not believe the impact will be significant to our company's overall results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during

fiscal years beginning after November 23, 2004. We have evaluated the impact of the adoption of SFAS 151, and do not believe the impact will be significant to our company's overall results of operations or financial position.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until after further deliberations by the FASB. The disclosure requirements are effective only for annual periods ending after June 15, 2004. We have evaluated the impact of the adoption of the disclosure requirements of EITF 03-1 and do not believe the impact will be significant to our company's overall results of operations or financial position. Once the FASB reaches a final decision on the measurement and recognition provisions, we will evaluate the impact of the adoption of EITF 03-1.

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." SAB 104 supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers ("the FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

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

Quantitative and Qualitative Disclosures About Market Risks

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

Interest Rates. We are exposed to market risks relating to changes in interest rates. Fluctuations in interest rates may have a negative impact to existing short-term borrowings and future borrowings.

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

Foreign Exchange Rates. As a result of our manufacturing presence in South Korea, a substantial portion of our costs will be denominated in South Korean Won. Consequently, fluctuations in the exchange rates of the South Korean won to the U.S. Dollar will affect our costs of goods sold and operating margins and could result in exchange losses. Although we do not currently enter into foreign exchange hedge transactions, we may do so in the future as our business grows. Fluctuations in exchange rates resulted in foreign currency translation gains of $0.3 million, $1.7 million, and $0.2 million for the years ended December 31, 2005, 2004, and 2003, respectively.

BUSINESS

Overview

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

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

General Corporate Information

We were originally incorporated in California in 1987, and we reincorporated in Delaware in May 2003. Our principal executive offices are located at 25800 Commercentre Dr., Suite 100, Lake Forest, California 92630. Our telephone number at that address is (949) 206-8000. Previously, our principal executive offices were located in Tampa, Florida. In December 2003, we consolidated all corporate functions into our Lake Forest facility, which had previously served as our principal research and development office. Our Internet website address is www.liquidmetal.com and all of our filings with the Securities and Exchange Commission are available free of charge on our website.

Subsidiaries and Other Locations

We currently own and operate a manufacturing facility in Pyongtaek, South Korea, which became operational in the third quarter of 2002. This Korean subsidiary handles our Bulk Liquidmetal alloy business which includes market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods, tooling, prototype sampling, defense applications and metal processing equipment. We also opened a post processing facility in Weihai, China in the third quarter of 2004. This Chinese subsidiary facilitates our bulk alloy manufacturing business by handling most of our post manufacturing processes. Lastly, we operate a distribution warehouse division in Conroe, Texas to handle our Liquidmetal alloy industrial coatings which are used primarily as protective coatings for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants.

Our Technology

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

Unique Atomic Structure

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

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

Proprietary Material Composition

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

Advantages of Liquidmetal Alloys

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

Performance Advantages

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

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

Processing Advantages

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

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

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

Cost Advantages

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

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

Our Strategy

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

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

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

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

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

comprised of revenue from the provision of product development services, technical support, and engineering services, as well as revenues from royalties on the sale of Liquidmetal alloy products by our partners.

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

Applications for Liquidmetal Alloys

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

Components for Electronic Products

We produce components for electronic devices using our bulk Liquidmetal alloys and believe that our alloys offer enhanced performance and design benefits for these components in certain applications. Bulk Liquidmetal

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

Through our shipments to date, we have demonstrated that bulk Liquidmetal alloys can be used for structural components of cellular phones and other electronic devices. During 2004 and 2005, we shipped production quantities of cell phone components to Samsung Electronics Company and Vertu Limited, the luxury communication products subsidiary of Nokia, for inclusion in various cellular phone models.

Sporting Goods and Leisure Products

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

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

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

In order to accelerate the commercialization of Liquidmetal alloys in the jewelry and high-end luxury products market, in June 2003 we entered into a strategic licensing transaction with LLPG, Inc., a corporation headed by a former director of our company with ties to the Swiss jewelry and luxury goods market. While we have not generated revenues to date, under this agreement, LLPG was granted a 10-year exclusive worldwide license to manufacture and sell a variety of luxury goods, including watchcases and precious-metal jewelry, utilizing Liquidmetal alloys. Under the agreement, we are entitled to royalties over the life of the contract on all products produced and sold by LLPG.

Medical Devices

We are engaged in product development efforts relating to various medical devices that could be made from Liquidmetal alloys. We believe that the unique properties of bulk Liquidmetal alloys provide a combination of performance and cost benefits that could make them a desirable replacement to incumbent materials, such as stainless steel and titanium, currently used in various medical device applications. Our ongoing emphasis in 2004 and 2005 has been on surgical instrument applications for Liquidmetal alloys. These include, but are not limited to, specialized blades, orthopedic instruments utilized for implant surgery procedures, dental devices, and general surgery devices. The potential value offered by our alloys is high performance in some cases and cost reduction in others, the latter stemming from the ability of Liquidmetal alloys to be net shape cast into components, thus reducing costs of secondary processing. The status of most components in the prototyping phase is subject to non-disclosure agreements with our customers.

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

Industrial Coatings and Powders

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

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

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

Defense Applications

We are working with the U.S. Department of Defense, as well as a variety of defense-related research and development agencies and large defense contractors, to develop various defense-related applications for Liquidmetal alloys. For example, we are currently developing prototype kinetic energy penetrator rods for use in armor-piercing ammunition systems. Kinetic energy penetrators, or KEPs, are armor piercing munitions that are currently made primarily from depleted uranium or tungsten alloys. Initial ballistic tests under the Liquidmetal KEP program have demonstrated that tungsten KEPs perform better whenever Liquidmetal alloy is combined with the tungsten to create a composite material. In August 2003, we signed a new $3.0 million research and development contract with the U.S. Army for the development of KEPs. Our strategy is to orient the KEP program toward future systems such as the Joint Strike Fighter program and the Army's Future Combat System.

We also continue to work with a number of defense-related research and development agencies and large defense companies to identify additional military applications that may benefit from using Liquidmetal alloys. We believe that our alloys are well-positioned to capitalize on the trend toward lighter but stronger weapon systems in the U.S. military, and our strategy is to align ourselves with the largest and most significant players in this industry. Product development programs for defense applications are currently underway with several leading defense contractors, including Alliant Techsystems and General Dynamics.

Going Concern

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2005 and 2004 was $11.2 million and $12.7 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2005 and 2004, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. Accordingly, we anticipate that we will need additional funding during the next 12 months, and we plan to seek to raise such funds through public or private equity financing, bank debt financing, or from other sources. Specifically, we anticipate that we could need $1 to $5 million over the next twelve months to pursue our current operating plan, although this amount may be lower depending on the orders we receive for our products. The amount of funding that we plan to seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products, particularly components for cellular phones and flash memory drive casings, and our ability to continue to improve our manufacturing processes. We evaluate our working capital needs and operating plan assumptions on a monthly basis to determine whether any adjustment to our cash and liquidity outlook is warranted, and we also review potential sources of financing on an ongoing basis. However, adequate funds may not be available when needed, and if we raise additional funds by issuing equity securities, existing stockholders may be diluted. If we don't receive sufficient funding to operate under our current plan, we intend to reduce operations and expenses and shift our focus to the pursuit of licensing transactions and other strategic transactions that are less capital intensive.

Liquidmetal Golf

From 1997 until September 2001, we engaged in the retail marketing and sale of golf clubs through a majority owned subsidiary, Liquidmetal Golf. The retail business of Liquidmetal Golf was discontinued in September 2001 and is now treated as a discontinued operation in our consolidated financial statements. Although the retail golf club business has been discontinued, Liquidmetal Golf will be engaged in the business of manufacturing and selling golf club components to golf original equipment manufacturers that will integrate these components into their own clubs and then sell them under their respective brand names. Liquidmetal Technologies owns 79% of the outstanding common stock in Liquidmetal Golf.

Our Liquidmetal Golf subsidiary has the exclusive right and license to utilize our Liquidmetal alloy technology for purposes of golf equipment applications. This right and license is set forth in an intercompany license agreement between Liquidmetal Technologies and Liquidmetal Golf. This license agreement provides that Liquidmetal Golf has a perpetual and exclusive license to use Liquidmetal alloy technology for the purpose of manufacturing, marketing, and selling golf club components and other products used in the sport of golf. In consideration of this license, Liquidmetal Golf has issued 4,500,000 shares of Liquidmetal Golf common stock to Liquidmetal Technologies.

Our Intellectual Property

Our intellectual property consists of patents, trade secrets, know-how, and trademarks. Protection of our intellectual property is a strategic priority for our business, and we intend to vigorously protect our patents and other intellectual property. Our intellectual property portfolio includes 27 owned or licensed U.S. patents and numerous patent applications relating to the composition, processing, and application of our alloys, as well as various foreign counterpart patents and patent applications.

Our initial bulk amorphous alloy technology was developed by researchers at the California Institute of Technology ("Caltech"). We have purchased patent rights that provide us with the exclusive right to commercialize the amorphous alloy and other amorphous alloy technology acquired from Caltech through a license agreement ("Caltech License Agreement") with Caltech. Under the Caltech license agreement, we have the exclusive worldwide right to make, use, and sell products from all of Caltech's inventions, proprietary information, know-how, and other technology relating to amorphous alloys existing as of September 1, 2001. We also have an exclusive worldwide license to eleven issued patents and two patent applications held by Caltech relating to amorphous alloy technology, as well as all related foreign counterpart patents and patent applications. Of the patents currently issued to Caltech and licensed by us, the earliest

expiration date is 2013 and the latest expiration date is 2021. Furthermore, the license agreement gives us the exclusive right to make, use, and sell products from substantially all amorphous alloy technology that is developed in Professor William Johnson's Caltech laboratory during the period September 1, 2001 through August 31, 2005. All fees and other amounts payable by us for these rights and licenses have been paid in full, and no further royalties, license fees, or other amounts will be payable in the future under this license agreement.

Our rights under the license agreement are perpetual in duration. However, Caltech has the right to convert the license to a non-exclusive license if we fail to utilize the licensed technology for a period of 18 or more consecutive months, provided that Caltech must give us 180-days advance written notice of the conversion and we may cure the failure at any time during the 180-day notice period. If we cure the failure, then the license will not be converted into a non-exclusive license.

Under the license agreement, we have the right to sublicense any of the licensed technology or patents. The license agreement also provides that Caltech reserves the right to use the licensed technology and patents for noncommercial educational and research purposes. The patents and patent applications that we license from Caltech relate primarily to the composition and processing of our alloys. The currently issued U.S. patents covered by the license agreement will expire between 2012 and 2013.

Under the Caltech license agreement, the parties are obligated to provide reasonable cooperation to each other in connection with any threatened or actual infringement of the licensed technology by third parties. We have the right to commence an action for infringement of any of the licensed technology, and although Caltech is not obligated to bring suit or take action against infringers, Caltech is obligated to join in any such lawsuit upon our request.

In addition to the patents and patent applications that we license from Caltech, we are building a portfolio of our own patents to expand and enhance our technology position. These patents and patent applications primarily relate to various applications of our bulk amorphous alloys, the composition of our coatings and powders, and the processing of our alloys. The patents relating to our coatings expire on various dates between 2006 and 2017, and the patents relating to our bulk amorphous alloys expire on various dates between 2013 and 2021. Our policy is to seek patent protection for all technology, inventions, and improvements that are of commercial importance to the development of our business, except to the extent that we believe it is advisable to maintain such technology or invention as a trade secret.

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

Research and Development

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

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

- *Optimize Existing Alloys and Develop New Compositions.* We believe that the primary technology driver of our business will continue to be our proprietary alloy compositions. We plan to continue research and development on new alloy compositions to generate a broader class of amorphous alloys with a wider range of specialized performance characteristics. During 2003 and continuing into 2005, we have successfully expanded our portfolio of bulk amorphous alloys to include additional zirconium-titanium alloys, as well as alloys based on other metals, such as iron, gold, and platinum. Although these various compositions are at different stages of development and only a few are currently suitable for commercial use, we believe that a larger alloy portfolio will enable us to increase the attractiveness of our alloys as an alternative to incumbent materials and, in certain cases, drive down

product costs. We also believe that our ability to optimize our existing alloy compositions will enable us to better tailor our alloys to our customers' specific application requirements.

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

We conduct our research and development programs internally and also through strategic relationships that we enter into with third parties. Our internal research and development efforts are currently focused on product and process development. Our internal research and development efforts are conducted by a team of 15 scientists, engineers and researchers whom we either employ directly or engage as consultants. Included among this team are Professor William Johnson, who discovered our initial bulk amorphous alloy at Caltech in 1993, and his graduate student at the time, Atakan Peker, who is employed as our Vice President of Technology. Professor Johnson was an employee of our company from October 2001 through December 2003 and then became a consultant to the Company. Professor Johnson continues to be a member of our board of directors.

In addition to our internal research and development efforts, we enter into cooperative research and development relationships with leading academic institutions. Professor Johnson continues to supervise a laboratory at Caltech, and through our license agreement with Caltech, we have a continuing relationship with the other researchers in Professor Johnson's Caltech laboratory. We have also entered into research relationships with several other academic institutions for the conduct of research relating to the properties and characteristics of our alloys.

We have entered into development relationships with other companies for the purpose of identifying new applications for our alloys and establishing customer relationships with such companies. Some of our product development programs are partially funded by our customers. We are also engaged in negotiations with other potential customers regarding possible product development relationships. Our research and development expenses for the years ended December 31, 2005, 2004, and 2003 were $1.1 million, $1.5 million, and $8.8 million, respectively.

Manufacturing

We currently own and operate a 166,000 square foot manufacturing facility in Pyongtaek, South Korea, which became operational in the third quarter of 2002. We opened a 14,400 square foot facility in Weihai, China in August 2004 to facilitate our bulk alloy manufacturing business. We believe that these facilities will meet our anticipated manufacturing needs for the foreseeable future, although these needs may change depending upon the actual and forecasted orders we receive for our products. We currently intend to develop supplemental research and development, prototyping and manufacturing capabilities elsewhere, including the United States, for purposes of meeting our long-term manufacturing needs and our customers' requirements. In December 2003, we entered into a license agreement with Florida Custom Mold, Inc., a Clearwater, Florida-based company that specializes in high-quality mold design and injection molding services, under which Florida Custom Mold is currently acting as a contract manufacturer to our company for purposes of producing prototypes of certain defense and medical products in the US.

Raw Materials

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

Customers

During 2005, one customer accounted for 10% or more of our revenue from continuing operations. Revenues from Samsung represented 10% of revenues from continuing operation for the year ended 2005. During 2004, four customers accounted for 10% or more of our revenue from continuing operations. Revenues from Charm Tech and Pntel, both of which are direct suppliers to Samsung, represented 62% of revenue from continuing operations for the year ended 2004. Also, revenues from defense related contracts with the United States of America represented 10% and Growell

Metal represented 12% of revenue from continuing operations for the year ended 2004. We expect that a significant portion of our revenue may continue to be concentrated in a limited number of customers, even as our bulk Liquidmetal alloy business grows. During 2003, three customers accounted for 10% or more of our revenue from continuing operations. Revenue from Samsung represented 10% of revenue, revenue from LLPG, Inc. represented 12% and defense-related contracts with three departments of the United States of America represented 16% of revenue from continuing operations for the year ended December 31, 2003.

Competition

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

Our Liquidmetal alloy coatings face competition from industrial coatings currently manufactured or sold by other companies. At present, the primary competitors of our coatings business are Varco International, Inc. and Arnco Technology Trust, Limited. Although we believe, based on market

data gathered by us, that our coatings compete favorably with these companies' products and that we continue to maintain the dominant market share with respect to protective coatings for oil drill pipe and casings, these competitors are larger well-established businesses that have substantially greater financial, marketing, and other resources than we do.

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

Backlog

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

Sales and Marketing

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

Employees

As of December 31, 2005, we had 352 full-time employees. As of that date, 78 of our Korean operation employees were represented by a labor union. We have not experienced any work stoppages and we consider our employee relations to be favorable.

Governmental Regulation

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

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

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

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

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

Environmental Law Compliance

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

Material Legal Proceedings

We and certain of our present and former officers and directors were named as defendants in nine purported class action complaints filed in the United States District Court for the Middle District of Florida, Tampa Division, and the Central District of California, Southern Division, alleging violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated

thereunder. In August 2004, four complaints were consolidated in the Middle District of Florida under the caption *Primavera Investors v. Liquidmetal Technologies, Inc., et al.*, Case No. 8:04-CV-919-T-23EAJ. John Lee, Chris Cowley, Dwight Mamanteo, Scott Purcell and Mark Rabold were appointed co-lead plaintiffs (the "Lead Plaintiffs"), but Mr. Mamanteo later withdrew. In September 2004, the five complaints filed in the Central District of California were transferred to the Middle District of Florida for consolidation with the *Primavera Investors* action. The Lead Plaintiffs served their Consolidated Amended Class Action Complaint on January 12, 2005. The Amended Complaint alleges that the Prospectus issued in connection with our initial public offering in May 2002 contained material misrepresentations and omissions regarding our historical financial condition and regarding a personal stock transaction by our former chief executive officer. The Lead Plaintiffs further generally allege that during the proposed Class Period of May 21, 2002, through May 13, 2004, the defendants engaged in improper revenue recognition with respect to certain of our business transactions, failed to maintain adequate internal controls, and knowingly disclosed unrealistic but favorable information about market demand for and commercial viability of our products to artificially inflate the value of our stock. The Amended Complaint seeks unspecified compensatory damages and other relief. We, along with other defendants, filed a Motion to Dismiss Plaintiffs' Consolidated Amended Class Action Complaint in March 2005. The Motion to Dismiss was denied in December 2005, and the defendants served their Answer and Affirmative Defenses to the Consolidated Amended Class Action Complaint on December 16, 2005. The Lead Plaintiffs Motion for Class Certification is presently due in April 2006. We intend to vigorously defend against the class action. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of this lawsuit may harm our business and have a material adverse impact on our financial condition.

In addition to the above, certain of our present and former officers and directors, as well as the company as a nominal defendant, have been named in three shareholder derivative actions. Two shareholder derivative complaints were filed in California state court styled *Brian Clair, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00551, and *Joseph Durgin, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00553, both commenced in the Superior Court of Orange County, California. A third shareholder derivative complaint was filed in the United States District Court for the Middle District of Florida, Tampa Division, styled *Robert Story v. John Kang, et al.*, Case No. 8:04-CV-1587-T-23TBM. These shareholder derivative lawsuits allege that the defendants breached various fiduciary duties and otherwise violated state law based primarily upon the same underlying facts and circumstances as alleged in the federal shareholder class action. The plaintiffs seek unspecified compensatory damages, restitution and disgorgement of profits, equitable and/or injunctive relief as permitted by law and other relief.

The two shareholder derivative complaints in California state court have been consolidated. We, along with other defendants, have thrice succeeded in having the Plaintiffs' complaints dismissed for their failure to adequately plead demand futility. Most recently, on September 15, 2005, we, along with other defendants, filed a demurrer to the Plaintiffs' Consolidated Second Amended Shareholder Derivative Complaint dated August 16, 2005. In hearings on October 19, 2005, and January 20, 2006, the presiding judge sustained the demurrer, dismissing the second amended complaint but giving the plaintiffs until February 3, 2006, within which to serve a third amended complaint. The plaintiffs filed their Consolidated Third Amended Shareholder Derivative Complaint on February 3, 2006. We anticipate filing a demurer, seeking dismissal of the third amended complaint.

In the Florida derivative action, the Plaintiff filed a First Amended Shareholder Derivative Complaint on November 22, 2004. We, along with other defendants, filed a Motion to Dismiss in December 2004, to which the Plaintiff responded in opposition in February 2005. On January 20, 2006, the presiding judge granted our Motion to Dismiss, dismissing the compaint based upon the plaintiff's failure to adequately plead futility. On February 17, 2006, the plaintiff filed its Notice of Appeal of the Court's Order granting the Motion to Dismiss. The plaintiff's initial brief is presently due on May 4, 2006. We intend to vigorously defend against the derivative actions. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of this lawsuit may harm our business and have a material adverse impact on our financial condition.

PROPERTIES

Our principal executive offices and principal research and development offices are located in Lake Forest, California and consist of approximately 30,000 square feet. This facility is occupied pursuant to a lease agreement that expires in June 2007.

In Conroe, Texas, we lease an office and warehouse for our coatings business segment. This facility, which is approximately 10,000 square feet, is leased through September 2006.

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

On August 2004, we entered into a 3 year lease for a post-processing facility located in Weihai, China, which consists of approximately 14,400 square feet, to facilitate our bulk alloy manufacturing.

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

MANAGEMENT

Directors

Listed below are the names of each of our directors, together with certain additional information concerning each such director as of March 20, 2006.

Directors with Terms Expiring at 2007 Annual Meeting

Name	Age	Business Experience During Last Five Years	Director Since
James Kang	45	James Kang has served as a director since December 1994 and as executive Founder of our company since August 2003. From December 1994 to June 2001, he served variously as our Chief Executive Officer, President, and Chairman. Mr. Kang received a B.A. degree in Marketing from the University of Illinois in 1983, and an M.B.A. degree from the Kellogg School of Management at Northwestern University in 1985. Mr. Kang is the brother of John Kang, Chairman of the Board of Directors, who was also our Chief Executive Officer and President during 2004.	1994
Ricardo Salas	41	Ricardo Salas was elected as a director by the Board of Directors on December 30, 2005 to fill the vacancy created by Mr. Addonisio's resignation. Also on December 30, 2005, Mr. Salas was elected as President and Chief Executive Officer of the Company. Mr. Salas previously served as a Board member of the Company from April 1995 to May 2003. From January 2000 through June 2005, Mr. Salas served as Chief Executive Officer of iLIANT Corporation, an information technology and outsourcing service firm in the health care industry, and he continues to serve as Chairman of iLIANT. From 1987 through 2004, he was Vice President of J. Holdsworth Capital Ltd., a private investment firm. As an officer of J. Holdsworth Capital Ltd., Mr. Salas held positions in various investments including Medical Manager Corporation as a vice president between June 1999 and January 2000, National Medical Systems, Inc. as vice president between April 1994 and February 1997, and Uni Flange Corporation as vice president between June 1989 and June 1994. He currently serves as a director of VillageEDOCS, a provider of business information delivery services and products. Mr. Salas received a B.A. degree in Economics from Harvard College in 1986.	2005

Directors with Terms Expiring at 2006 Annual Meeting

Name	Age	Business Experience During Last Five Years	Director Since
Dean Tanella	45	Dean G. Tanella was elected as a director in February 2004. Mr. Tanella is a 20-year veteran of the institutional investment business and has worked for such leading firms as Raymond James & Associates, CS First Boston Corp., Adams Harkness & Hill, Drexel Burnham Lanbert, Inc., Kidder Peabody & Co. and the Vanguard Group. Since 1999, Mr. Tanella has served as President of Safe Harbor Capital, LLC and, since 2003, as President of HarborLight Capital, LLC, both of which are private investment firms. Mr. Tanella received his bachelors degree from Princeton University and his MBA from the Harvard Graduate School of Business Administration. In December 2004, Mr. Tanella was also named Executive Vice President — Capital Markets Group and a member of the Board of Directors at GunnAllen Financial Inc., a leading independent brokerage firm headquartered in Tampa, Florida.	2004
CK Cho	50	CK Cho was elected as a director in January 2005. Mr. Cho has over 18 years of experience with Samsung Electronics and managed over $700 million annual procurement budget responsible for semi-conductor and telecommunication equipment and other electronic components. He also served as CEO and President of Winvest Venture Partners Inc. and is currently serving as President and CEO of ATIC, an IT Venture Capital Company based in Korea. Mr. Cho received his bachelors degree majoring in Business Administration and Material Sciences from the Korea University of Seoul.	2005

Directors with Terms Expiring at 2005 Annual Meeting or the First Annual Meeting Thereafter

Name	Age	Business Experience During Last Five Years	Director Since
John Kang	42	John Kang has been a director of our Company since 1994. From December 1994 to June 2001, he served as Chairman of our Board of Directors in various capacities. From June 2001 until December 30, 2005, Mr. Kang had served variously as our Chief Executive Officer and President. From July 1996 to September 2000, Mr. Kang served variously as Chief Executive Officer, President, and a director of Medical Manager Corporation, a public company traded on the Nasdaq National Market until its sale in September 2000 to WebMD Corporation. From 1988 to 1995, he was Chairman of the board of directors of Clayton Group, Inc., a private company engaged in the distribution of waterworks equipment. Mr. Kang received a B.A. degree in Economics from Harvard College in 1985. Mr. Kang is the brother of James Kang, one of our directors. On December 15, 2005, an indictment naming as defendants ten former officers and directors of Medical Manager Corporation, including our Chairman, John Kang, was filed in the United States District Court for the District of South Carolina (Beaufort Division). Medical Manager Corporation was a publicly traded company in which Mr. Kang was formerly the President and Chief Executive Officer. Mr. Kang was charged in counts for conspiracy to commit securities fraud,	1994

		conspiracy to commit mail fraud and conspiracy to launder money instruments relating to a series of acquisitions that were made by Medical Manager during the years 1996 through 2003, the accounting practices of Medical Manager during that time frame, and the filing of various financial statements during that time frame. Although the indictment is unrelated to Mr. Kang's services as a director and officer of our company, Mr. Kang resigned as our President and Chief Executive Officer on December 30, 2005; however, he continues to serve as Chairman of the Board of our company continues to work for the company on a full-time basis. Mr. Kang has pled "not guilty" to the indictment and plans to contest the charges vigorously.	

William Johnson, Ph.D.	56	William Johnson, Ph.D., has served as a director since June 2000. From October 2001 to September 2003, he was employed as our executive Vice Chairman of Technology. Since 1988, Professor Johnson has been the Mettler Professor of Engineering and Applied Physics at Caltech. He held a Visiting Professor appointment at the Metal Physics Institute in Gottingen, Germany (1983) and received a Von Humbolt Distinguished Scientist Fellowship in Gottingen (1988). He is the 1995 recipient of the TMS/AIME Hume Rothery Award for his experimental work. He received a B.A. degree in Physics from Hamilton College and a Ph.D. degree in Applied Physics from Caltech. He spent two years at IBM's Research Center (1975-1977). At Caltech, Professor Johnson directed the research that led to the discovery of our bulk Liquidmetal alloy. Professor Johnson is currently a consultant to the Company.	2000
Robert Biehl	61	Robert Biehl has served as a director since January 2005. Mr. Biehl is an executive mentor. In 1976, he founded Masterplanning Group International. As President, he has personally consulted with over 400 clients ranging from start up to multi-billion dollar organizations. He has published 20 books in the area of personal and organizational development. He is a frequent key note speaker at various conferences. Prior to starting Masterplanning Group, Mr. Biehl was an executive staff of World Vision International where he designed and developed the Love Loaf Program, which has raised millions of dollars for hunger worldwide. Mr. Biehl received his B.A. degree in psychology and a Masters Degree in Counseling from Michigan State University.	2005

Term of Directors

Our board of directors is divided into three classes (designated "CLASS I," "CLASS II," and "CLASS III"), as nearly equal in number as possible, with each class serving three-year terms expiring at the third annual meeting of stockholders after their elections or until their respective successors have been elected and qualified. CLASS I currently consist of the following directors whose term is scheduled to

expire at the 2005 annual meeting of stockholders: John Kang, William Johnson, and Robert Biehl. CLASS II currently consists of the following directors whose term is scheduled to expire at the 2006 annual meeting of stockholders: Dean Tanella and CK Cho. CLASS III currently consists of the following directors whose term will expire at the 2007 annual meeting of stockholders: James Kang and Rick Salas.

Audit Committee

Our board of directors has an Audit Committee that is currently comprised of Mr. Tanella, who has assumed the role of Audit Committee Chairman since Mr. Addonisio's resignation, and Mr. Biehl. The Audit Committee is responsible for reviewing the independence, qualifications, and activities of our independent certified accountants and our financial policies, control procedures, and accounting staff. The Audit Committee is also responsible for the review of transactions between us and any officer, director, or entity in which an officer or director of our company has a material interest. Our board of directors has determined that Mr. Tanella qualifies as "audit committee financial expert" as defined by the regulations of the Securities and Exchange Commission. In addition, our board of directors has determined that Mr. Tanella is an "independent" director within the meaning of Rule 10A-3(b)(i) under the Securities Exchange Act of 1934. The Audit Committee is governed by a written charter approved by the board of directors.

Compensation Committee

The Compensation Committee is comprised of Mr. Cho and Mr. Biehl. All of the members of the Compensation Committee are "independent directors," as defined by the rules applicable to members of the Compensation Committee. The Compensation Committee is responsible for establishing the compensation of our senior management, including salaries, bonuses, termination arrangements, and other executive officer benefits. The Compensation Committee also administers our equity incentive plans.

Corporate Governance and Nominating Committee

A Corporate Governance and Nominating Committee ("the Committee") was formed on February 18, 2003, and is comprised of Mr. Tanella and Mr. Biehl. All members of the Committee are "independent directors," as defined by the rules applicable to members of the Committee. The Committee is generally responsible for adopting policies, procedures, and practices designed to help ensure that our corporate governance policies, procedures, and practices continue to assist the board and our management in effectively and efficiently promoting the best interests of our stockholders. The Committee is also responsible for selecting and recommending for approval by the Board and the Company's stockholders a slate of director nominees for election at each of the Company's annual meetings of stockholders, and otherwise for determining the Board committee members and chairmen, subject to Board ratification, as well as recommending to the Board director nominees to fill vacancies or new positions on the Board or its committees that may occur or be created from time to time, all in accordance with the Company's Bylaws and applicable law.

The Corporate Governance Committee's principal functions include:

- developing and maintaining our corporate governance policy guidelines;
- developing and maintaining our codes of conduct and ethics;
- overseeing the interpretation and enforcement of our Code of Conduct and our Code of Ethics for Chief Executive Officer and Senior Financial and Accounting Officers; and
- evaluating the performance of our board, its committees, and committee chairmen and our directors.
- selecting and recommending a slate of director nominees for election at each of the Company's annual meeting of the stockholders and recommending to the Board director nominees to fill vacancies or new positions on the Board or its committees that may occur from time to time.

Code of Ethics

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

Director Compensation

Our non-employee directors receive an annual fee of $10,000 for their service to our board and are reimbursed for expenses incurred in attending board and committee meetings. Non-employee directors are also entitled to receive a $10,000 annual cash stipend for each standing board committee (excluding the Audit Committee) on which the director serves. For Audit Committee service, the Audit Committee chairman is entitled to a $35,000 annual stipend, and the other members of the Audit Committee are entitled to a $27,500 annual stipend. In addition to the annual stipends, each non-employee director is entitled to receive a per-meeting fee of $1,000 for each meeting of the board of directors or any board committee attended in person. Effective December 30, 2005, Dean Tanella was elected as the lead independent director of the Company. The lead independent director is entitled to a $30,000 annual stipend.

We also have a 2002 Non-employee Director Stock Option Plan pursuant to which our non-employee directors are entitled to receive stock options. Under this plan, when a director is first elected or appointed to our board of directors, the non-employee director is entitled to receive an initial stock option grant to purchase 50,000 shares of our common stock. Thereafter, on the first business day of January of each year in which the director continues to serve as a member of our board, the director is entitled to an annual stock option grant to purchase 10,000 shares of our common stock. All options granted under the plan have an exercise price equal to the fair market value of our common stock on the date of the grant. These stock options have a 10-year term, vest, and are exercisable pursuant to an equal 5-year vesting schedule, and remain exercisable for certain periods of time after a person is no longer a director.

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

Executive Officers

The executive officers of our company as of March 20, 2006, are identified below. Biographical information for each of these executive officers is set forth above under “MANAGEMENT–Directors,” except for Young Ham, whose biographical information is set forth below.

NAME	AGE	POSITION
John Kang	43	Chairman of the Board
Ricardo Salas	42	President and Chief Executive Officer
James Kang	45	Director and Founder
Young Ham	36	Chief Financial Officer

Young Ham. Young Ham has been our Chief Financial Officer since April 2005, prior to which he served as the CFO of our Asian operation in 2004. Prior to joining our company, he served as President and Chief Consultant of Dime Financial Advisory based in Seoul, Korea from November 1999 through July 2003. In addition, Mr. Ham was a founding partner for Hanmi Accounting Corporation in South Korea since July 2003, where he provided accounting and consulting services to multi-national corporations. Mr. Ham was also the Chief Internal Auditor and Financial Advisor to Answer International Asia Inc. and Director of Dongyang Economy Research Institute. Financial advisory and management

consulting clients have included Nextel Co., Ltd, Korea Masterbuilders, Korea Spoland Co., Ltd., tax and legal service clients range from Hyundai Merchant Marine to the Korea National Oil Company. An M.B.A. graduate student of Seoul National University in 1994, Young Ham is a CPA in both the United States and Seoul, South Korea.

Summary Compensation Table

The following table sets forth certain information regarding compensation paid by us for each of our last three years to our Chief Executive Officer and each of our other executive officers as of December 31, 2005 (collectively, the “named executive officers”) for services rendered in all capacities to us at any time during such periods.

		Annual Compensation			Long-Term Compensation	
Name and Positions	Year	Salary	Bonus	Other Annual Compensation	Shares Underlying Options Granted	All Other Compensation
John Kang (1)	2005	$ 200,005	—	—	50,000	—
Chairman of the Board	2004	$ 208,586	—	—	—	—
	2003	$ 300,007	—	—	—	—
Ricardo Salas (2)	2005	—	—	—	—	—
Chief Executive Officer	2004	—	—	—	—	—

and President	2003	—	—	—	—	—
James Kang (3)	2005	$ 300,008	—	—	—	—
Founder and Director	2004	$ 300,004	—	—	—	—
	2003	$ 280,011	—	—	2,877,420	—
Young Ham (4)	2005	$ 150,000	—	—	87,500	—
Chief Financial Officer	2004	$ 64,052	—	—	50,000	—
	2003	—	—	—	—	—

(1) As of August 22, 2003, John Kang was named Chairman of our board of directors. Mr. Kang resigned from his position as President and Chief Executive Officer of our company on December 30, 2005. However, he will continue to serve as Chairman of the board and will continue to work for the Company on a full-time basis.

(2) On December 30, 2005, Ricardo Salas was named Chief Executive Officer and President of the Company. Previously during 2005, Mr. Salas served as a consultant, and has accrued $20,000 in unpaid service fees as of December 31, 2005.

(3) As of August 22, 2003, James Kang became the executive Founder of the Company and ceased to be the Chairman of our board of directors.

(4) On April 15, 2005, Young Ham became the Chief Financial Officer of the Company. Previously during 2005 and 2004, Mr. Ham Served as the Chief Financial Officer at Liquidmetal Korea.

Option grants in last fiscal year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name (a)	Number of Securities Underlying Options Granted (#) (b)	Percentage of Total Options Granted to Employees in Fiscal Year (c)	Exercise of Base Price ($/Share) (d)	Expiration Date (e)	5% ($) (f)	10% ($) (g)
John Kang	50,000	5%	$ 2.33	12/31/2015	$ 73,466	185,871
Ricardo Salas	—	—	—	—	—	—
James Kang	—	—	—	—	—	—
Young Ham	87,500	8%	$ 1.96	2/28/2015	$ 107,997	$ 273,685

Aggregate Option Exercises in Last Year and Year-End Option Values

	Shares Acquired on Exercise	Value Realized (1)	Number of Unexercised Options at Year End		Value of Unexercised In-The-Money Options at Year End (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John Kang	—	—	1,622,904	40,000	—	—
Ricardo Salas	—	—	—	—	—	—
James Kang	—	—	2,861,291	16,129	—	—
Young Ham	—	—	17,500	120,000	—	—

(1) Represents the difference between the fair market value of the underlying shares at the time of exercise and the exercise price of the options exercised.

(2) Based upon a value of $0.88 per share as of December 31, 2005.

Agreements with Named Executive Officers

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

Ricardo Salas. On April 19, 2006, we entered into an employment agreement with Ricardo Salas, which provides for his employment as our Chief Executive Officer and President. The agreement was made effective as of April 1, 2006. Mr. Salas' employment agreement expires March 31, 2011, and his term will continue subsequent to the expiration date on a month-to-month basis at the same salary until teminated by either party upon 90 days' prior written notice. His annual salary is $300,000, and he received 500,000 stock options as part of the employment agreement with an exercise price of $1.44 per share. The options expire on March 31, 2016 and vest at a rate of 20% per year for five years. If we terminate Mr. Salas' employment without

cause, we are responsible for paying Mr. Salas a severance benefit of Mr. Salas' monthly base salary plus health and welfare benefits for twenty-four month period immediately following the effective date of the termination. Additionally, Mr. Salas will cease to receive severance benefits upon accepting employment with another employer at comparable salary and benefits.

John Kang. On December 31, 2000, we entered into an employment agreement with John Kang that, as amended, provides for his employment as our Chief Executive Officer and President, and on August 22, 2003, Mr. Kang was named Chairman of our Board of Directors. On December 30, 2005, Mr. Kang ceased to serve as our President and Chief Executive Officer, and Mr. Kang's employment agreement has an expiration date of December 31, 2005, although the agreement automatically renews on a year-to-year basis until Mr. Kang resigns or his employment is terminated by us with or without cause. Mr. Kang receives an annual base salary equal to $200,000 per year, and his employment will terminate upon the earlier of his death, resignation, disability, or termination by the board of directors for any reason. If we terminate Mr. Kang's employment without cause, or if Mr. Kang terminates his own employment upon a change of control of our company or for other good reason, as defined in the agreement, we are responsible for paying Mr. Kang a lump-sum cash payment equal to 200% of Mr. Kang's annual base salary plus the average cash bonus during the two full fiscal years immediately preceding the termination. Pursuant to the agreement, Mr. Kang was issued options to purchase 1,612,904 shares of our common stock at an exercise price of $4.65 per share. The options expire on December 31, 2010 and vested immediately upon grant. In addition, Mr. Kang is prohibited, during his employment with us and for one year after he is no longer employed by us, from soliciting any of our employees or competing with us in any manner. Starting in May 2003, Mr. Kang and other members of senior management took a 10% voluntary decrease in their base salary and returned to full salary in June 2004.

James Kang. . On May 1, 2001, we entered into an employment agreement with James Kang that, as amended, provides for his employment as the named executive Founder of our company. Mr. Kang's employment agreement expires on May 1, 2006. Mr. Kang receives an annual base salary equal to $300,000 per year, and his employment will terminate upon the earlier of his death, resignation, disability, or termination by the board of directors for any reason. If we terminate Mr. Kang's employment without cause, or if Mr. Kang terminates his own employment upon a change of control of our company or for other good reason, as defined in the agreement, we are responsible for paying Mr. Kang a severance benefit equal to a lump-sum cash payment equal to 200% of Mr. Kang's annual base salary plus the average cash bonus during the two full fiscal years immediately preceding the termination. Pursuant to the agreement, Mr. Kang was issued options to purchase 2,580,646 shares of our common stock at an exercise price of $6.20 per share. The options expire on April 30, 2011 and vest at a rate of 33% per year for three years, with the first 33% vesting on May 21, 2002 and an additional 33% on May 21, 2003 and 2004. In addition, Mr. Kang is prohibited, during his employment with us and for two years after he is no longer employed by us, from soliciting any of our employees or customers. Starting in May 2003, Mr. Kang and other members of senior management took a 10% voluntary decrease in their base salary and returned to full salary in June 2004.

Young Ham. On April 15, 2005, we entered into an employment agreement with Young Ham, which provides for his employment as the named Chief Financial Officer. Mr. Ham's employment agreement expires April 15, 2008, and his term may continue subsequent to the expiration date on a month-to-month basis at the same salary. His annual salary is $150,000, and he received 50,000 stock options as part of the employment agreement with an exercise price of $1.42 per share. The options expire on July 14, 2014 and vest at a rate of 20% per year for five years. If we terminate Mr. Ham's employment without cause, we are responsible for paying Mr. Ham a severance benefit of Mr. Ham's monthly base salary for three-month period immediately following the effective date of the termination.

Equity Incentive Plans/Equity Compensation Plans

Securities authorized for issuance under equity compensation plans as of December 31, 2005 (our last completed fiscal year end) were as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights [a]	Weighted-average exercise price of outstanding options, warrants, and rights [b]	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column [a]) [c]
Equity compensation plans approved by stockholders	7,993,555	$ 4.45	6,790,585
Equity compensation plans not approved by stockholders	5,362,373	$ 2.36	—
Total	13,355,928		6,790,585

Equity compensation plans not approved by stockholders consist of:

- Warrants to purchase up to 563,151 shares issued on March 1, 2004 with an original exercise price of $3.00 per share and an expiration date of March 1, 2006;
- Warrants to purchase up to 893,750 shares issued on June 13, 2005 with an exercise price of $2.00 per share and an expiration date of June 13, 2010;
- Warrants to purchase up to 2,883,965 shares issued on August 2, 2005 with an exercise price of $2.00 per share and an expiration date of August 2, 2010;
- Warrants to purchase up to 322,581 shares issued to John Kang and Ricardo Salas on February 21, 2001 with an exercise price of $4.65 per share and an expiration date of December 31, 2005;
- Warrants to purchase up to 322,581 shares issued to Tjoa Thian Song on February 21, 2001 with an exercise price of $4.65 per share and an expiration date of December 31, 2005; and
- Warrants to purchase up to 376,345 shares issued to Paul Azinger on January 1, 2001 with an exercise price of $1.16 per share and an expiration date of January 1, 2008.

The number of securities and type of plans available for future issuance of stock options as of December 31, 2005 were as follows:

Plan Name	Options and Warrants for Common Shares Authorized	Exercised	Outstanding	Available
1996 Stock Option Plan	12,903,226	1,974,365	3,386,297	—
2002 Equity Incentive Plan	10,000,000	—	2,151,950	6,420,585
2002 Non-employee Director Stock Option Plan	1,000,000	—	234,000	370,000
Total Stock Options	23,903,226	1,974,365	5,772,247	6,790,585

1996 Stock Option Plan

Our 1996 Stock Option Plan provides for the grant of stock options to employees, directors, and consultants of our company and its affiliates. The purpose of the plan is to retain the services of existing employees, directors, and consultants; to secure and retain the services of new employees, directors, and consultants; and to provide incentives for such persons to exert maximum efforts for our success. The plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees and consultants of nonstatutory stock options. Our board of directors terminated the 1996 Stock Option Plan on April 4, 2002. The termination will not affect any outstanding options under the plan, and all such options will continue to remain outstanding and be governed by the plan.

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

As of December 31, 2005, options to purchase 3,386,297 shares of common stock were outstanding and exercisable at a weighted average price of $6.14 per share under the 1996 Stock Option Plan. As of December 31, 2005, 1,974,365 shares had been issued upon exercise of options under the plan.

2002 Equity Incentive Plan

Our 2002 Equity Incentive Plan, which was adopted by our board of directors and approved by our stockholders in April 2002, provides for the grant of stock options to officers, employees, consultants, and directors of our company and its subsidiaries. The purpose of the plan is to advance the interests of our stockholders by enhancing our ability to attract, retain, and motivate persons who make or are expected to make important contributions to our company and its subsidiaries by providing such persons with equity ownership opportunities and performance-based incentives, thereby better aligning their interests with those of our stockholders. The plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees and consultants of nonstatutory stock options. In addition, the plan permits the granting of stock appreciation rights, or SARs, with or independently of options, as well as stock bonuses and rights to purchase restricted stock. A total of ten million shares of our common stock may be granted under the plan.

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

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

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

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

The plan may be amended, altered, suspended or terminated by our board of directors at any time, but no such amendment, alteration, suspension or termination may adversely affect the terms of any option previously granted without the consent of the affected optionee. Unless terminated

sooner, the plan will terminate automatically in April 2012. As of December 31, 2005, there were 2,151,950 outstanding options or stock awards at a weighted average price of $2.66 under the plan.

In September 2005, the non-employee directors of our company were given the opportunity to receive shares of stock under the plan in lieu of past-due director and committee fees that were due to them for periods through September 30, 2005. Such shares were issuable to such directors at an average price of $1.89 per share. As of December 31, 2005, a total of 92,219 shares were issued to non-employee directors in lieu of these past-due fees.

Additionally, in February 2006, the non-employee directors of our company were given the opportunity to receive shares of stock under the plan in lieu of director and committee fees that were due for fiscal year 2006. Such shares were issuable to such directors at an average price of $0.88 per share, the effective closing price of our stock on January 1, 2006 when the fees became due. In April 2006, we issued a total of 99,432 shares to non-employee directors in lieu of these fees.

2002 Non-employee Director Stock Option Plan

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

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

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

As of December 31, 2005, options to purchase 234,000 shares of common stock were outstanding at a weighted average price of $2.55 per share under the 2002 Non-employee Director Stock Option Plan. There were 24,000 options exercisable under the 2002 Non-employee Director Stock Option Plan as of December 31, 2005.

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

401(k) Savings Plan

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

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common stock as of March 20, 2006 and as adjusted to reflect the sale of the common stock being registered for resale under this prospectus by:

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

The amounts and percentage of common stock beneficially owned are reported on the basis of the regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. The number of shares of common stock outstanding used in calculating the percentage for each listed person includes the shares of common stock underlying options or warrants held by such person that are, or within 60 days after March 20, 2006, exercisable, but excludes shares of common stock underlying options or warrants held by any other person (whether or not exercisable within 60 days). The percentage of common stock beneficially owned is based on 42,246,621 shares of common stock outstanding on March 20, 2006.

Name of Beneficial Owner	Shares	Percent of Class
5% Stockholders		

Tjoa Thian Song(7) 16 Raffles Quay #B1-14A Hong Leong Building Singapore 0101	4,008,523	10%
Jack Chitayat(10) 1133 Park Avenue, Suite 1W New York, NY 10128	2,544,289	6%
Directors and Named Executive Officers		
Ricardo A. Salas(9) 25800 Commercentre Drive, Suite 100 Lake Forest, CA 92630	1,200,978	3%
John Kang(1) 25800 Commercentre Drive, Suite 100 Lake Forest, CA 92630	5,104,973	12%
James Kang(2) 25800 Commercentre Drive, Suite 100 Lake Forest, CA 92630	6,066,033	14%
William Johnson(3) 25800 Commercentre Drive, Suite 100 Lake Forest, CA 92630	1,207,650	3%
Dean Tanella(4) 25800 Commercentre Drive, Suite 100 Lake Forest, CA 92630	48,120	*
Robert Biehl(5) 25800 Commercentre Drive, Suite 100 Lake Forest, CA 92630	50,082	*
CK Cho(6) 25800 Commercentre Drive, Suite 100 Lake Forest, CA 92630	298,727	*
Young Ham(8) 25800 Commercentre Drive, Suite 100 Lake Forest, CA 92630	27,500	*
All directors and executive officers as a group (8 persons)	14,004,063	33%

* Less than one percent.

(1) As of August 22, 2003, John Kang was named Chairman of our board of directors. Mr. Kang resigned from his position as President and Chief Executive Officer of our company on December 30, 2005. However, he continues to serve as Chairman of the Board and continues to work for the Company on a full-time basis. The beneficial shares include:

(a) 1,622,904 shares that are issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of March 20, 2006. Does not include 40,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days; and

(b) 132,400 shares held by Mr. Kang's minor children.

(2) Includes 2,861,291 shares issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of March 20, 2006. Also includes 969 shares held by James Kang's minor children. Does not include 16,129 shares issuable pursuant to outstanding stock options that are not exercisable currently or within 60 days of March 20, 2006.

(3) Includes 12,000 shares issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of March 20, 2006. Does not include 58,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days of March 20, 2006.

(4) Includes 16,130 shares held by Mr. Tanella's investment firm, HarborLight Diversified Fund, LP. Also, includes 1,390 shares held by Mr. Tanella's family. Includes 22,000 shares that are issuable pursuant to outstanding stock options that are exercisable within 60 days of March 20, 2006. Does not include 68,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days of March 20, 2006.

(5) Includes 10,000 shares issuable pursuant to outstanding stock options that are exercisable currently within 60 days of March 20, 2006. Does not include 50,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days of March 20, 2006.

(6) Includes 92,584 shares issuable pursuant to currently exercisable warrants and 435,167 shares issuable pursuant to currently convertible notes. Also, includes 10,000 shares issuable pursuant to outstanding stock options that are exercisable currently or within 60 days of March 20, 2006. Does not include 50,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days of March 20, 2006.

(7) 3,874,585 of these shares are held of record by a revocable grantor trust established by Mr. Tjoa for himself and his family members. Mr. Tjoa continues to beneficially own all such shares.

(8) Includes 27,500 shares issuable pursuant to outstanding stock options exercisable currently or within 60 days of March 20, 2006. Does not include 110,000 shares that are issuable pursuant to outstanding stock options that are not exercisable within 60 days of March 20, 2006.

(9) Includes 46,292 shares issuable pursuant to currently exercisable warrants and 217,584 shares issuable pursuant to currently convertible notes.

(10) 91,792 of these shares are held of record by a trust established by Mr. Chitayat for his family members. Mr. Chitayat continues to beneficially own all such shares.

DESCRIPTION OF CAPITAL STOCK

General

We are authorized to issue up to 100,000,000 shares of common stock, par value $0.001 per share, of which 42,246,621 shares were issued and outstanding as of March 20, 2006. We are also authorized to issue up to 10,000,000 shares of preferred stock, par value $0.001 per share, of which no shares were issued and outstanding as of March 20, 2006.

Common Stock

The holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably any dividends that may be declared from time to time by the board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued upon the closing of this offering will be fully paid and nonassessable.

Preferred Stock

Our board of directors has the authority, without action by our stockholders, to designate and issue up to 10,000,000 shares of preferred stock in one or more series. The board of directors may also designate the rights, preferences, and privileges of each series of preferred stock, any or all of which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of the preferred stock. However, these effects might include restricting dividends on the common stock; diluting the voting power of the common stock; impairing the liquidation rights of the common stock; and delaying or preventing a change in control of our company without further action by the stockholders. We have no present plans to issue any shares of preferred stock.

Convertible Notes

As of March 20, 2006, we had convertible promissory notes outstanding in the aggregate principal amount of $12.7 million. The notes consist of $2.8 million in aggregate principal amount of 6% Senior Convertible Notes Due July 2007 (the “July 2007 Notes”) plus $9.9 million in aggregate principal amount of 7% Convertible Secured Promissory Notes due August 2007 (the “August 2007 Notes”).

The July 2007 Notes were issued in a private placement on July 29, 2004 and have a maturity date of July 29, 2007. The July 2007 Notes are convertible into shares of our common stock at a conversion price of $1.00 per share, subject to specified anti-dilution adjustments. Under the July 2007 Notes, the noteholders have the right to call for repayment of such notes prior to maturity at any time after the second anniversary of the date of the issuance of the notes. The July 2007 Notes bear interest at a rate equal to 6% per annum, with interest being payable in cash on a quarterly basis.

The August 2007 Notes were issued in a private placement on August 2, 2005 and have a maturity date of August 2, 2007. The August 2007 Notes are convertible into shares of our common stock at a conversion price of $2.00 per share, subject to specified anti-dilution adjustments. The August 2007 Notes bear interest at a rate equal to 7% per annum, with interest being payable in cash on a quarterly basis.

Warrants and Special Stock Option

As of March 20, 2006, we had warrants outstanding to purchase up to 3,777,715 shares of our common stock. Of these warrants:

- Warrants to purchase up to 893,750 shares were issued on June 13, 2005 at an exercise price of $2.00 per share and with an expiration date of June 13, 2010; and

- Warrants to purchase up to 2,883,965 shares were issued on August 2, 2005 at an exercise price of $2.00 per share and with an expiration date of August 2, 2010.

In each of the foregoing transactions, the warrants were issued in private placements and were issued to the purchasers of convertible notes in such private placements, as well as to placement agents in such transactions.

On January 1, 2001, we granted Paul Azinger, a professional golf player, a non-qualified stock option to purchase up to 1,021,507 shares of our common stock at an exercise price of $1.16 per share. This option was granted to Mr. Azinger in consideration of Mr. Azinger entering into an endorsement agreement with our Liquidmetal Golf subsidiary, although the endorsement agreement was terminated effective January 1, 2003. As a result of the termination of the endorsement agreement, Mr. Azinger’s option immediately vested as to 376,345 shares upon such termination, and the option was terminated as to the remaining shares. This stock option will expire on January 1, 2008, and as of March 20, 2006, no portion of this option has been exercised.

On March 17, 2006, we issued warrants to purchase an aggregate amount of up to 125,000 shares of common stock, exercisable at $2.00 per share, to Atlantic Realty Group, Inc., a company controlled by Jack Chitayat (a former director of our company). The warrants will expire on March 17, 2009. As of April 5, 2006, no portion of this warrant has been exercised

Anti-Dilution Provisions in Notes and Warrants

Our convertible notes and warrants contain weighted-average anti-dilution provisions whereby, if we issue shares in the future for consideration below the conversion or exercise prices or such notes or warrants, then (with certain exceptions, including the issuance of stock options) the conversion price for our convertible notes would automatically be reduced (allowing the holders of the notes to receive additional shares of common stock upon conversion) and the exercise price of the warrants would automatically be reduced. The amount of the reduction would be equal to a portion of the difference between the conversion price of the notes and exercise price of the warrants, on the one hand, and the lower price at which the common stock was, or could effectively be acquired, in the subsequent transaction. The percentage by which the conversion price and exercise price could be reduced depends not only on the lower price at which our common stock was, or could be, acquired in the subsequent transaction, but also by the ratio that the number of shares of our common stock that were, or could be, acquired in such transaction bears to the total number of shares of our common stock that would be outstanding after such subsequent transaction.

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

Registration Rights

On August 2, 2005, we entered into an amended and restated registration rights agreement with the holders of the July 2007 Notes, the holders of the August 2007 Notes, and the holders of the above-described outstanding

warrants. This amended and restated registration rights agreement replaced all other registration rights agreements previously entered into by us in connection with the private sale by us of convertible notes and warrants. Under the amended and restated registration rights agreement, we are required to file a resale registration statement for the shares underlying all of our outstanding convertible notes and warrants, as described above, by October 31, 2005, to enable the resale of such shares by the selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act. We are then required to cause such registration statement to become effective within 60 days after we receive the first written comments on the registration statement from the SEC, or if the SEC notifies us that it will not review the registration statement, within five days after such notification. We will be subject to certain monetary penalties, as set forth in the registration rights agreement, if the registration statement is not filed or does not become effective on a timely basis. Specifically, if we do not file the registration statement on a timely basis, we will be obligated to pay a late filing fee to the selling stockholders in the amount of 3% of the warrant exercise price on each of the warrants held by them plus 3% of the principal amount of the outstanding notes held by them. This fee will be payable for each period of 30 business days that the filing of the registration statement is made past the required filing date, and the payments will be due 10 business days following the end of each 30-day period. If the registration statement has not been declared effective by the required effective date, we will be obligated to pay a monthly late registration fee to the selling stockholders in the amount of 2% of the aggregate warrant exercise prices and aggregate note principal amounts for the first 30 business days after the required effective date, and 1% for each 30-business day period thereafter until the registration statement is declared effective. Notwithstanding the foregoing, the late filing fees and late registration fees will not exceed 18% of the aggregate warrant exercise prices and aggregate note principal amounts.

On December 6, 2005, we received a letter from a representative of the holders of the August 2007 Notes demanding the payment of a late filing fee by us for the period following October 31, 2005, but under the terms of the amended and restated registration rights agreement, we do not believe that we are obligated to pay any late filing fees unless and until we fail to file the registration statement by December 13, 2005, which is the last day of the first 30-business day period following October 31, 2005. The letter also stated that the letter was serving as a notice of default under the Senior Notes as a result of our failure to file a registration statement by October 31, 2005, although under the terms of the Senior Notes, we have thirty days after delivery of the letter in which to cure such default. On December 9, 2005, we filed the registration statement and have cured the default notice received on December 6, 2005.

Pursuant to the above-described non-qualified stock option granted to Paul Azinger, Mr. Azinger has piggyback registration rights with respect to any shares of common stock that Mr. Azinger receives upon the exercise of his stock option. Mr. Azinger's stock option agreement provides that, if we propose to register additional shares of common stock under the Securities Act of 1933, whether for our own account or the account of another stockholder, Mr. Azinger is entitled to receive notice of that registration and to include his shares in the registration, subject to limitations described in his stock option agreement. These registration rights will not apply to a registration of securities issued under an employee benefit plan or a registration incident to a corporate merger or reorganization. These registration rights expire on the date on which Mr. Azinger can sell all of his registrable securities under Rule 144 under the Securities Act of 1933 without any volume limitations. As a result of these registration rights, Mr. Azinger is a selling stockholder in this prospectus.

All of the above registration rights are subject to conditions and limitations, among them the right of the underwriters of any offering to limit the number of shares of common stock held by these security holders to be included in the registration. We are generally required to bear all of the expenses of all registrations, except underwriting discounts and selling commissions. Registration of the shares of common stock held by security holders with registration rights would result in these shares becoming freely tradeable without restriction under the Securities Act of 1933 immediately upon effectiveness of this registration. Other than the above-described registration rights, we have not granted any registration rights with respect to any shares of our capital stock.

Stock Options

As of March 20, 2006, we had stock options outstanding under our equity incentive plans to purchase up to 7,644,723 shares of our common stock. Of these options, options to purchase 6,210,784 shares of common stock were exercisable at March 20, 2006 at a weighted-average exercise

price of $5.52 per share.

Anti-Takeover Effect

Provisions of Delaware law and our certificate of incorporation and amended bylaws could make the acquisition of our company through a tender offer, a proxy contest or other means more difficult and could make the removal of incumbent officers and directors more difficult. We expect these provisions to discourage coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to first negotiate with our board of directors. We believe that the benefits provided by our ability to negotiate with the proponent of an unfriendly or unsolicited proposal outweigh the disadvantages of discouraging these proposals. We believe the negotiation of an unfriendly or unsolicited proposal could result in an improvement of its terms.

Delaware Law. Upon the closing of this offering, we will be subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years following the date the person became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a “business combination” for these purposes includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” for these purposes is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation’s outstanding voting securities. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may also discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Certificate of Incorporation and Bylaw Provisions. Our certificate of incorporation to be in effect provides for our board of directors to be divided into three classes serving staggered terms. Approximately one-third of the board of directors will be elected each year. The provision for a classified board could prevent a party who acquires control of a majority of the outstanding voting stock from obtaining control of the board of directors until the second annual stockholders meeting following the date the acquiring party obtains the controlling stock interest. The classified board provision could discourage a potential acquiror from making a tender offer or otherwise attempting to obtain control of our company and could increase the likelihood that incumbent directors will retain their positions. Our bylaws also provides that directors may be removed with cause by the affirmative vote of the holders of the outstanding shares of common stock.

Our bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board of directors. At an annual meeting, stockholders may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors. Stockholders may also consider a proposal or nomination by a person who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our Secretary timely written notice, in proper form, of his or her intention to bring that business before the

meeting. The bylaws do not give the board of directors the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting of the stockholders. However, our bylaws may have the effect of precluding the conduct of business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror’s own slate of directors or otherwise attempting to obtain control of our company.

Under Delaware law, a special meeting of stockholders may be called by the board of directors or by any other person authorized to do so in the certificate of incorporation or the bylaws. Our certificate of incorporation authorizes a majority of our board of directors to call a special meeting of stockholders, and it requires the President or Secretary to call a special meeting upon the written request of stockholders who own an aggregate of least 25% of the outstanding shares of voting stock. Because our stockholders owning less than an aggregate of 25% of our voting stock do not have the right to call a special meeting, such stockholders could not force stockholder consideration of a proposal over the opposition of the board of directors by calling a special meeting of stockholders prior to such time as a majority of the board of directors believed or the chief executive officer believed the matter should be considered or until the next annual meeting provided that the requestor met the notice requirements. The restriction on the ability of stockholders to call a special meeting means that a proposal to replace the board also could be delayed until the next annual meeting.

Transfer Agent and Registrar

The Transfer Agent and Registrar for the common stock is American Stock Transfer & Trust Company, New York, New York.

PLAN OF DISTRIBUTION

We are registering the shares of common stock issuable upon conversion of our outstanding convertible notes, the exercise of our outstanding warrants, and the exercise a non-qualified stock option to permit the resale of these shares by the holders of such notes and warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by any selling stockholder of these shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock, except that a selling stockholder will pay all applicable underwriting discounts and selling commissions, if any.

Any selling stockholder may sell all or a portion of the common stock beneficially owned by it and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the common stock is sold through underwriters or broker-dealers, then the selling stockholder will be responsible for underwriting discounts or commissions or agent's commissions. The common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

(1) on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale,

(2) in the over-the-counter market,

(3) in transactions otherwise than on these exchanges or systems or in the over-the-counter market,

(4) through the writing of options, whether the options are listed on an options exchange or otherwise,

(5) through the settlement of short sales effected after the effective date of the registration statement of which this prospectus is a part;

(6) through a combination of such methods of sale; or

(7) through any other method permitted pursuant to applicable law.

If a selling stockholder effects such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholder or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the common stock or otherwise, a selling stockholder may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the common stock in the course of hedging in positions they assume after the effective date of the registration statement of which this prospectus is a part. A selling stockholder may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions. Each selling stockholder may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

Each selling stockholder may pledge or grant a security interest in some or all of the convertible senior secured notes or shares of common stock owned by it and, if it defaults in the performance of its secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling stockholders to include the pledgee, transferee or other successors-in-interest as selling stockholders under this prospectus. Each selling stockholder also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors-in-interest will be the selling beneficial owners for purposes of this prospectus.

Each selling stockholder and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed, to any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed that will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from each selling stockholder and any discounts, commissions or concessions allowed or reallowed or paid to broker-dealers. If a selling stockholder enters into an agreement after the effectiveness of the registration statement to sell its shares to a broker-dealer as principal and the broker-dealer is acting as an underwriter, then we will be required to file a post-effective amendment to the registration statement of which this prospectus is a part identifying the broker-dealer, providing the required information on the plan of distribution, revising the appropriate disclosures in the registration statement, and filing the agreement as an exhibit to the registration statement. Prior to the involvement of any broker-dealer in the offering, such broker-dealer must seek and obtain clearance of the underwriting compensation and arrangements from the NASD Corporate Finance Department.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in the state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholder will sell any or all of the shares of common stock registered pursuant to the shelf registration statement of which this prospectus forms a part.

Each selling stockholder and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We and the selling stockholders will distribute the prospectus only by hand or the mails and only in the form of this prospectus. Neither we nor the selling stockholders will distribute or deliver the prospectus electronically or in any form of prospectus other than the printed form of this prospectus.

We have agreed to pay all expenses in connection with this offering, but not including underwriting discounts, concessions, commissions or fees of the selling stockholders, estimated to be approximately $82 thousand in total, including, without limitation, Securities and Exchange Commission filing fees and expenses. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreement, or the selling stockholders will be entitled to contribution. We may be indemnified by a selling stockholder against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the registration rights agreement, or we may be entitled to contribution.

Once sold under the shelf registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In June 2003, we entered into an exclusive, ten-year license agreement with LLPG, Inc. (“LLPG”), a corporation primarily owned and led by Jack Chitayat, a former director of our company. Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. In turn, we will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. In conjunction with its technology licensing contract, LLPG purchased two proprietary Liquidmetal alloy melting machines and three proprietary Liquidmetal alloy casting machines for a total purchase price of $2.0 million. We have not received any royalties to date under this agreement.

On March 17, 2006, we issued a $1.0 million 10% subordinated promissory note due October 16, 2006 (the “March 2006 Note”) to Atlantic Realty Group, Inc., a company controlled by Jack Chitayat. The March 2006 Note is unsecured and subordinated to all prior indebtedness of the company. All accrued interest and unpaid principal under the note will be due October 16, 2006. The proceeds from the March 2006 Note is to be used solely for working capital purposes. In connection with the March 2006 Note, we issued warrants to purchase an aggregate amount of up to 125,000 shares of common stock, exercisable at $2.00 per share. The warrants will expire on March 17, 2009, and include price adjustment provisions for anti-dilution purposes. There are no registration rights of the shares issauble from the exercise of the warrants. Further, cashless exercise of the warrants is permitted.

We are a party to a license agreement with California Institute of Technology (“Caltech”) under which we exclusively license from Caltech certain inventions and technology relating to amorphous alloys. Professor William Johnson, a member of our board of directors, is a professor at Caltech, and substantially all of the amorphous alloy technology licensed to us under the Caltech license agreement was developed in Professor Johnson’s Caltech laboratory. Additionally, we reimburse Caltech for laboratory expenses incurred by Professor Johnson’s Caltech laboratory, which during the years ended December 31, 2005 and 2004, amounted to $20 thousand and $0, respectively.

We are a party to a consulting agreement with William Johnson, a board member. Under this agreement, Mr. Johnson provides consulting services on an as-needed basis through 2004 as it relates to marketing and development Liquidmetal alloy. The agreement currently continues on a month-to-month basis. During the years ended December 31, 2005 and 2004, we incurred approximately $15 thousand and approximately $90 thousand in consulting fees from Mr. Johnson, respectively. In April 2006, we entered into a consulting agreement with Mr. Johnson effective from January 1, 2006 through December 31, 2006 for research and product development services with an annual fee of $60 thousand. The consulting fees are payable monthly at $5 thousand per month.

We are a party to a consulting agreement with Chitnis Consulting, Inc., which is owned 100% by Shekhar Chitnis, a former director and executive officer of our company. Under this agreement, we have engaged Chitnis Consulting to provide consulting services on an as-needed basis through December 31, 2005. During the years ended December 31, 2005 and 2004, we incurred approximately $53 thousand and $54 thousand in consulting fees from Chitnis Consulting, respectively.

Soo Buchanan, the sister of John Kang and James Kang, was employed by our company and was paid aggregate compensation of approximately $104 thousand and $43 thousand as of December 31, 2005 and 2004. Effective, July 31, 2005, our Ms. Buchanan was terminated as an employee and began providing services to the company as a consultant. During 2005, the company incurred $18 thousand for her services as a consultant. Additionally, Otis Buchanan, the husband of Ms. Buchanan, was employed by the Company and was paid aggregate compensation of approximately $103 thousand and $54 thousand as of December 31, 2005 and 2004, respectively.

In November 2004, we entered into an agreement with John Kang, our Chairman, President, and Chief Executive Officer, in which Mr. Kang agreed that certain stock transactions by him in 2002 involving our common stock should have resulted in a liability under Section 16(b) of the Securities Exchange Act of 1934, as amended (“Section 16(b)”). These transactions include Mr. Kang’s private sale of 285,715 shares of his personal Liquidmetal Technologies common stock to Growell Metal Co., Ltd. in February 2002, prior to our initial public offering. They also include Mr. Kang’s subsequent indirect purchase and disposition of Liquidmetal Technologies common stock in order to satisfy a personal agreement Mr. Kang made to Growell Metal in February 2002 regarding the guaranteed minimum value of the stock purchased by Growell Metal in February 2002 (the purchases and dispositions incident to this agreement occurred in August and November 2002, respectively). Lastly, the transactions include open-market purchases of an aggregate of 89,300 shares of our common stock made by Mr. Kang in August 2002.

The Audit Committee of our Board of Directors conducted an independent inquiry into the above-described transactions with the aid of independent legal counsel and, as a result of such inquiry, the Audit Committee concluded that the transactions should have resulted in a liability to the Company under Section 16(b) in the amount of $0.3 million. Mr. Kang has acknowledged this liability, and in an agreement negotiated between Mr. Kang and the Audit Committee and approved by the full Board, Mr. Kang will pay this liability through periodic installments in 2005 and 2006. As a result, the Company accrued for the $0.3 million receivable in other assets and other income as of December 31, 2004. The above-described transactions involving Growell Metal was reported on a new Form 4 filed by Mr. Kang on November 15, 2004, and the open-market purchases were previously reported on a timely basis in August 2002. As of December 31, 2005, the outstanding amount of the receivable was $0.2 million, which is included in other assets. Mr. Kang has

paid $0.1 million during 2005. The Company has agreed to defer Mr. Kang's payment schedule until 2006 as Mr. Kang has agreed accept reduced compensation for the remainder of 2005. The remaining outstanding balance of $0.2 million will be due before the end of 2006.

During the year ended December 31, 2005, the Company executed a $0.2 million promissory note with CK Cho, member of our Board of Directors, for working capital purposes. The note was due and paid in full as of June 30, 2005. The note has an annual rate of interest of 6% resulting in the Company paying approximately $2 thousand in interest. Mr. Cho also holds $0.6 million of Senior Convertible Notes and holds 92,584 exercisable warrants as of December 31, 2005. Further, during the year ended December 31, 2005, Mr. Cho advanced approximately $1.3 million to cover short-term liquidity needs. The advances were made without interest and were repaid as of December 31, 2005.

During the year ended December 31, 2005, Ricardo Salas, our President and Chief Executive Officer, and Young Ham, our Chief Financial Officer, each advanced the company approximately $0.1 million to cover short-term liquidity needs. The advances were made without interest and were repaid as of December 31, 2005.

We believe that each of the foregoing transactions was consummated on terms at least as favorable to us as we would expect to negotiate with unrelated third parties.

CHANGES OF ACCOUNTANTS

On May 6, 2004, Deloitte & Touche LLP ("Deloitte"), the Company's independent auditors, notified the Company that they were resigning from the client-auditor relationship with the Company effective as of that date.

Deloitte was engaged by the Company to serve as the Company's independent auditors for the fiscal year ended December 31, 2003. The reports of Deloitte with respect to the Company's financial statements for the fiscal years ended December 31, 2002 and 2001 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years ended December 31, 2003 and 2002 and the period from December 31, 2003 through the date of Deloitte's resignation, there were no disagreements between the Company and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make reference to the subject matter of the disagreements in connection with its report on the Company's financial statements for such year.

The Company previously announced that it expected to restate revenues and results of operations for the third and fourth quarters of 2002 and the first quarter of 2003 in connection with the Company's sales of alloy melting and casting equipment during such quarters to Growell Metal Co., Ltd., a South Korea metals processing company ("Growell"). The Company's Audit Committee conducted an internal inquiry at the request of Deloitte into the Company's transactions with Growell and found that the original revenue recognition on the Growell equipment sales did not take into account all relevant documentation relating to the transactions. The Company announced in January 2004 that it entered into a dispute settlement agreement with Growell to resolve various outstanding claims between the parties relating to the Company's transactions with Growell.

In connection with the Audit Committee's inquiry into the Growell equipment sales and dispute settlement, the Audit Committee also reviewed the facts and circumstances relating to a personal stock transaction between the Company's CEO and Growell. In this transaction, as reported by the CEO, the CEO undertook a private sale of personal

shares of the Company's common stock to Growell in February 2002, prior to the Company's initial public offering. As part of the inquiry, the CEO reported that this sale included a previously undisclosed personal agreement to ensure that the purchase price of the stock purchased by Growell would be at a thirty percent discount to the Company's initial public offering price, and he also provided information regarding his fulfillment of this personal agreement.

As of May 6, 2004, certain details of the foregoing transactions had not been resolved to Deloitte's satisfaction. As a result of the expected restatements and these unresolved issues, the Company's previously issued financial statements for the year ended December 31, 2002 and Deloitte's audit report thereon, as well as the Company's quarterly financial statements for the third quarter of 2002 and the first, second, and third quarters of 2003 (and Deloitte's related review reports thereon), should no longer be relied upon.

Deloitte communicated to the Company that it was unwilling to continue to rely on the representations of the Company's CEO. Deloitte had also previously communicated to the Company that, in light of the facts and circumstances surrounding the expected restatement, there were material weaknesses in the Company's internal accounting controls relating to the execution, administration, and accounting for contracts, particularly in the Company's South Korean operations. The Company has taken and is continuing to take steps to improve these internal controls.

Other than the foregoing, none of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred within the two most recent fiscal years of the Company ended December 31, 2003 and 2002 or within the subsequent interim period through the date of Deloitte's resignation.

The Company's Audit Committee discussed with Deloitte the matters disclosed above regarding Deloitte's resignation. The Company authorized Deloitte to respond fully to the inquiries of the Company's successor accountant concerning the matters disclosed above.

On May 21, 2004, the Company's Audit Committee appointed Stonefield Josephson, Inc. ("Stonefield") as the Company's independent auditors. During the two fiscal years prior to the engagement of Stonefield and through the date of the commencement of their engagement, the Company did not consult Stonefield regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that may be rendered on the Company's financial statements, and neither a written report nor oral advice was provided to the Company that Stonefield Josephson concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a "disagreement" (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions thereto) or a "reportable event" (as defined in Item 304(a)(1)(v) of Regulation S-K).

On November 23, 2005, Stonefield, the Company's independent registered public accounting firm, notified the Company that Stonefield would resign as the Company's independent registered public accounting firm upon the completion of Stonefield's review of the Company's interim unaudited financial statements as of and for the three and nine month periods ended September 30, 2005. The Company's interim unaudited financial statements as of and for the three and nine month periods ended September 30, 2005 were included in the Company's report on Form 10-Q for the third

quarter ended September 30, 2005 filed with the SEC on December 1, 2005, and the Company's relationship with Stonefield was therefore effectively terminated as of December 1, 2005.

The reports of Stonefield with respect to the Company's financial statements for the fiscal years ended December 31, 2003 and 2004 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles, except for an explanatory paragraph regarding the Company's ability to continue as a going concern contained in Stonefield's report on the Company's financial statements and for a disclaimer of opinion made by Stonefield with respect to the Company's internal controls over financial reporting and the Company's assessment of those controls as of December 31, 2004.

From May 21, 2004, the date Stonefield was appointed as the Company's independent auditors, through the date of Stonefield's resignation, there were no disagreements between the Company and Stonefield on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Stonefield, would have caused Stonefield to make reference to the subject matter of the disagreements in connection with its report on the Company's financial statements for such years.

There were no "reportable events" as described under Item 304(a)(1)(v) of Regulation S-K occurring within the two most recent fiscal years of the Company ended December 31, 2004 and 2003 or within the subsequent interim period through the date of Stonefield's resignation, except as follows:

Stonefield has advised the Company that there are material weaknesses in its internal controls, mainly related to internal controls of its South Korean operations. Therefore, Stonefield has expanded the scope of its review of the interim unaudited financial statements as of and for the three and nine month periods ended September 30, 2005. The material deficiencies in the Company's internal controls over financial reporting include the following:

a) Lack of adequate segregation of duties in the Company's South Korean operations in accounts receivable, involving cash receipts, shipping, delivery of products, and customer invoice reconciliations;

b) Lack of adequate segregation of duties in the Company's Coatings Division in Texas in order processing and invoicing;

c) Lack of adequate controls and documentation in the Company's South Korean operations to evidence proper customer invoicing and revenue recognition in the proper period;

d) Lack of progress in documenting, assessing and evaluating the Company's internal controls in our South Korean Operations evidenced by aforementioned deficiencies of which remediations will need to be completed as of December 31, 2005.

e) Lack of sufficient controls over internal access to the Company's SAP system of reporting by unauthorized users; and

f) The manual performance of numerous procedures that could be automated using current reporting systems;

In connection with the foregoing, Stonefield has also advised the Company that it believes that the Company has made insufficient progress in documenting, assessing, and evaluating the Company's internal controls over financial reporting for purposes of timely complying with Section 404 of the Sarbanes-Oxley Act of 2002.

The Company's Audit Committee has discussed with Stonefield the matters disclosed above regarding Stonefield's resignation. The Company has authorized Stonefield to respond fully to the inquiries of the Company's successor accountant concerning the matters disclosed above.

Upon Stonefield's resignation, the Company's Audit Committee commenced an immediate search and on January 20, 2006, hired Choi Kim & Park LLP ("CKP") as its new registered independent public accounting firm.

UNITED STATES FEDERAL INCOME TAX CONSIDERATION

General

The following is a summary of certain material United States federal income tax considerations related to the ownership and disposition of our common stock that may be relevant to you if you acquire our common stock pursuant to this offering. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed Treasury regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as of the date of this prospectus and all of which are subject to change, possibly with retroactive effect. The Internal Revenue Service is referred to as "IRS" in this summary.

This summary discusses only the tax consequences to the investors who purchase our common stock pursuant to this offering and does not discuss the tax consequences applicable to subsequent purchasers of our common stock. This summary deals only with common stock held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax considerations that may be relevant to holders of our common stock in light of their particular circumstances or to holders of common stock subject to special rules, such as financial institutions, regulated investment companies, holders subject to the alternative minimum tax, insurance companies, pension funds, tax-exempt

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organizations, partnerships or other pass-through entities, dealers in securities or currencies, traders who elect to mark to market their securities or persons holding the common stock as part of a hedging or constructive sale transaction, "straddle," conversion transaction, or other integrated transaction, or holders of the common stock whose functional currency is not the United States dollar or persons who acquired our common stock in compensatory transactions. In addition, this summary does not discuss any United States tax consequences to a Non-U.S. Holder (as defined below) that is a controlled foreign corporation, passive foreign investment company, foreign personal holding company, corporation that accumulates earnings to avoid U.S. federal income tax, or a U.S.

expatriate. This summary does not address any state, local or non-United States tax considerations, or tax considerations under other federal tax laws (such as estate and gift tax laws).

We have not requested a ruling from the IRS on the tax consequences of owning our common stock. As a result, the IRS could disagree with portions of this discussion. Persons considering the purchase of our common stock should consult with their own tax advisors about the application of the United States federal income tax laws to their particular situations, as well as any tax considerations under other United States federal tax laws, and the laws of any state, local or foreign jurisdiction.

As used in this prospectus, the term “U.S. Holder” means a beneficial owner of common stock that is, for United States federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, partnership or other entity treated as a corporation, created in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or a trust that has a valid election in effect under applicable United States Treasury Regulations to be treated as a U.S. person.

As used in this prospectus, the term “Non-U.S. Holder” means a beneficial owner of common stock that is an individual, corporation, trust or estate that is not a U.S. Holder.

If an entity treated as a partnership for U.S. federal income tax purposes holds shares of common stock, the tax treatment of a partner will generally depend on the status of the partner and upon the activity of the partnership. If you are a partner of a partnership holding shares of common stock, we suggest you consult your own tax advisor.

U.S. Holders

Distributions to U.S. Holders

If distributions are paid on the shares of our common stock (other than distributions in liquidation and distributions in redemption of our common stock), these distributions generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, and will constitute a tax-free return of capital that is applied against your tax basis in the common stock to the extent these distributions exceed those earnings and profits. Distributions in excess of our current and accumulated earnings and profits and your tax basis in the common stock will be treated as a gain from the sale or exchange of the common stock, the treatment of which is discussed below. For the tax years 2004 through 2008, non-corporate U.S. Holders are subject to a maximum tax rate on dividends equal to 15%, which corresponds to the maximum tax rate for long-term capital gains; however, certain holding period requirements and other limitations may apply. Under current law for tax years beginning after December 31, 2008, dividends will be taxed at the same rate as other items of ordinary income. U.S. Holders that are corporations may be eligible for a dividend-received deduction in respect of a dividend distribution by us.

Gain on Disposition of Common Stock by U.S. Holders

A U.S. Holder will recognize gain or loss on the sale, exchange or other taxable disposition of our common stock to the extent of the difference between the amount realized on such sale, exchange or other disposition and the holder’s adjusted tax basis in such shares. Such gain or loss generally will constitute capital gain or loss, and will be long-term capital gain or loss, if the holder has held such shares for more than one year at the time of sale or disposition. Non-corporate U.S. Holders are subject to a maximum tax rate of 15% on long-term capital gain (increased to 20% for years after 2008). The deductibility of capital losses by a U.S. Holder is subject to limitations.

Non-U.S. Holders

Distributions to Non-U.S. Holders

Dividends paid to a Non-U.S. Holder that are not effectively connected with the conduct of a U.S. trade or business of the Non-U.S. Holder generally will be subject to U.S. federal withholding tax at a 30% rate or, if an income tax treaty applies and certain certification requirements described below are satisfied, a lower rate specified by the treaty. A Non-U.S. Holder who wishes to claim the benefits of an applicable income tax treaty will be required to provide the appropriate IRS Form W-8 certifying its entitlement to benefits under an income tax treaty. Non-U.S. Holders should consult their tax advisors regarding their entitlement to benefits under a relevant tax treaty.

Withholding generally is imposed on the gross amount of a distribution, regardless of whether we have sufficient earnings and profits to cause the distribution to be a dividend for U.S. federal income tax purposes. However, we may elect to withhold on less than the gross amount of the distribution if we determine that the distribution is not paid out of our current or accumulated earnings and profits, based on our reasonable estimates.

A Non-U.S. Holder eligible for a reduced rate of U.S. federal withholding tax under a tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for a refund together with the required information with the IRS.

Dividends that are effectively connected with a Non-U.S. Holder’s conduct of a trade or business within the United States and, if a tax treaty applies, attributable to a Non-U.S. Holder’s U.S. permanent establishment, are exempt from U.S. federal withholding tax if the Non-U.S. Holder furnishes to us or our paying agent the appropriate IRS form and other applicable requirements are met. However, dividends exempt from U.S. federal

withholding tax because they are "effectively connected" or attributable to a U.S. permanent establishment under an applicable tax treaty are subject to U.S. federal income tax on a net income basis at the regular graduated U.S. federal income tax rates. Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or a lower rate specified by an applicable tax treaty.

Gain on Disposition of Common Stock by Non-U.S. Holders

Subject to the discussion below concerning backup withholding, a Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of our common stock unless one of the following applies:

- The gain is effectively connected with a Non-U.S. Holder's conduct of a trade or business within the United States and, if a tax treaty applies, the gain is attributable to a Non-U.S. Holder's U.S. permanent establishment. In such case, the Non-U.S. Holder will, unless an applicable tax treaty provides otherwise, generally be taxed on its net gain derived from the sale at regular graduated U.S. federal income tax rates, and in the case of a foreign corporation, may also be subject to the branch profits tax described above;

- A Non-U.S. Holder who is an individual holds our common stock as a capital asset, is present in the United States for 183 or more days in the taxable year of the sale or other disposition, and certain other conditions are met. In such a case, the Non-U.S. Holder will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by certain U.S. capital losses; or

- We are or have been a "United States real property holding corporation" (a "USRPHC") for United States federal income tax purposes at any time during the shorter of the five-year period ending on the date of the sale or other disposition and the period such Non-U.S. Holder held our common stock (the shorter period hereinafter referred to as the "lookback period"); provided that if our common stock is regularly traded on an established securities market, this rule will generally not cause any gain to be taxable unless the Non-U.S. Holder owned more than 5% of our common stock at some time during the lookback period. We do not believe that we are a USRPHC and do not expect to become one in the future. However, we could become a USRPHC as a result of future changes in assets or operations.

Information Reporting and Backup Withholding Tax

The amount of dividends paid to each U.S. Holder will be reported annually to the IRS and to each U.S. Holder. A U.S. Holder may be subject to backup withholding (currently at a rate of 28%) with respect to dividends on, and the proceeds from the sale or redemption of, common stock, unless such holder (a) is an entity that is exempt from withholding (including, among others, corporations and certain tax-exempt organizations) and when required, demonstrates this fact, or (b) provides the payor with its correct taxpayer identification number, which, for an individual, is ordinarily his or her social security number, and otherwise complies with applicable requirements of the backup withholding rules.

Generally, we must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to, and the tax withheld with respect to, each Non-U.S. Holder. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of this information also may be available under the provisions of a specific tax treaty or agreement with the tax authorities in the country in which the Non-U.S. Holder resides or is established.

In general, backup withholding will not apply to dividends paid to a Non-U.S. Holder and to proceeds from the disposition of our common stock paid to a Non-U.S. Holder if the holder has provided the required certification that it is a Non-U.S. Holder and neither we nor our paying agents have actual knowledge or reason to know that the holder is a United States person.

Under United States Treasury Regulations, the payment of proceeds from the disposition of our common stock by a Non-U.S. Holder made to or through a foreign office of a broker to its customer generally are not subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. federal income tax purposes, a foreign person 50% or more of whose gross income from certain periods is effectively connected with a United States trade or business, or a foreign partnership with significant United States ownership, then information reporting (but not backup withholding) will be required, unless the broker has in its records documentary evidence that the beneficial owner of the payment is not a U.S. person or is otherwise entitled to an exemption, and other applicable certification requirements are met (and the broker has no actual knowledge to the contrary). Information reporting and backup withholding generally will apply to proceeds of a disposition of our common stock effected at a United States office of any United States or foreign broker, unless the broker has in its records documentary evidence that the beneficial owner of the payment is not a U.S. person or is otherwise entitled to an exemption, and other applicable certification requirements are met.

Backup withholding does not represent an additional income tax. Any amounts withheld from a payment to a holder under the backup withholding rules will be allowed as a credit against the holder's United States federal income tax liability and may entitle the holder to a refund, provided that the required information or returns are timely furnished by the holder to the IRS.

The foregoing discussion of certain U.S. federal income tax considerations is for general information only and is not tax advice. Accordingly, each prospective investor should consult with his own tax adviser regarding U.S. federal, state, local and non-U.S. income and other tax consequences of the acquisition, holding and disposing of our common stock.

LEGAL MATTERS

The validity of the shares of common stock issued in this offering will be passed upon for us by the law firm of Foley & Lardner LLP, Tampa, Florida.

EXPERTS

The consolidated financial statements as of and for the years ended December 31, 2005 included in this prospectus have been audited by Choi, Kim & Park, LLP., our current independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. The consolidated financial statements as of and for the years ended December 31, 2004 and 2003 included in this prospectus have been audited by Stonefield Josephson, Inc., our former independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended. In accordance with the Exchange Act, we file reports, proxy statements and other information with the Securities and Exchange Commission. You can inspect and copy these reports, proxy statements and other information at the Public Reference Room of the Securities and Exchange Commission at 100 F Street N.E., Washington, D.C. 20549, at prescribed rates. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our Securities and Exchange Commission filings are also available on the Securities and Exchange Commission's web site. The address of this site is http://www.sec.gov.

We have filed with the Securities and Exchange Commission a registration statement (which term includes all amendments, exhibits and schedules thereto) on Form S-1 under the Securities Act of 1933, as amended, with respect to the shares offered by this prospectus. This prospectus is part of that registration statement and, as allowed by Securities and Exchange Commissions rules, does not contain all the information set forth in the registration statement and the exhibits to the registration statement. The registration statement may be inspected at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549-0102 and is available to you on the Securities and Exchange Commission's web site.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm
Consolidated Financial Statements:
- Consolidated Balance Sheet
- Consolidated Statements of Operations and Comprehensive Loss
- Consolidated Statements of Shareholders' Equity (Deficiency)
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Liquidmetal Technologies, Inc. and subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for the year ended December 31, 2005. Our audit also included the financial statement schedule listed at index in Item 15(a) as of and for the year ended December 31, 2005. These financial statements and schedule are the responsibility of management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audit.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Liquidmetal Technologies, Inc. and subsidiaries as of December 31, 2005, and the results of their operations and cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

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

Choi, Kim & Park LLP

/s/ Choi, Kim & Park LLP

Los Angeles, California
Certified Public Accountants

February 23, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Liquidmetal Technologies, Inc. and subsidiaries (the "Company") as of December 31, 2004 , and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for each of the two years in the period ended December 31, 2004 . Our audit also included the financial statement schedule listed at index in Item 15(a) as of and for the years ended December 31, 2004 and 2003. These financial statements and schedule are the responsibility of management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Liquidmetal Technologies, Inc. and subsidiaries as of December 31, 2004, and the results of their operations and cash flows for each of the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

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

Stonefield Josephson, Inc.

/s/ Stonefield Josephson, Inc.
Irvine, California
Certified Public Accountants

March 3, 2005

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

	December 31, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,392	$ 742
Restricted cash	—	754
Trade accounts receivables, net of allowance for doubful accounts of $61 and $108	2,360	1,668
Inventories	1,748	2,353
Prepaid expenses and other current assets	609	930
Total current assets	6,109	6,447
Property, plant and equipment, net	13,437	16,434
Idle equipment	193	1,906
Long-term inventory	—	1,810
Other intangibles, net	1,185	1,143
Other assets	639	768
Total assets	$ 21,563	$ 28,508
LIABILITIES AND SHAREHOLDERS' EQUITY		
Curernt liabilities:		
Accounts payable and accrued expenses	$ 6,530	$ 4,969
Settlement payable	3,331	3,246
Deferred revenue	1,275	900

Short-term debt	550	—
Long-term debt, current portion, net of debt discount of $0 and $851	1,343	5,991
Other liabilities, current portion	483	1,032
Warrant liabilities	1,792	550
Beneficial conversion feature liabilities	959	—
Total current liabilities	16,263	16,688
Long-term debt, net of current portion and debt discount of $7,354 and $0	6,338	2,618
Other long-term liabilities, net of current portion	348	342
Total liabilities	22,949	19,648
Shareholder's equity (deficiency):		
Common stock, $0.001 par value; 100,000,000 shares authorized and 42,187,621 and 41,609,652 issued and outstanding at December 31, 2005 and 2004, respectively	42	42
Additional paid-in capital	132,861	132,160
Accumulated deficit	(136,559)	(125,313)
Accumulated other comprehensive income	2,270	1,971
Total shareholder' equity (deficiency)	(1,386)	8,860
Total liabilities and shareholders' equity (deficiency)	$ 21,563	$ 28,508

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 data)

	Years Ended December 31,		
	2005	2004	2003
Revenue	$ 16,365	$ 17,429	$ 13,658
Cost of sales	15,129	12,168	18,162
Gross (loss) profit	1,236	5,261	(4,504)
Operating expenses			
Selling, general, and administrative	8,534	11,591	17,729
Research and development	1,120	1,467	8,780
Impairment of goodwill	—	—	184
Impairment of long lived assets	4,487	—	2,684
Total operating expenses	14,141	13,058	29,377
Loss before interest, other income, income taxes, minority interest, and discontinued operations	(12,905)	(7,797)	(33,881)
Loss from exinguishments of debt	(1,247)	(1,663)	—
Change in value of warrants, net	3,985	747	—
Change in value of beneficial conversion feature	3,849	—	—
Other income	—	302	—
Interest expense	(4,945)	(3,603)	(390)
Interest income	17	37	304
Gain on sale of marketable securities held-for-sale	—	—	1,178
Loss before income taxes, minority interest and discontinued operations	(11,246)	(11,977)	(32,789)
Income taxes	—	—	—
Loss before minority interest and discontinued operations	(11,246)	(11,977)	(32,789)
Minority interest in loss of consolidated subsidiary	—	—	21
Loss from continuing operations	(11,246)	(11,977)	(32,768)
Discontinued operations:			
Income (loss) from operations of discontinued operations, net	—	(749)	(964)
Gain (loss) from disposal of discontinued operations, net	—	—	127
Net Loss	(11,246)	(12,726)	(33,605)
Other comprehensive gain (loss):			
Foreign exchange translation gain (loss) during the period	299	1,716	211
Net unrealized gain (loss) on marketable securities available-for-sale	—	—	(1,668)
Comprehensive loss	$ (10,947)	$ (11,010)	$ (35,062)
Per common share basic and diluted:			
Loss per share - continuing operations	(0.27)	(0.29)	(0.79)

Loss per share - discontinuing operations	—	(0.02)	(0.02)
Loss per share basic and diluted	(0.27)	(0.31)	(0.81)
Number of weighted average shares - basic and diluted	41,833	41,610	41,505

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

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

	Common Shares	Common Stock	Additional Paid-in Capital (restated)	Unamortized Stock-based Compen-sation (restated)	Accumu-lated Deficit (restated)	Accumulated Other Compre-hensive Income (loss)	Total
Balance, December 31, 2002 (as restated)	41,009,245	$ 106,554	$ 21,575	$ (260)	$ (78,982)	$ 1,712	$ 50,599
Stock options exercised	684,165	1,149	—	—	—	—	1,149
Repurchase of shares	(93,758)	(653)	—	—	—	—	(653)
Change in par value due to reincorporation	—	(107,008)	107,008	—	—	—	—
Stock-based compensation	10,000	—	100	25	—	—	125
Unamortized stock option-based compensation	—	—	(107)	107	—	—	—
Purchase of common stock of subsidiaries	—	—	5	—	—	—	5
Foreign exchange translation gain	—	—	—	—	—	211	211
Reclassification for net realized gain	—	—	—	—	—	(1,668)	(1,668)
Net loss	—	—	—	—	(33,605)	—	(33,605)
Balance December 31, 2003	41,609,652	$ 42	$ 128,581	$ (128)	$ (112,587)	$ 255	$ 16,163
Stock-based compensation	—	—	261	15	—	—	276
Unamortized stock option-based compensation	—	—	(113)	113	—	—	—
Beneficial conversion feature	—	—	3,424	—	—	—	3,424
Warrants cancelled	—	—	7	—	—	—	7
Foreign exchange translation gain	—	—	—	—	—	1,716	1,716
Net loss	—	—	—	—	(12,726)	—	(12,726)
Balance, December 31, 2004	41,609,652	$ 42	$ 132,160	$ —	$ (125,313)	$ 1,971	$ 8,860
Stock based compensation	—	—	41	—	—	—	41
Conversion of notes payable	485,750	—	485	—	—	—	485
Common stock issued as director's fees	92,219	—	175	—	—	—	175
Foreign exchange translation gain	—	—	—	—	—	299	299
Net loss	—	—	—	—	(11,246)	—	(11,246)
Balance, December 31, 2005	42,187,621	$ 42	$ 132,861	$ —	$ (136,559)	$ 2,270	$ (1,386)

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

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

	Years Ended December 31,		
	2005	2004	2003
Operating activities:			
Net loss	$ (11,246)	(12,726)	(33,605)
Add (gain) loss from operations and loss on disposition of discontinued operations	—	749	837

	(11,246)	(11,977)	(32,768)
Adjustments to reconcile net loss from operations to net cash used for operating activities:			
Impairment of long lived assets	4,307	—	2,684
Impairment of goodwill	—	—	184
Loss from growell settlement	—	—	2,765
Gain on sale of marketable securities held-for-sale	—	—	(1,178)
(Gain) loss on disposal of asset	(14)	4	—
Depreciation and amortization	3,401	3,444	4,354
Loss on extinguishments of debt	1,247	1,663	—
Amortization of debt discount	2,793	2,860	—
Stock-based compensation	41	276	123
Bad debt (recovery) expense	(6)	84	(28)
Warranty expense	101	288	(297)
Minority interest	—	—	(21)
(Gain) loss from change in value of warrants	(3,986)	747	—
(Gain) loss from change in value of beneficial conversion feature	(3,849)	—	—
Changes in operating assets and liabilities:			
Trade accounts receivable	(686)	1,996	1,660
Inventories	(151)	(2,103)	(100)
Prepaid expenses and other current assets	350	(535)	1,689
Other assets	(378)	(869)	83
Accounts payable and accrued expenses	1,606	414	(5,969)
Deferred revenue	375	(535)	38
Other liatbilities	(410)	(2,154)	2,661
Net cash used for continuing operations	(6,505)	(6,397)	(24,120)
Net cash provided by (used for) discontinued operations	—	73	(2,429)
Net cash used for operating activities	(6,505)	(6,324)	(26,549)
Investing Activies:			
Purchases of property and equipment	(169)	(73)	(2,329)
Proceeds from sale of property and equipment	69	38	—
Proceeds from sale of marketable securities held-for-sale	—	—	2,578
Investment in patents and trademarks	(159)	(273)	(298)
Net cash used for investing activities	(259)	(308)	(49)
Financing Activities:			
Proceeds from borrowings	17,774	9,924	5,488
Repayment of borrowings	(11,333)	(5,184)	(1,441)
Repayment of other liabilities	(133)	(135)	(72)
Proceeds from restricted cash	754	(754)	—
Stock options excercised	—	—	899
Proceeds from issuance of common stock by subsidiaries, net	—	—	5
Net cash provided by financing activities	7,062	3,851	4,879
Effect of foreign exchange translation	353	396	(212)
Net increase (decrease) in cash and cash equivalents	651	(2,385)	(21,931)
Cash and cash equivalents at beginning of period	742	3,127	25,058
Cash and cash equivalents at end of period	1,393	742	3,127
Supplemental cash flow information			
Interest paid	$ 1,472	$ 640	$ 443
Taxes paid	$ —	$ —	$ —

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

In 2005, the Company's 6% senior convertible notes due July 2007 was converted into 485,750 of the Company's common stock at a conversion price of $1.00 per share.

In 2004, the Company sold its 51% ownership interest in Dongyang to the 49% minority shareholder, which resulted in a loss of $46 from disposal of discontinued operations.

In 2004, the Company sold assets and liability of its Taesung equipment manufacturing division in Korea to a third party which resulted in a loss of approximately $184.

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

In 2003 the Company reclassified $1,477 of machines from property, plant and equipment to machines held by customer.

In 2003, the Company entered into a lease agreement for $291 of laboratory equipment that was recorded as a capital lease obligation.

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

LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

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

The Company classifies operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys. Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal-burning power plants. Bulk Liquidmetal alloys include potential market opportunities to manufacture and sell products and components for electronic devices, medical devices, defense applications, and sporting goods. In addition, the bulk Liquidmetal alloys segment includes tooling and prototype sampling, and the manufacture and sale of die casting and VIM equipment (see Note 3 for disclosure regarding the disposal of this segment). In addition, such alloys are used to generate research and development services revenue for developing uses related primarily to defense and medical applications as well as potential license fees, royalties, and other compensation from strategic partnering transactions.

On August 4, 2004, the Company established a post-processing plant in the city of Weihai in Shandong province of China under Weihai Liquidmetal Company Limited, which is 100 percent owned by Liquidmetal Korea, to facilitate our bulk alloy manufacturing business. Weihai Liquidmetal is consolidated into Liquidmetal Technologies with all intercompany transactions eliminated.

2. Liquidity

The Company has experienced losses from continuing operations during the last two fiscal years and has an accumulated deficit of $136,559 as of December 31, 2005. Cash used for continuing operations for the year ended December 31, 2005 was $6,505. At December 31, 2005, working deficit was $10,154. As of December 31, 2005, the Company's principal source of liquidity is $1,392 of cash and $2,360 of trade accounts receivable. Such conditions raise substantial doubt that the Company will be able to continue as a going concern. These operating results occurred while the Company was developing and continues to develop and to commercialize and manufacture products from an entirely new and unique technology. These factors have placed a significant strain on the financial resources of the Company. The ability of the Company to overcome these challenges depends on its ability to correct its production inefficiencies, continue to reduce its operating costs, generate higher revenue, and achieve positive cash flow from continuing operations and profitability and continued sources of debt and equity financing. The consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainty.

Capital requirements during the next 12 months will depend on numerous factors, including the success of existing products, the development of new applications for Liquidmetal alloys, the resources devoted to develop and support Liquidmetal alloy products. If the available funds and cash generated from operations are insufficient to satisfy liquidity requirements, the Company will need additional funds in the future to support working capital requirements and for other purposes, and will need to raise additional funds through public or private equity financing, bank debt financing, or from other sources. Subsequent to the close of the second quarter of 2005, the Company completed a private placement of $9,878 of 7% convertible debt in consideration for $5,000 aggregate cash received, $4,280 exchange of previously issued notes, and satisfaction of accrued interest and fees of $598 from the previously issued notes (see Note 14). Adequate funds may not be available when needed or may not be available on favorable terms. The Company expects to continue to devote limited capital to our research and development activities, to further develop and strengthen our manufacturing capabilities, and for working capital and other general corporate purposes.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404"), the SEC has adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the public accounting firm auditing a public company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. Although these requirements were first applicable to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004, the Company did not comply with these requirements for such fiscal year as described in the following paragraphs.

Effective December 27, 2005, the SEC announced final rulings on revisions to accelerated filer definition and deadlines for periodic reports. The ruling revised the definition of the term "accelerated filer" to permit an accelerated filer that has voting and non-voting common equity held by non-affiliates of less than $50 million to exit accelerated filer status at the end of the fiscal year in which its equity falls below $50 million and to file its annual report for that year and subsequent periodic reports on a non-accelerated basis. As of the fiscal year ended December 31, 2005, we are considered an accelerated filer and are required to comply with SOX 404 requirements for the 2005 fiscal year.

The time and resources committed to the restatement of prior periods' financial statements as aforementioned delayed our internal timetable with respect to our documentation, assessment and evaluation of internal control over financial reporting. Due to the issues described in the foregoing paragraph, as well as limitation on financial and internal resources, management's assessment of the effectiveness of our internal control over financial reporting had been substantially delayed, which in turn had delayed the Company's independent registered public accounting firm, Stonefield Josephson, Inc. in performing its audit of management's assessment of the effectiveness of internal control over financial reporting pursuant to SOX 404. Therefore, the Company's independent registered public accounting firm issued a disclaimer of opinion with respect to the Company's internal control over financial reporting as of December 31, 2004, and such disclaimer was filed with the Company's amended Form 10-K filed on May 10, 2005.

The Company has devoted significant amount of financial and internal resources during 2005 and early part of 2006 to ensure compliance with Section 404 of SOX, and on January 16, 2006, Company's management believes that the Company has completed and concluded its documentation, assessment and evaluation of its internal controls over financial reporting as of December 31, 2005. However, our independent auditors, Stonefield Josephson Inc., resigned on December 1, 2005, and on January 20, 2006, the Company hired Choi, Kim & Park LLP ("CKP") as its new independent registered public accounting firm. While the Company has advised CKP of the foregoing weaknesses in internal controls, due to the untimeliness of the foregoing events, CKP was unable to conduct their audit of the Company's internal control over financial reporting pursuant to Section 404 of SOX, and thus, have issued a disclaimer of an opinion on the company's internal control over financial reporting as of December 31, 2005. The Company's management will continue to monitor potential changes in the legal and regulatory requirements of Section 404 of SOX, particularly the requirements for small public companies.

The filing of a disclaimer does not comply with the SEC's rules and regulations under Section 404, and this noncompliance has resulted in the Company being in violation of Section 13(a) under the Securities Exchange Act of 1934. Section 13(a) establishes the general requirement that public companies must file with the SEC, in accordance with such rules and regulations as the SEC may prescribe, such information, documents, and reports as the SEC may from time to time require for the protection of investors, including Form 10-Ks and 10-Qs.

In addition to the foregoing, although the Company's common stock was admitted to the OTC Bulletin Board for quotation on June 15, 2005, as a result of our noncompliance with Section 404 for the 2005 fiscal year, it may not have been appropriate for the OTC Bulletin Board to admit our common stock for quotation on June 15, 2005. Consequently, there is no assurance that the Company's common stock will remain eligible for quotation on the OTC Bulletin Board.

3. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Liquidmetal Technologies, Inc. and its wholly-owned subsidiaries, Liquidmetal Korea Co., Ltd. ("LMT Korea"), located in South Korea, Chusik Hoesa Dongyang Yudoro ("Dongyang"), now accounted for as a discontinued operations, and Liquidmetal Golf and its subsidiaries, which included the retail golf segment, now accounted for as a discontinued operations. The Company acquired its 51% interest in Dongyang in 2002. The aggregate purchase price was $333 in cash. As of March 2004, the Company divested of its 51% ownership in Dongyang to the minority shareholder. In June 2004, the Company sold assets and liability of its Taesung equipment manufacturing division in Korea to a third party. Accordingly, the results of Dongyang and Taesung's operations have been reclassified in the consolidated financial statements as discontinued operations (see Note 17). Previously, the results of Donyang and Taesung's operations have been included in the consolidated financial statements from the acquisition date. All intercompany balances and transactions have been eliminated. A minority interest in Liquidmetal Golf is included in the consolidated financial statements as a component of the loss from operations of the discontinued retail golf segment (see Note 17). Effective in 2003, management closed the Japan operations and the Seoul office, which did not result in a significant impact on the financial position or results of operations for any of the periods presented. Also, effective in December 2003, management closed the Tampa office (see Note 12). In August 2004, the Company established a post-processing plant in the city of Weihai in Shandong province of China under Weihai Liquidmetal Company Limited, which is 100 percent owned by Liquidmetal Korea, to facilitate our bulk alloy manufacturing business.

Sales of Stock by Subsidiaries. Gains on sales of stock by Liquidmetal Golf are recognized as components of the Company's shareholders' equity (deficiency).

Revenue Recognition. Revenue is recognized pursuant to applicable accounting standards including Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 101 (SAB 101), *"Revenue Recognition in Financial Statements"*, and *SAB 104, Revenue Recognition*. SAB 101 as amended and SAB 104 summarize certain points of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements and provides guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry. The Company's revenue recognition policy complies with the requirements of SAB 101 and SAB 104. Revenue is recognized at the time the Company ships its products, as this is when title passes to the customer and all other incidences of a sale have occurred. Revenue is deferred and included in liabilities when the Company receives cash in advance for services not yet performed or goods not yet delivered.

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

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

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

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

Marketable Securities. The Company follows Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and classifies all of its investment securities as available -for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in Shareholders' Equity (Deficiency) under the caption "Accumulated Other Comprehensive Income."

Trade Accounts Receivables. The Company grants credit to its customers generally in the form of short-term trade accounts receivable. The creditworthiness of customers is evaluated prior to the sale of inventory. As of December 31, 2005, one customer represented 12%, or $288, of the total outstanding trade

accounts receivable. As of December 31, 2004, two customers represented 30%, or $497, of the total outstanding trade accounts receivable.

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

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

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

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

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

Goodwill. Beginning January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* (See "New Accounting Pronouncements"). According to this statement, goodwill and other intangible assets are no longer subject to amortization, but instead must be reviewed annually for impairment by applying a fair value-based test.

Impairment of Long-lived Assets. The Company reviews long-lived assets to be held and used in operations for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. An impairment loss is recognized

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when the estimated fair value of the assets is less than the carrying value of the assets. The Company recognized an impairment of long-lived assets in the amount of $4,512 during the year ended December 31, 2005. There were no such impairment losses in 2004.

Fair Value of Financial Instruments. The estimated fair value of amounts reported in the consolidated financial statements have been determined using available market information and valuation methodologies, as applicable. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and all other current assets and liabilities approximate their fair value because of their short term maturities at December 31, 2005, and December 31, unless otherwise stated. The fair value of non-current assets and liabilities approximate their carrying value unless otherwise stated. The fair value of the Company's long-term debt is based on interest rates that would be available to the Company for the issuance of debt with similar terms.

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

Advertising and Promotion Expenses. Advertising and promotion expenses are expensed when incurred. Advertising and promotion expenses were $2, $239, and $136 for the years ended December 31, 2005, 2004 and 2003, respectively.

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

Stock-Based Compensation. The Company applies Accounting Principles Board ("APB") Opinion No. 25 for options when the exercise price of options granted to employees is less than the fair value of the underlying stock on the date of grant. The Company applies Statement of Financial Accounting Standards ("SFAS") No. 123 for options granted to non-employees who perform services for the Company.

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

		For the years ended December 31,		
		2005	2004	2003
Net loss from Continuing Operations:				
As reported		$ (11,246)	$ (11,977)	$ (32,768)
Add:	stock-based employee compensation expense included included in reported net loss, net of related tax effects	41	276	123
Deduct:	total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax	(2,861)	(4,201)	(5,427)
Proforma net loss from continuing oeprations		$ (14,066)	$ (15,902)	$ (38,072)
Basic and diluted net loss per share:				
As reported		(0.27)	(0.29)	(0.79)
Proforma		(0.34)	(0.38)	(0.92)

Income Taxes. Income taxes are provided under the asset and liability method as required by SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to

differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect of a tax rate change on deferred taxes is recognized in operations in the period that the change in the rate is enacted. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

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

The Company applies *FASB No. 52, Foreign Currency Translation*, for translating foreign currency into US dollars in our consolidation of the financial statements. Due to our restatement of 2002 financial statements, certain footnote disclosures and previously reported financial statements were adjusted to conform to retroactive applications of FASB No. 52. These adjustments did not have a material impact in the financial statements. See Note 2 in the notes to consolidated financial statements in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

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

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

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

Recent Accounting Pronouncements.

In September 2005, the Emerging Issues Task Force ("EITF) reached a consensus on Issue No. 05-8, "Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature." Under EITF 05-8, the issuance of convertible debt with a beneficial conversion feature results in a temporary difference for purposes of applying Statement 109. The deferred taxes recognized for the temporary difference should be recorded as an adjustment to paid-in capital. EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" require that the nondetachable conversion feature of a convertible debt security be accounted for separately if it is a beneficial conversion feature. A beneficial conversion feature is recognized and measured by allocating to additional paid-in capital a portion of the proceeds equal to the conversion feature's intrinsic value. A discount on the convertible debt is recognized for the amount that is allocated to additional paid-in capital. The debt discount is accreted from the date of issuance to the stated redemption date of the convertible instrument or through the earliest conversion date if the instrument does not have a stated redemption date. The U.S. Federal Income Tax Code includes the entire amount of proceeds received at issuance as the tax basis of the convertible debt security. The EITF 05-8 Consensus should be applied retrospectively to all instruments with a beneficial conversion feature accounted for under EITF 98-5 and EITF 00-27 for periods beginning after December 15, 2005. The Company does not expect the adoption of the EITF to have material impact on the Company's financial statements.

In September 2005, the EITF reached a consensus on Issue 05-7 "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," which requires that a change in the fair value of a conversion option brought about by modifying the debt agreement be included in analyzing in accordance with EITF 96-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments" whether a debt instrument is considered extinguished. Under EITF 96-19's requirements, an issuer who modifies a debt instrument must compare the present value of the original debt instrument's cash flows to the present value of the cash flows of the modified debt. If the present value of those cash flows varies by more than 10 percent, the modification is considered significant and extinguishments accounting is applied to the original debt. If the change in the present value of the cash flows is less than 10 percent, the debt is considered to be modified and is subject to EITF 96-19's modification accounting. EITF 05-7's Consensus requires that in applying the 10 percent test the change in the fair value of the conversion option be treated in the same manner as a current period cash flow. The Consensus also requires that, if a modification does not result in an extinguishment, the change in fair value of the conversion option be accounted for as an adjustment to interest expense over the remaining term of the debt. The issuer should not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon modification of the conversion option of a debt instrument that does not result in an extinguishment. EITF 05-7 is effective for modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005. The Company does not expect the adoption of the EITF to have material impact on the Company's financial statements.

In June 2005, the EITF reached a consensus on Issue 05-6, "Determining the Amortization Period for Leasehold Improvements," which requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. EITF 05-6 is effective for periods beginning after June 29, 2005. Earlier application is permitted in periods for which financial statements have not been issued. The adoption of this Issue did not have an impact on the Company's financial statements.

In June 2005, the EITF reached a consensus on Issue No. 05-2 "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.'" Issuers of convertible debt are required by Statement 133 to evaluate whether it is necessary to separate the "embedded" conversion feature from the debt contract and account for the conversion feature as if it were a separate derivative instrument. If the issuer

determines that the embedded conversion feature would be classified in equity if it were a freestanding instrument, the conversion feature is not separated from the debt contract. EITF 00-19's criteria must be applied to determine whether a conversion feature qualifies for equity classification, but it exempts a conversion feature embedded in a "conventional convertible debt instrument" from some of the criteria. EITF 05-2 requires convertible instruments that may be settled in a combination of cash or shares, e.g., those referred to as "Instrument C" in EITF 90-19, and instruments that may be convertible into a variable number of shares are not "conventional." As a result, nonconventional instruments would need to satisfy all requirements of EITF 00-19 to support a conclusion that the conversion feature does not require accounting separate from that for the debt contract. The adoption of this Issue resulted in recognition of the beneficial conversion feature from the senior convertible notes issued in August 2005 as liabilities of $959 as of December 31, 2005 and a gain of $3,849 from the change in fair value of beneficial conversion feature liabilities for the year ended December 31, 2005 (see Note 14).

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements" and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. We do not believe the adoption of SFAS No. 154 will have a material effect on its consolidated financial position, results of operations or cash flows.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the Staff's interpretation of SFAS 123(R). This interpretation expresses the views of the staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, this SAB provides guidance related to share-based payment transactions with no employees, the transition from nonpublic to public entity status, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123(R), the modification of employee share options prior to adoption of Statement 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123(R). Our company will adopt SAB 107 in connection with its adoption of SFAS 123(R).

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment", which replaces SFAS No. 123. SFAS No. 123R requires public companies to recognize an expense for share-based payment arrangements including stock options and employee stock purchase plans. The statement eliminates a company's ability to account for share-based compensation transactions using APB 25, and generally requires instead that such transactions be accounted for using a fair value based method. SFAS No. 123R requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of grant, and to recognize the cost over the period during which the employee is required to provide service in exchange for the award. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. SFAS No. 123R is effective for our company in the quarter ending March 31, 2006. Upon adoption of SFAS 123R, companies are allowed to select one of three alternative transition methods, each of which has different financial reporting implications. We are currently evaluating the transition methods, valuation methodologies and other assumptions for employee stock options in light of SFAS No. 123R. Current estimates of option values using the Black-Scholes method may not be indicative of results from valuation methodologies ultimately implemented by our company upon adoption of SFAS No. 123R. Although we have not yet fully quantified the impact this standard will have on our financial statements, it is likely that the adoption of SFAS No. 123R will have a material impact on our company's financial position and results of operations. Stock-based Compensation under Note 3 included in these Consolidated Financial Statements provides the pro forma net income and earnings per share as if the Company had used a fair-value-based method similar to the methods required under SFAS 123(R) to measure the compensation expense for employee stock awards during the years ended December 31, 2005, 2004 and 2003.

In December 2004 the Financial Accounting Standards Board issued two FASB Staff Positions—FSP FAS 109-1, Application of FASB Statement 109 "Accounting for Income Taxes" to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, and FSP FAS 109-2 Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004. Neither of these affected the Company as it does not participate in the related activities.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a

productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. We have evaluated the impact of the adoption of SFAS 153, and do not believe the impact will be significant to our company's overall results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. We have evaluated the impact of the adoption of SFAS 151, and do not believe the impact will be significant to our company's overall results of operations or financial position.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments.

EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until after further deliberations by the FASB. The disclosure requirements are effective only for annual periods ending after June 15, 2004. We have evaluated the impact of the adoption of the disclosure requirements of EITF 03-1 and do not believe the impact will be significant to our company's overall results of operations or financial position. Once the FASB reaches a final decision on the measurement and recognition provisions, we will evaluate the impact of the adoption of EITF 03-1.

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." SAB 104 supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers ("the FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

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

4. Marketable Securities

On July 29, 2002, the Company invested $2,000 in Growell Metal, Inc. ("Growell"), a metals processing company located in South Korea and publicly traded on South Korea's KOSDAQ stock market. The Company acquired 891,100 shares (or approximately 5%) of Growell's outstanding common stock in this transaction. During the fourth quarter of 2002, Growell's spin-off of its electronics division resulted in the creation of a new company named Growell Electronics, Inc. ("Growell Electronics"). As a result of the spin-off, 30% of the Company's 891,100 common shares of Growell were exchanged for an equal number of shares in the common stock of Growell Electronics. During the year ended December 31, 2002, the Company sold its shares in Growell Electronics for approximately $1,432, which was based on the market price of the stock on the KOSDAQ stock market on the date of sale. This sale resulted in a realized gain of $832. At December 31, 2002, the change in fair value of the remaining investment in Growell resulted in an unrealized gain of $1,668, which is reported as other comprehensive income in the accompanying consolidated financial statements. In April 2003, the Company sold the stock owned in Growell, which resulted in a realized gain of $1,178. A reclassification adjustment of ($1,668) for net realized gains included in net loss is included in "Other comprehensive loss" on the accompanying Statement of Operations and Comprehensive Loss for the year ended December 31, 2003.

5. Trade accounts receivable

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

	December 31, 2005	December 31, 2004
Trade accounts receivable	$ 2,421	$ 1,776
Less: Allowance for doubtful accounts	(61)	(108)
Trade accounts receivable, net	$ 2,360	$ 1,668

6. Inventories

Inventories were comprised of the following:

	December 31, 2005	December 31, 2004
Raw materials	$ 565	$ 1,688
Work in process	763	352
Finished goods	420	313
Machines held by customer	—	—
Total current inventories	1,748	2,353
Long-term inventories	—	1,810
Total inventories	$ 1,748	$ 4,163

The Company maintains certain of its raw material inventories in amounts in excess of our operating cycle of one year due to the nature of our manufacturing process, production lead time, and the recyclability of our raw material. These inventories were classified as long-term inventory as of December 31, 2005 and 2004. The Company determined that its current and projected raw material requirements are not sufficient enough to warrant the use of such raw materials in the foreseeable future. Accordingly, the Company reduced the carrying value of raw materials held by its subsidiary, Liquidmetal Korea, by the amounts considered to be excessive during the second quarter of 2005. The write-down during the year ended December 31, 2005 amounted to $2,746 and is included in "Impairment of long lived assets" in the accompanying Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2005. The total amount of long term inventory was $0 and $1,810 as of December 31, 2005 and 2004, respectively.

The Company analyzes inventory held for any excess or obsolescence issues. Any amounts considered excess or obsolete are written off. Further, as significant amount of sales of Liquidmetal bulk alloy parts are used primarily in consumer electronics components, our inventory is subject to fluctuations in demand for those consumer electronics goods. Accordingly, the Company reduces the carrying value of raw materials held by its subsidiary, Liquidmetal Korea, by the amounts considered to be excess or obsolete. The write-downs amounted to $1,644 and are included in "Cost of Sales" in the accompanying Statement of Operations and Comprehensive Loss for the year ended December 31, 2005. As of December 31, 2004, the write-downs included in "Cost of Sales" in the accompanying Statement of Operations and Comprehensive Loss amounted to $605, which includes a $406 charge incurred during the fourth quarter of 2004 related to certain hinge finished goods used in our customer's cell phone models which were nearing its end of life.

Machines held by customer represent machines conditionally sold to Growell in 2002 and 2003. These machines are subject to put options whereby Growell has the right to require the Company to buy back the machines if certain conditions are not met. The Company recorded a write-down of $2,765 of raw material and machine inventory associated with the settlement of a dispute with Growell in December 2003 (see Note 11). These amounts are included in "Cost of Sales" in the accompanying Statement of Operations and Comprehensive Loss for the years ended December 31, 2003.

7. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 2005	December 31, 2004
Machinery and equipment	$ 11,365	$ 12,600
Computer equipment	1,354	1,357
Office equipment, furnishings, and improvements	1,824	1,910
Buildings	11,892	9,719
Construction in progress	6	—
Total	26,441	25,586
Accumulated depreciation	(13,004)	(9,152)
Total property, plant and equipment, net	$ 13,437	$ 16,434

Depreciation expense is classified as follows:

	For the years ended December 31, 2005	2004	2003
Cost of Sales	$ 2,744	$ 2,623	$ 2,908
Selling, general and administrative	542	700	627
Research and development	—	8	730
Total depreciation expense	$ 3,286	$ 3,331	$ 4,265

During 2003, the Company experienced significant operational difficulties as a result of problems and delays encountered in manufacturing bulk amorphous parts. These events, along with the Company's history of operating or cash flow losses and uncertainty surrounding its future cash flows, led the Company to evaluate its long-lived assets for recoverability as of December 31, 2003. As a result, the Company determined that the carrying value of its manufacturing plant in Pyongtaek, South Korea exceeded its fair value as of December 31, 2003 in the amount of $2,684. The fair value of the building was based on the average of two independent appraisals of the building. This impairment loss is recorded in operating expenses as "Impairment of long lived assets" in the accompanying Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2003.

8. Idle Equipment

Idle equipment consists of certain equipment held by the Company for use in expansion of bulk alloy parts manufacturing. Due to excess manufacturing capacity, the Company classified the equipment as idle equipment at December 31, 2004. While the equipment may be used internally to meet future capacity requirements, considering our current revenue and foreseeable production requirements, the Company does not anticipate utilizing this equipment internally in the near future. For these reasons, during the second quarter of 2005, the Company determined to write down the carrying value of the idle equipment held by its subsidiary, Liquidmetal Korea, to its net realizable value. The write-down during the quarter ended June 30, 2005 amounted to $1,741 and is included in operating expenses as "Impairment of long lived assets" in the accompanying Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2005. Total amount of idle equipment remaining was $193, and $1,906 as of December 31, 2005 and 2004, respectively.

9. Other Intangible Assets

Intangible assets consist of the following:

	December 31, 2005	December 31, 2004
Intangible assets consist of the following:		
Purchased and licensed patent rights	$ 559	$ 555
Internally developed patents	1,212	1,056
Trademarks	85	85
Total	1,856	1,696
Accumulated amortization	(670)	(553)
Total intangilbe assets, net	$ 1,186	$ 1,143

Amortization expense was $117, $113, and $100, for the years ended December 31, 2005, 2004, and 2003, respectively. The estimated aggregate amortization expense for each of the five succeeding years is as follows:

December 31,	Aggregate Amortization Expense
2006	114
2007	112

2008	110
2009	108
2010	106

Accumulated Amortization consist of the following:

	December 31, 2005	December 31, 2004
Purchased and licensed patent rights	$ (211)	$ (181)
Internally developed patents	(430)	(352)
Trademarks	(28)	(20)
Total	$ (670)	$ (553)

The weighted average amortization periods are as follows:

	December 31, 2005	2004	2003
Purchased and licensed patent right	17.0	17.0	17.0
Internally developed patents	17.0	17.0	17.0
Trademarks	10.0	10.0	10.0

Purchased patent rights represent the exclusive right to commercialize the bulk amorphous alloy and other amorphous alloy technology acquired from California Institute of Technology ("Caltech"), a shareholder, through a license agreement with Caltech ("License Agreement"). Under the License Agreement, the Company has the exclusive right to make, use, and sell products from all of Caltech's inventions, proprietary information, know-how, and other technology relating to amorphous alloys in existence as of September 1, 2001. The Company also has an exclusive license to eleven issued US patents and two patent applications held by Caltech relating to amorphous alloy technology, as well as all related foreign counterpart patents and patent applications. Of the patents currently issued to Caltech and licensed by the Company, the earliest expiration date is 2013 and the latest expiration date is 2021. Furthermore, the license agreement gives the Company the exclusive right to make, use, and sell products from substantially all amorphous alloy technology that is developed in Professor William Johnson's Caltech laboratory during the period September 1, 2001 through August 31, 2005. All fees and other amounts payable by the Company for these rights and licenses have been paid or accrued in full, and no further royalties, license fees or other amounts will be payable in the future under the License Agreements.

In addition to the patents and patent applications under the License Agreement with Caltech, 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.

10. Goodwill

During 2002, the Company completed an impairment review and did not recognize any impairment of goodwill. Accordingly, for 2002, the Company has forgone all related goodwill amortization expense. During 2003, Dongyang experienced net losses as a result of a continuing economic downturn in markets for its machinery products. These events, along with Dongyang's operating loss, cash flow losses and uncertainty surrounding its future cash flows, led the Company to evaluate its investment for recoverability as of December 31, 2003. As a result, the Company determined that the carrying value of its investment in Dongyang exceeded its fair value as of December 31, 2003 in the amount of $184. This impairment loss is recorded in operating expenses as "Impairment of Goodwill" in the accompanying Statement of Operations and Comprehensive Loss for the year ended December 31, 2003.

In March 2004, the Company sold its 51% investment in Dongyang to the 49% minority shareholder (see Note 17).

11. Settlement Payable

The settlement payable balance consists of payables to Growell Metal Co., Ltd., a South Korean metals processing company ("Growell"), as a result of a settlement agreement executed in January 2004. Under the terms of the January 2004 settlement of the dispute over certain sales transactions from 2003 and 2002 between Liquidmetal Korea and Growell, Liquidmetal Korea agreed to pay Growell $4,895 to purchase Growell's investment in alloy inventories, proprietary alloying equipment purchased from Liquidmetal Korea, and supporting equipment purchased from other suppliers. Also as part of the settlement, Growell satisfied in full a balance of $2,058 owed to Liquidmetal Korea for the die casting machines Growell purchased from Liquidmetal Korea in the first quarter of 2003 as part of a license agreement to manufacture Liquidmetal alloy parts for the South Korean automotive industry. The remaining settlement payable of $2,837 were to be paid to Growell (in cash or stock at the Company's discretion) by December 31, 2004. As of December 31, 2005, the settlement payable was not paid to Growell due to Growell's breach of warranty on equipment repurchased by Liquidmetal Korea. The outstanding balance of payables to Growell from the settlement was $3,331 and $3,246 as of December 31, 2005 and 2004, respectively, net of foreign exchange translation loss. In January 2005, Growell was acquired by a third party and the Company is currently in negotiations to settle this balance with the third party.

The Company recorded a loss on the settlement at December 31, 2003 of $2,765 which is included in "Cost of Sales" in the December 31, 2003 Consolidated Statements of Operations and Comprehensive Loss. The loss on settlement reflects the write-down of the assets received in the settlement to their fair market value. The sale of the die casting machines to Growell was reflected in the first quarter of 2004. Under the settlement agreement between the parties, the Company and Growell granted to the other party (and the other party's affiliates) a release of all known and unknown claims of any nature arising between the parties through the date of settlement, as well as a release against future claims under agreements between the parties that were terminated as a part of the settlement. The settlement agreement provided that all agreements of any nature between the parties and their respective affiliates were terminated as of the date of settlement, with the exception of certain confidentiality agreements, a Liquidmetal coatings distribution agreement, and future rights under the die casting agreement pursuant to which Growell purchased the die casting machines and obtained a license to make auto parts from Liquidmetal alloys. The settlement agreement also includes, as an accommodation to Growell, if the Company becomes aware of any prospective customer that desires to purchase a proprietary Company casting machine at a time when Growell desires to sell any of its Liquidmetal die casting machines, then the Company will not sell such

die casting machine to the prospective customer unless the Company first directs the prospective customer to Growell and encourages the prospective customer to purchase the machine from Growell.

12. Other Liabilities

The other liabilities balance consists of accrued severance and operating lease costs associated with the Company's cost reduction measures for the Tampa, Florida executive offices, the accrued loss on the settlement with a customer (see Note 11), a capital lease obligation for office furniture and furnishings and capital lease obligations for a SEM Microscope and a JSM Electron Microscope used in the laboratory in Lake Forest, California, and warrant payable from the convertible debt issued during 2004 (see note 14).

	December 31, 2005	December 31, 2004
Accrued severance	$ 550	$ 579
Accrued operating lease costs	215	596
Accued capital lease costs	69	213
Total	833	1,388
Imputed interest	(3)	(14)
Total	831	1,374
Less current portion	(483)	(1,032)
Other long term liabilities, less current portion	$ 348	$ 342

During 2003, the Company initiated activities to substantially reduce the number of employees and consolidate manufacturing and administrative facilities to improve operational effectiveness and efficiency and reduce expenses. During the year ended December 31, 2003, there was a total of 225 employees terminated. The total amount of severance granted to the terminated employees is $2,718 which is included in Cost of Sales in the amount of $199, Selling, general and administrative in the amount of $2,253, and Research and Development in the amount of $266 in the accompanying Consolidated Statement of Operations for the year ended December 31, 2003. The amount of severance paid was $174 and $1,104 as of December 31, 2005 and 2004, respectively. The remaining severance owed to the terminated employees is $550 and $579 as of December 31, 2005 and 2004, respectively. The total severance granted to terminated employees of $2,718 is separated into the following reportable segments as of December 31, 2003: Coatings at $75 and Bulk alloy at $2,643. The categories of employees that were eliminated include the following: Product management positions at various levels, including Vice President; entry level technicians; accounting and finance positions from entry level through executive; marketing mid to senior level positions; engineering mid to senior levels positions; information technology support; administrative, legal and executive support; senior internal legal counsel; human resources and senior executives. Also, there were other relocation expenses associated with relocating the Tampa, Florida office to Lake Forest, California totaling $759, which included the accrual of all remaining facility and telecommunication lease payments for the Tampa, Florida office. Total liability accrued from the relocation and terminations in 2003, including the severance and lease accruals, were $276 and $1,175 as of December 31, 2005 and 2004, respectively. The Company has substantially concluded all cost reduction and restructuring activities as of March 31, 2004. The remaining portion of the 2003 termination and relocation liability, all classified as current liability, is $416 at December 31, 2005. At December 31, 2004, the current portion of the 2003 termination and relocation liability was $909 and the long-term portion of the liability was $266.

All leases with an initial term greater than one year are accounted for under SFAS No. 13 Accounting for Leases. These leases are classified as either capital leases or operating leases, as appropriate. Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease. At December 31, 2005, the cost recorded for the office furniture and furnishings, the SEM Microscope and the JSM 6360 Electron Microscope under the capital lease was $107, $47 and $289, respectively, and the accumulated amortization was $79, $27 and $147, respectively. At December 31, 2004, the cost recorded for the office furniture and furnishings, the SEM Microscope and the JSM 6360 Electron Microscope under the capital lease was $107, $47 and $289, respectively and the accumulated amortization $57, $22 and $89, respectively. Future minimum lease payments for the above assets under capital leases during subsequent years are as follows:

December 31,	Minimum Payments
2006	$ 62
2007	7
Total	69
Imputed interest	(3)
Total	66
Less current portion	(60)
Capital lease obligation, net of current portion	$ 6

13. Product Warranty

Management estimates product warranties as a percentage of bulk alloy product revenues. As of December 31, 2005 and 2004, the Company used five percent of bulk alloy product sales as an estimate of warranties to be claimed. During the years ended December 31, 2004 and 2005, the Company's product warranty accrual balance had the following activity:

Balance, December 31, 2003	$ 303
Expense accrual	288
Warranty charges	(72)

Balance, December 31, 2004	$	519
Expense accrual		101
Warranty charges		14
Balance, December 31, 2005	$	634

The product warranty accrual balance was included in accounts payable and accrued expenses at December 31, 2005 and December 31, 2004

14. Notes Payable

Senior Convertible Note

On March 3, 2004, the Company issued $9,924 of 6% senior convertible notes due 2007 (the "March Notes") to investor groups in a transaction led by Michigan Venture Capital Co., Ltd, a South Korea-based institutional investment firm, and IndiGo Ventures LLC, a New York-based investment firm (the "Placement Agents") that served as a financial advisor to the Company for the transaction. The notes were collateralized by the patents held by the Company and second priority mortgage interest in plant facilities and certain equipment in South Korea. The notes were convertible at any time into common stock at a price of $3.00 per share. Investors in the private placement and the Placement Agents received warrants to purchase an aggregate amount of up to approximately 1.2 million shares of common stock, exercisable at $3.00 per share for varying periods but no later than 100 days following the effectiveness of a registration statement covering the resale of shares issuable upon exercise of the warrants. The conversion and warrant exercise price are subject to price adjustments for anti-dilution purposes. In addition, the investors had the right to call for repayment of the notes prior to maturity at any time after the second anniversary of the closing of the transaction.

The fair value of the 1.2 million warrants totaled $1,883 and was computed using the Black-Scholes pricing model under the following assumptions: (1) expected life of 3 years; (2) volatility of 82%, (3) risk free interest of 0.95% and dividend rate of 0%. In addition, since this debt is convertible into equity at the option of the note holder at beneficial conversion rates, an embedded beneficial conversion feature was recorded as a debt discount and will be amortized using the effective interest rate method over the life of the debt in accordance with Emerging Issues Task Force No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments." In March 2004, total cost of beneficial conversion feature of $3,395 and the fair value of the 0.6 million warrants issued to investors of $584 were recorded as discounts of the convertible note. In addition, $718 relating to the fair value of the 0.6 million warrants issued to the Placement Agents and $581 direct costs incurred relating to issuance of the convertible note were recorded as debt issuance cost as a contra liability account in warrant liability and other assets, respectively.

During 2004, the Company redeemed $4,465 of the outstanding note balance in cash. The redemption resulted in a write down of debt issuance costs and debt discount of $2,071 to interest expense during the year ended December 31, 2004. Further, 500,000 of warrants originally issued to a financial advisor for the transaction expired during June 2004 and 163,748 of unexercised warrants originally issued to investors were cancelled as a result of the Company's redemption of the note balances during the year ended December 31, 2004. The 663,748 total expired and canceled warrants immediately prior to the expiration and cancellation resulted in a reduction of warrant liability of $7 and $279 to paid in capital and change in value of warrants, respectively, during the year ended December 31, 2004.

On August 19, 2004, the Company completed a private exchange offer for its March Notes with the remaining holders after the redemption. Under terms of the exchange offer, approximately $5,459 in aggregate principal amount of the March Notes have been exchanged for an aggregate of (i) $2,729 of 6% Senior Secured Notes Due 2007 (the "July 2007 Notes") and (ii) $2,723 of 10% Senior Secured Notes Due 2005 (the "July 2005 Notes"), collectively referred to as "Exchange Notes". The Exchange Notes are collateralized by certain patents owned by the Company and second priority mortgage interest in plant facilities and certain equipment at our South Korea plant. The July 2005 Notes had a maturity date of July 29, 2005, and a conversion price of $2.00 per share (compared to a conversion price of $3.00 per share under the March Notes). The July 2005 Notes have been exchanged and redeemed subsequent to the close of the second quarter of 2005 (see 2005 Senior Convertible Notes below). The July 2007 Notes

have a maturity date of July 29, 2007, and a conversion price of $1.00 per share. The conversion prices of the July 2007 Notes and July 2005 Notes are subject to price adjustments for anti-dilution purposes. Further, the exchange notes are convertible into Common Stock, at the option of the Company, if at any time after the issuance of the notes, the closing per share price of the Common Stock exceeds $4.00 (as adjusted for stock splits, reverse splits, stock dividends, and recapitalizations) for 30 consecutive trading days, and further provided that there has been effective registration during such period. Holders of the July 2007 Notes also have the right to call for repayment of the July 2007 Notes prior to maturity at any time after the second anniversary of the closing of the exchange offer. The July 2007 Notes have been amended subsequent to the close of the second quarter of 2005 to provide for an Amended Registration Rights Agreement, and Amended and Restated Security Agreement (see 2005 Senior Convertible Notes below).

A total of 563,151 warrants to purchase our common stock at an exercise price of $3.00 per share—all of which were previously issued in connection with the purchase of the March Notes—have been amended to provide for an extended expiration date of March 1, 2006. The warrant exercise price is subject to price adjustment for anti-dilution purposes. As of December 31, 2005, the warrant price was determined to be exercisable at $2.73.

The exchange offer was treated as an extinguishment of the March Notes in accordance with Emerging Issues Task Force No. 96-19, "Debtors Accounting for a Modification or Exchange of Debt Instruments." The exchange resulted in a $1,663 loss from extinguishment of the March Notes, write down of $352 of deferred issue costs in other assets, $189 of contra liability deferred issuance costs, and $1,122 of debt discount as a result of the change in carrying value of exchanged notes.

In connection with the private exchange offer, the Company issued $250 of private placement notes to certain Placement Agents as issuance costs. Of the $250 notes issued, $125 was paid in the form of long-term notes which is due in 2007 with interest rate of 6% per annum (July 2007 Notes) and $125 was paid in the form of short-term notes which is due in 2005 with interest rate of 10% per annum (July 2005 Notes). The July 2005 and July 2007 Notes are convertible into Common Stock at $2.00 and $1.00, respectively, and have the same terms as the Exchange Notes issued to the investors. Further, a beneficial conversion feature was recorded from the $125 July 2007 Notes issued to Placement Agents of $29 during August 2004.

The Company was obligated, pursuant to a Registration Rights Agreement, as amended by the Exchange Notes, between the Company, the Placement Agents and the note holders to file a registration statement with the Securities and Exchange Commission ("SEC") to register the shares of Common Stock issuable upon conversion of the notes payable and the related warrants within 90 days following the effective closing date of the exchange notes (July 29, 2004), and to use best efforts to cause such registration statement to become effective within 60 days following the SEC's first written comments on the registration

statement. Further, if the Company is not in compliance with the registration or listing requirements, the holders have rights to late registration payments equal to between 2 and 3 percent of the purchase price paid for the unconverted notes for the first 30 business days of late registration, and 1 and 3 percent for each 30 business days thereafter, but no more than 18 percent of the purchase price of the unconverted note balance. Late registration fee of $1,028 has been recorded as interest expense during the year ended December 31, 2005.

Interest payments are due quarterly, and failure to make timely interest payments will result in increase in interest rate to 10% and 14% on the 6% and 10% senior convertible notes ("Default Rates"). The Default Rates became effective on April 1, 2005 from non-payment of a scheduled interest payment. As of December 31, 2005, the Company has complied with all scheduled interest payments.

On August 9, 2005, the July 2005 Notes, accrued interest and late registration fees were redeemed in cash and exchanged for 7% Convertible Secured Promissory Notes due August 2007 (see 2005 Senior Convertible Notes below).

During the year ended December 31, 2005, $485 of the Long-Term Notes were converted into 485,750 of the Company's common stock at a conversion price of $1.00 per share.

As of December 31, 2005 our gross outstanding loan balance of the July 2005 and July 2007 Notes totaled $0 and $2,369, respectively. As of December 31, 2004, our gross outstanding loan balance of the July 2005 and July 2007 Notes totaled $2,854 and $2,855, respectively. As of December 31, 2005 and December 31, 2004, un-amortized discounts for beneficial conversion feature and warrants totaled $303 and $851, and other asset debt issuance costs totaled $43 and $183, respectively. Interest expense for the amortization of debt issuance cost and discount on note was $689 and $789 for the year ended December 31, 2005 and 2004, respectively. As of December 31, 2005, the effective interest rates for the July 2007 Notes were 32%. As of December 31, 2004, the effective interest rates for the July 2005 and July 2007 Notes were 22% and 32% respectively.

Pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the original relative fair values of the warrants of $1,302 have been recorded as other liability as the Company has not yet filed the registration statement. In addition, the Company is required to report a value of the warrant as a fair value and record the

fluctuation to the fair value of the warrant liability to current operations. The change in the fair value of the warrants resulted in a net gain of $550 and $747 for the year ended December 31, 2005 and 2004, respectively. The fair value of warrants outstanding was $0 at December 31, 2005. The fair value was computed using the Black-Scholes model under the following assumptions: (1) expected life of 0.16 years; (2) volatility of 88%, (3) risk free interest of 4.08%and dividend rate of 0%.

The following is a repayment schedule of the July 2005 and July 2007 Notes based on maturity date of the notes:

July 2005 and 2007 Notes Repayment Schedule December 31,		**Minimum Payments**
2005	$	—
2006		—
2007		2,369
Total	$	2,369

Convertible Notes

On June 13, 2005, the Company completed a private placement (the "June 2005 Private Placement") of 10% Convertible Unsecured Notes Due June 13, 2006 in the aggregate principal amount of $3,250 (the "June 2006 Notes"), together with warrants to purchase up to an aggregate of 893,750 shares of the Company's common stock (the "Warrants").

The June 2006 Notes issued by the Company in the June 2005 Private Placement are unsecured and were due on the earlier of June 13, 2006 or the consummation of a follow-on equity or debt offering or restructuring transaction pursuant to which the Company receives gross proceeds of at least $4,000. Prior to maturity, the June 2006 Notes are interest-only, with interest payments due quarterly, at the rate of 10% per year. The June 2006 Notes can be prepaid by the Company at any time without penalty. If, within 120 days following the issue date of the June 2006 Notes, the Company either fails to redeem the notes for the principal amount and accrued interest thereon or fails to close a "Qualified Financing," then the June 2006 Notes will thereafter be convertible at a conversion price equal to seventy five percent (75%) of the closing price of the Company's common stock on the first trading day immediately preceding the conversion date. A "Qualified Financing " is defined in the June 2006 Notes as any debt or equity financing of the Company resulting in aggregate gross proceeds to the Company of at least $5,000 and in which the holders of at least sixty percent (60%) of the aggregate principal amount of the Company's July 2007 Notes either (i) agree that the equity or debt securities to be issued in such financing shall be *pari passu* in order of payment to the July 2007 Notes held by them or (ii) exchange their July 2007 Notes for new securities in the financing transaction. On August 9, 2005, the Company successfully completed Qualified Financing, which resulted in exchange and redemption of the Convertible Notes (see 2005 Senior Convertible Notes below). As a result, the June 2006 Notes never became convertible.

As a part of the June 2005 Private Placement, the Company issued warrants to the purchasers of the June 2006 Notes giving them the right to purchase up to an aggregate of 812,500 shares of the Company's common stock. In addition, warrants to purchase 81,250 shares of the Company's common stock were issued to the placement agent in the transaction. The warrants have an exercise price of $2.00 per share, provided that upon the consummation of the first ensuing public or private equity or debt offering or restructuring transaction in which the Company receives gross proceeds of at least $3,250 (including without limitation any restructuring of the Company's July 2005 Notes), the exercise price will be automatically adjusted downward (but not upward) as of the closing date of such offering or restructuring transaction so that it is equal to the lowest effective common stock purchase price paid for any securities issued by the Company to the investors in such offering or restructuring transaction. The warrants will expire on June 13, 2010 and are subject to exercise price adjustment for anti-dilution purposes.

The fair value of the 893,750 warrants totaled $1,160 and was computed using the Black-Scholes pricing model under the following assumptions: (1) expected life of 5 years; (2) volatility of 118%, (3) risk free interest of 3.87% and dividend rate of 0%. In accordance with Emerging Issues Task Force No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" the embedded beneficial conversion feature of the debt was not recorded as the

debt is considered contingently convertible at the time of issuance, and as a result of the completion of the Qualified Financing the debt subsequent to the close of the second quarter, the debt was determined to be not convertible. In June 2005, the fair value of the 812,500 warrants issued to investors of $1,055 was recorded as discounts of the convertible note. In addition $105 relating to the fair value of the 81,250 warrants issued to the Placement Agents and $278 direct costs incurred relating to issuance of the convertible note were recorded as debt issuance cost as a contra liability account in debt discount and other assets, respectively, and will be amortized using the effective interest rate method over the life of the loan.

On August 9, 2005, the June 2006 Notes were redeemed in cash and exchanged for 7% Convertible Secured Promissory Notes due August 2007 (see 2005 Senior Convertible Notes below). The exchange offer was treated as an extinguishment of the June 2006 Notes in accordance with Emerging Issues Task Force No. 96-19, “Debtors Accounting for a Modification or Exchange of Debt

Instruments.” The exchange resulted in a $1,247 loss from extinguishment of the June 2006 Notes as of December 31, 2005, which consists of write down of $240 of deferred issue costs in other assets, $92 of contra liability deferred issuance costs, and $915 of debt discount as a result of the change in carrying value of exchanged notes.

Pursuant to EITF 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock”, the original fair values of the warrants of $1,160 have been recorded as other liability as the Company has not yet filed the registration statement. In addition, the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair value of the warrant liability to current operations. The change in the fair value of the warrants resulted in a net gain of $743 for the year ended December 31, 2005. The fair value of warrants outstanding at December 31, 2005 of $418 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 4.45 years; (2) volatility of 88%, (3) risk free interest of 4.35%and dividend rate of 0%.

2005 Senior Convertible Notes

On August 9, 2005, the Company completed a private placement (the “August 2005 Private Placement”) of $9,878 in principal amount of new 7% Convertible Secured Promissory Notes due August 2007 (the “August 2007 Notes”). The issuance consisted of $5,000 cash, exchange of $1,284 in principal amount of the July 2005 Notes, the exchange of $2,996 in principal amount of the June 2006 Notes, satisfaction of accrued interest and late registration fees in the amount of $589 on the July 2005 Notes, and satisfaction of accrued interest of $9 on the June 2006 Notes. The August 2007 Notes were issued pursuant to a Securities Purchase Agreement dated effective as of August 2, 2005 among the Company, the purchasers of the August 2007 Notes, and the holders of July 2005 Notes and June 2006 Notes of the Company.

Interest payments are due quarterly, and failure to make timely interest payments will result in an increase to the interest rates to 14% per annum on the August 2007 Notes (“Default Rates”). As of December 31, 2005, the Company has made timely interest payments.

The August 2007 Notes are convertible into shares of the Company’s common stock at $2.00 per share Pursuant to an Amended and Restated Security Agreement. The convertible price of the August 2007 Notes is subject price adjustment for anti-dilution purposes. As of December 31, 2005, the convertible price of the August 2007 Notes remained unchanged at $2.00 per share.

Further, pursuant to Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” EITF 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock,” EITF 00-27, “Application of Issue No. 98-5 to Certain Convertible Instruments,” and EITF 05-2 “The Meaning of ‘Conventional Convertible Debt Instrument’ in EITF Issue No. 00-19,” the original fair value of the embedded beneficial conversion feature of $4,808 have been recorded as beneficial conversion feature liability as the debt is considered nonconventional convertible debt. The original fair value was computed using the Black-Scholes model under the following assumptions: (1) expected life of 2 years; (2) volatility of 93%; (3) risk free interest of 4.06% and dividend rate of 0%. In addition, the Company is required to report a value of the beneficial conversion liability as a fair value and record the fluctuation to the fair value of the beneficial conversion feature liability to current operations. The change in the fair value of the beneficial conversion feature liability resulted in a gain of $3,849 for the year ended December 31, 2005. The fair value of beneficial conversion features outstanding at December 31, 2005 of $959 was computed using the Black-Scholes model under the following assumptions: (1) 1.59 years; (2) volatility of 88%, (3) risk free interest of 4.41%and dividend rate of 0%.

The August 2007 Notes are secured by substantially all assets of the Company and rank senior to all other obligations of the Company, other than the Company’s loan with Kookmin Bank of South Korea (or any refinancing of such loan), the July 2007 Notes, purchase money asset financing, trade creditors in the ordinary course of business, and any inventory or receivables-based credit facility that the Company may obtain in the future, provided that the amount of the credit facility does not exceed 50% of eligible inventory and 80% of eligible receivables. The August 2007 Notes will automatically convert into common stock if the Company’s common stock has an average closing price of more than $5.00 per share during 30 consecutive trading days.

The Company also issued warrants to the purchasers of the August 2007 Notes and placement agents giving them the right to purchase up to 2,469,470 and 414,495 shares of Company common stock, respectively, with an exercise price of $2.00 per share, which is subject to price adjustment for anti-dilution purposes . The warrants will expire on August 2, 2010.

Pursuant to EITF 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock”, the original fair values of the warrants of $4,068 have been recorded as warrant liability as the Company has not yet filed the registration statement, which was computed using the Black-Scholes pricing model under the following assumptions: (1) expected life of 5 years; (2) volatility of 93%; (3) risk free interest of 4.17% and dividend rate of 0%. In addition, the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair value of the warrant liability to current operations. The change in the fair value of the warrants resulted in a net gain of $2,693 for the year ended December 31, 2005. The fair value of warrants

outstanding at December 31, 2005 of $1,375 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 4.59 years; (2) volatility of 88%, (3) risk free interest of 4.35% and dividend rate of 0%.

In connection with the August 2005 Private Placement, the Company entered into an amended and restated registration rights agreement with the holders of the July 2007 Notes, the holders of the August 2007 Notes, and the holders of the above-described outstanding warrants. This amended and restated registration rights agreement replaced all other registration rights agreements previously entered into by us in connection with the private sale by us of convertible notes and warrants. Under the amended and restated registration rights agreement, the Company is required to file a resale registration statement for the shares underlying all of our outstanding convertible notes and warrants, as described above, by October 31, 2005, to enable the resale of such shares by the selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act. The Company is then required to cause such registration statement to become effective within 60 days after we receive the first written comments on the registration statement from the SEC, or if the SEC notifies us that it will not review the registration statement, within five days after such notification. The Company will be subject to certain monetary penalties, as set forth in the registration rights agreement, if the registration statement is not filed or does not become effective on a timely basis. Specifically, if the Company does not file the registration statement on a timely basis, we will be obligated to pay a late filing fee to the selling stockholders in the amount of 3% of the warrant exercise price on each of the warrants held by them plus 3% of the principal amount of the outstanding notes held by them. This fee will be payable for each period of 30 business days that the filing of the registration statement is made past the required filing date, and the payments will be due 10 business days following the end of each 30-day period. If the registration statement has not been declared effective by the required effective date, the Company will be obligated to pay a monthly late registration fee to the selling stockholders in the amount of 2% of the aggregate warrant exercise prices and aggregate note principal amounts for the first 30 business days after the required effective date, and 1% for each 30-business day period thereafter until the registration statement is declared effective. Notwithstanding the foregoing, the late filing fees and late registration fees will not exceed 18% of the aggregate warrant exercise prices and aggregate note principal amounts.

On December 6, 2005, the Company received a letter from a representative of the holders of the August 2007 Notes demanding the payment of a late filing fee by us for the period following October 31, 2005, but under the terms of the amended and restated registration rights agreement, the Company does not believe that it is obligated to pay any late filing fees unless and until the Company fails to file the registration statement by December 13, 2005, which is the last day of the first 30-business day period following October 31, 2005. The letter also stated that the letter was serving as a notice of default under the Senior Notes as a result of our failure to file a registration statement by October 31, 2005, although under the terms of the Senior Notes, the Company has thirty days after delivery of the letter in which to cure such default. On December 9, 2005 the Company filed the registration statement, which was within the 30-day period and has cured the default notice.

The Company has received first written comments in January 2006. However, the registration statement has not been made effective within the 60 day period called for by the registration rights agreement and the Company may be subject to default notices by the holders of the convertible notes and warrants. As of the filing of this report, the Company’s management is not aware of any outstanding default notices.

As of December 31, 2005, our gross outstanding loan balance of the August 2007 Notes totaled $9,878. As of December 31, 2005, unamortized discounts for beneficial conversion feature and warrants totaled $5,663, and other asset debt issuance costs totaled $384, and contra liability debt issuance cost totaled $464. Interest expense for the amortization of debt issuance cost and discount on note was $1,913 and for the year ended December 31, 2005. As of December 31, 2005, the effective interest rate for the August 2007 Notes was 54%.

The following is a repayment schedule of the August 2007 Notes based on maturity date of the notes:

August 2007 Notes Repayment Schedule December 31,		**Minimum Payments**
2005	$	—
2006		—
2007		9,878
Total	$	9,878

Factoring Agreement

The Company entered into a Factoring, Loan, and Security Agreement (the “Agreement”) with a financing company on April 21, 2005, which allows for borrowings of up to $1,500. The Agreement expires on April 21, 2006, and automatically renews annually thereafter. All borrowings are secured by outstanding receivables specifically assigned to the financing company. Assigned receivables are considered “Approved” or “Non-Approved” by the financing company. Advances are made on 80% of Approved receivables assigned and 30% of Non-Approved receivables assigned. Payments on assigned receivables are received directly by the

financing company, and applied to outstanding advances. All outstanding advances and uncollected assigned receivables are subject to fees and interest charges ranging from 0.65 percent to 2 percent plus prime rate as published by the Wall Street Journal, with a minimum annual fee of $30. All receivables assigned and advances made are subject to return and recall by the financing company, respectively. As such, the advances have been classified as short-term secured borrowings in accordance with FAS 140 “Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities.” As of December 31, 2005, the Company has borrowed $4,449 and repaid $3,899. The total outstanding advance made under the agreement is $550 as of December 31, 2005, which is presented as short-term debt. The weighted average rate of interest for borrowings made under the Agreement was 8.5% for the year ended December 31, 2005. The Company has $950 available for future borrowings under the Agreement as of December 31, 2005, which is contingent on approval of eligible receivables by the financing company.

Kookmin Note

On February 4, 2003, our Korean subsidiary received 6,500,000 in South Korean Won, or approximately $5,488, under a loan from Kookmin Bank of South Korea. The loan bears interest at an annual rate of 7.1%. In the event of delayed repayment, the interest increases to a maximum of 21%, depending on the length of time the repayment is delayed. As of December 31, 2005, the interest rate was increased to 9.2% from delayed interest payments made. This loan is collateralized by the plant facilities and certain equipment in South Korea. During the first eighteen months from the origination date, interest was payable on a monthly basis. In October 2003, the Company paid $873 of principal at the request of Kookmin Bank due to the sale of machines that had been part of the collateral on the loan. Subsequent to October 31, 2003, Kookmin Bank requested that the Company pay an additional $866 of principal by February 2004 due to the Company’s current credit rating. The Company made two payments on the requested additional loan pay down in November and December 2003 of $320 and $205, respectively. The remaining payment of $341 was subsequently made in February 2004. Beginning in September 2004, the Company is

required to make equal monthly installments of principal and interest to repay the remaining balance of the loan over a 36-month period. For the year ended December 31, 2004, principal payments made to Kookmin Bank totaled $296, which includes $422 of foreign exchange translation loss. Principal payments made to Kookmin Bank totaled $1,036 for the year ended December 31, 2005, which includes $95 of foreign exchange translation gain. The outstanding loan balance totaled $2,790, of which $1,343 is included in current portion of long-term debt, as of December 31, 2005.

The notes payable from Kookmin Loan as of December 31, 2005 and 2004 and the activity for the year ended December 31, 2005 is shown in the following table:

	December 31, 2004	Borrowings	Repayments	December 31, 2005
Kookmin Loan 9.2%, principal $5,488	$ 3,751	$ —	$ (1,036)	$ 2,790

Kookmin Repayment Schedule December 31,	Minimum Payments
2006	$ 1,343
2007	1,240
2008	207
Total	$ 2,790

15. Shareholders' Equity (Deficiency)

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

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

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

Preferred Stock. As of December 31, 2001, the Company received net proceeds of $5,577 from the sale of the preferred stock at a per share price of $12.40, as adjusted for the revised stock split. Upon the completion of the Offering, each share of preferred stock was converted automatically into one share of Class A common stock pursuant to the terms of the preferred stock issued.

Warrants

As of December 31, 2005, outstanding warrants to acquire shares of the Company's common stock are as follows:

Number of Shares	Exercise Price	Expiration Date
645,162	$ 4.65	December 31, 2005
563,151	2.73	March 1, 2006
893,750	2.00	June 13, 2010
2,883,965	2.00	August 2, 2010
4,986,028		

16. Stock Compensation Plan

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

On April 4, 2002, our shareholders and board of directors adopted the 2002 Equity Incentive Plan ("2002 Equity Plan"). The 2002 Equity Plan provides for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. In addition, the plan permits the granting of stock appreciation rights with, or independently of, options, as well as stock bonuses and rights to purchase restricted stock. A total of 10,000,000 shares of our common stock may be granted under the 2002 Equity Plan. As of December 31, 2005, there are 2,151,950 options outstanding under the 2002 Equity Plan.

Prior to the approval of the 2002 Equity Plan, options were primarily granted under the Company's 1996 Stock Option Plan ("1996 Company Plan"). On April 4, 2002, our board of directors terminated the 1996 Company Plan. The termination will not affect any outstanding options under the 1996 Company Plan and all such options will continue to remain outstanding and be governed by the Plan. No additional options may be granted under the 1996 Company Plan. As of December 31, 2005, there were 3,386,297 options outstanding under the 1996 Company Plan.

On April 4, 2002, our shareholders and board of directors adopted the 2002 Non-employee Director Stock Option Plan (“2002 Director Plan”). Only non-employee directors are eligible for grants under the 2002 Director Plan. A total of 1,000,000 shares of the Company’s Common Stock may be granted under the 2002 Director Plan. There are 234,000 options outstanding under the 2002 Director Plan as of December 31, 2005.

In September 2005, the non-employee directors of our Company were given the opportunity to receive shares of stock under the plan in lieu of past-due director and committee fees that were due to them from periods through September 2005. Such shares were issuable to such directors in lieu of these past-due fees.

Additionally, the Company has 2,221,508 options outstanding at December 31, 2004 which were granted outside the 1996 Company Plan, 2002 Equity Plan and 2002 Director Plan.

The Company applies APB Opinion No. 25 for options when the exercise price of options granted to employees is less than the fair value of the underlying stock on the date of grant. The Company applies SFAS No. 123 for options granted to non-employees who perform services for the Company. Stock-based compensation expense was recognized as follows for the year ended December 31, 2005:

	APB Opinion No. 25	In accordance with SFAS No. 123	Total
General and administrative	$ —	$ 41	$ 41
Research and development	—	—	—
Total	$ —	$ 41	$ 41

Stock-based compensation expense was recognized as follows for the year ended December 31, 2004:

	APB Opinion No. 25	In accordance with SFAS No. 123	Total
General and administrative	$ —	$ 240	$ 240
Research and development	—	36	36
Total	$ —	$ 276	$ 276

Stock-based compensation expense was recognized as follows for the year ended December 31, 2003:

	APB Opinion No. 25	In accordance with SFAS No. 123	Total
General and administrative	$ 50	$ 5	$ 55
Research and development	6	62	68
Total	$ 56	$ 67	$ 123

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants for the years ended December 31, 2005, 2004, and 2003, respectively: expected volatility of 100% for all periods; dividend yield of 0.0% for all periods; expected option life of approximately 5 years; and risk-free interest rate ranging from 2.57% and 4.16%, as appropriate.

The following table summarizes the Company’s stock option transactions for the three years ended December 31, 2005:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2002	8,317,187	$ 5.33
Granted	1,810,920	3.07
Exercised	(684,165)	1.68
Forfeited	(1,272,481)	5.43
Options outstanding at December 31, 2003	8,171,461	5.11
Granted	795,843	1.89
Exercised	—	—
Forfeited	(1,591,795)	5.34
Options outstanding at December 31, 2004	7,375,509	4.72
Granted	1,048,165	2.18
Exercised	—	—
Forfeited	(429,919)	3.43
Options outstanding at December 31, 2005	7,993,755	$ 4.45

The weighted average fair value of options granted during the years ended December 31, 2005, 2004, and 2003 was $1.74, $1.29, and $2.41, respectively. There were 6,451,364 options with a weighted average exercise price of $4.87 exercisable at December 31, 2005,

5,752,412 options with a weighted average exercise price of $5.22 exercisable at December 31, 2004, and 5,080,557 options with a weighted average exercise price of $5.12 exercisable at December 31, 2003.

Included in the above tables are certain options granted where their exercise prices were below the fair market value of the common stock at the grant date (measurement date). Such options totaled 358,582 with a weighted average fair value of $11.22 were outstanding at December 31, 2005 and December 31, 2004; and 1,327,314 with a weighted average fair value of $4.96 were outstanding at December 31, 2003.

The following table summarizes the Company's stock options outstanding and exercisable by ranges of option prices as of December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Numbers of options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$0.00 - $1.55	711,575	6.70	$ 1.26	456,095	$ 1.19
1.56 - 3.10	2,542,943	5.80	2.41	1,401,856	2.53
3.11 - 4.65	1,843,195	4.80	4.61	1,781,195	4.64
4.66 - 6.20	2,581,519	5.40	6.20	2,564,866	6.20
6.21 - 7.75	—	0.00	—	—	—
7.76 - 9.30	10,000	7.00	8.95	6,000	8.95
9.31 - 10.85	10,000	7.00	9.81	4,000	9.81
10.86 - 12.40	222,585	5.60	12.40	194,193	12.40
12.41 - 13.95	—	0.00	—	—	—
13.96 - 15.50	71,938	6.30	15.00	43,159	15.00
Total	7,993,755			6,451,364	

17. Discontinued Operations

Dongyang

On June 28, 2002, the Company acquired a 51% interest in Chusik Hoesa Dongyang Yudoro ("Dongyang"). During 2003, Dongyang experienced net losses as a result of a continuing economic downturn in markets for its machinery products. These events, along with Dongyang's operating loss, cash flow losses and uncertainty surrounding its future cash flows, led the Company to evaluate its investment for recoverability as of December 31, 2003. As a result, the Company determined that the carrying value of its investment in Dongyang exceeded its fair value as of December 31, 2003 in the amount of $184. This impairment loss was recorded in operating expenses for the year ended December 31, 2003.

In March 2004, the Company sold its 51% investment in Dongyang to the 49% minority shareholder. The selling price of the Company's 51% interest in Dongyang was $80, which was equal to the Company's net carrying value for the 51% ownership held. Further, the Company agreed to pay Dongyang $155 for the purchase of a receivable balance from Growell. The transaction resulted in net payable to Dongyang of $75 and a loss of $46 from transfer of the Company's interest in Donyang to the minority shareholder. The net payable balance of $75 is to be paid in quarterly installments throughout 2004, with $25 to be paid subsequent to 2004. The outstanding amount payable to Dongyang is $25 as of December 31, 2004 and is included in accounts payable and accrued liabilities.

The Company has adopted SFAS 144 and as a result the 2003 balances have been reclassified in order to conform with the presentation of 2004 financial statements.

Summarized operating results of Dongyang's discontinued operations are as follows:

	Year Ended December 31,		
	2005	2004	2003
Revenue	—	$ 22	$ 1,019
Loss from discontinued equipment manufacturing operations, net of tax	—	(96)	(268)

Taesung

On June 14, 2004, the Company entered into an Asset Purchase Agreement whereby all the assets and liabilities of its Taesung equipment manufacturing division in Korea were sold to a third party for $345 which is payable by the third party in four equal installments with the last installment being due on June 30, 2005. The sale resulted in a loss of $184 and is included in the loss from discontinued equipment manufacturing operations as of December 31, 2004. The loss from operations for the year ended December 31, 2004 totaled $653 and is included in the loss from discontinued equipment manufacturing operations for the period.

The Company has adopted SFAS 144 and as a result the 2003 balances have been reclassified in order to conform with the presentation of 2004 financial statements.

Summarized operating results of Taesung's operations are as follows.

	Year Ended Ended December,		
	2005	2004	2003
Revenue	—	$ 172	$ 2,177
Loss from discontinued equipment manufacturing operations, net of tax	—	(653)	(696)

Liquidmetal Golf

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

For the year ended December 31, 2003, there was a net gain of $127 in the estimate of expenses associated with the disposal of the discontinued retail golf operations. The change resulted from reducing the net liabilities of the discontinued operations to $0 as there are no additional expenditures associated with the discontinued retail golf operations. There were no assets associated with discontinued retail golf operations at December 31, 2004 and 2005.

The results of operations for all periods presented have been restated for discontinued operations. The operating results of the discontinued operations are as follows:

	Years Ended December 31,		
	2005	2004	2003
Net gain (loss) on disposal	$ —	$ —	$ 127
Foreign exchange translation gain (loss) during the period	—	—	—
Comprehensive gain (loss)	$ —	$ —	$ 127

Stock Compensation Plan. Historically, Liquidmetal Golf granted its own options to employees, directors and consultants under a stock option plan (“1997 Golf Plan”) approved by Liquidmetal Golf’s Board of Directors pursuant to which Liquidmetal Golf could have granted stock options exercisable over a period determined by the Board of Directors to purchase up to 500,000 shares of common stock of Liquidmetal Golf. In connection with the Company’s plan to discontinue the retail golf operations, the Company does not intend to issue additional options under the 1997 Golf Plan.

Liquidmetal Golf applies APB Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, Liquidmetal Golf recognized compensation when the exercise price of the options was less than the fair value of the underlying stock on the date of grant. There was no compensation expense recorded during the years ended December 31, 2005, 2004, and 2003.

Had compensation cost been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, Liquidmetal Golf’s net loss would have been as follows:

	Years ended December 31,		
	2005	2004	2003
As reported	$ —	$ —	$ 127
Pro forma	$ —	$ —	$ 15

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants for the fiscal years ended December 31, 2005, 2004, and 2003: expected volatility of 100% for all periods; dividend yield of 0.0% for all periods; expected option life of approximately 5 years; and a risk-free interest rate ranging from 5.2% to 6.2%, as appropriate.

The following table summarizes Liquidmetal Golf’s stock option transactions for the three years ended December 31, 2005:

	Number of Shares	Weighted Average Price
Options outstanding at December 31, 2002	115,500	$ 8.31
Granted	—	—
Exercised	(300)	16.00
Forfeited	(16,500)	5.73
Options outstanding at December 31, 2003	98,700	8.72
Granted	—	—
Exercised	—	—
Forfeited	(10,000)	8.00
Options outstanding at December 31, 2004	88,700	8.80
Granted	—	—
Exercised	—	—
Forfeited	(10,500)	13.71
Options outstanding at December 31, 2005	78,200	$ 8.14

There were 78,200 options with a weighted average exercise price of $8.14 exercisable at December 31, 2005. There were 88,700 options with a weighted average exercise price of $8.80 exercisable at December 31, 2004 and there were 98,700 options with a weighted average exercise price of $8.72 exercisable at December 31, 2003.

Included in the above tables are certain options granted where their exercise prices were below the fair market value of the common stock at the grant date. Such options totaled 10,000, 10,000, and 131,250 with weighted average fair values of $5.74, $5.74 and $5.74 were outstanding at December 31, 2005, 2004 and 2003, respectively.

The following summarizes Liquidmetal Golf’s stock options outstanding and exercisable by the different exercise prices at December 31, 2005:

Exercise Price	Number of Options Outstanding at	Weighted Average Remaining Contract	Number of Options Exercisable at

	December 31, 2005	Life (Years)	December 31, 2005
$ 0.50	10,000	1.33	10,000
$ 8.00	60,000	3.83	60,000
$ 16.00	5,700	2.33	5,700
$ 24.00	2,500	2.58	2,500
	88,700		78,200

18. Income Taxes

For all financial statement periods presented, there was no provision for domestic income taxes. However, there was approximately $8 of tax expense during the twelve months ended December 31, 2003, related to foreign taxes incurred by Dongyang, a 51% owned subsidiary, which is included as part of loss from discontinued operations on the consolidated statements of operations and comprehensive loss (see Note 17).

The significant components of deferred tax assets were as follows:

	Years Ended December 31,		
	2005	2004	2003
Non-employee stock compensation	$ —	$ 109	$ 51
Allowance for bad debt	9	37	44
Loss carry forwards	32,428	31,403	27,202
Other	1,139	1,244	1,569
Total deferred tax asset	33,576	32,793	28,866
Valuation allowance	(33,576)	(32,793)	(28,866)
Total deferred tax asset, net	$ —	$ —	$ —

The following table accounts for the differences between the actual tax provision and the amounts obtained by applying the statutory U.S. Federal income tax rate of 34% to income (loss) before income taxes:

	Years Ended December 31,		
	2005	2004	2003
Federal tax expense	(34.00)%	(34.00)%	(34.00)%
State tax expense, net	(1.74)%	(4.79)%	(1.62)%
Foreign income not subject to income tax	22.09%	4.96%	24.16%
Other	0.09%	0.79%	0.36%
Increase in valuation allowance	13.56%	33.04%	11.13%
Total tax provision	0.0%	0.00%	0.03%

As of December 31, 2005, the Company had approximately $90,000 of net operating loss (“NOL”) carry forwards for U.S. federal income tax purposes expiring in 2006 through 2025. In addition, the Company has state NOL carryforwards of approximately $34,000 expiring in 2010 through 2015. The Company and Liquidmetal Golf filed on a separate company basis for federal income tax purposes. Accordingly, the federal NOL carryforwards of one legal entity are not available to offset federal taxable income of the other. As of December 31, 2005, Liquidmetal Technologies, Inc. had approximately $52,000 in federal NOL carryforwards, expiring in 2006 through 2025 and approximately $25,000 in state NOL carryforwards, expiring in 2011 through 2015. Liquidmetal Golf, Inc. had approximately $38,000 of federal NOL carryforwards, expiring in 2012 through 2025 and approximately $9,000 in state NOL carryforwards expiring in 2010 through 2015.

As of December 31, 2005, the Company had approximately $199 of Research & Development (“R&D”) credit carryforwards for U.S. federal income tax purposes expiring in 2021 through 2025. In addition, the Company has California R&D credit carryforwards of approximately $269, which do not expire under current California law.

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

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

19. Segment Reporting and Geographic Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, requires companies to provide certain information about their operating segments. In April 2002, the Company began classifying operations into two reportable segments:

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

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

	Coatings	Bulk Alloy	Segment Totals
Year ended December 31, 2005:			
Revenue to external customers	$ 5,894	$ 10,471	$ 16,365
Gross profit	2,505	(1,270)	1,236
Total segment income	1,746	(7,747)	(6,002)
Total identifiable assets at end of period	1,199	16,473	17,672
Year ended December 31, 2004:			
Revenue to external customers	$ 3,956	$ 13,473	$ 17,429
Gross profit	1,807	3,454	5,261
Total segment income	1,227	2,330	3,557
Total identifiable assets at end of period	842	22,635	23,477
Year ended December 31, 2003:			
Revenue to external customers	$ 2,997	$ 10,661	$ 13,658
Gross profit	1,466	(5,970)	(4,504)
Total segment income	369	(21,140)	(20,771)
Total identifiable assets at end of period	959	23,832	24,791

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

	For the Years ended December 31,		
	2005	2004	2003
Total segment income (loss) before minority interest, interest expense and discontinued operations	$ (6,002)	$ 3,557	$ (20,771)
General and administrative expneses, excluded	(6,904)	(11,354)	(13,110)
Consolidated loss before interest, other income, income taxes, minority interest and discontinued operations	(12,905)	(7,797)	(33,881)
Loss from extinguishment of debt	(1,247)	(1,663)	—
Change in value of warrants, net	3,985	747	—
Change in value of beneficial conversion feature	3,849	—	—
Other income	—	302	—
Interest expense	(4,945)	(3,603)	(390)
Interest income	17	37	304
Gain on sale of marketable securities held-for-sale	—	—	1,178
Income taxes	—	—	—
Minority interest in loss of consolidated subsidiary	—	—	21
Gain (loss) from discontinued oeprations, net	—	(749)	-837
Consolidated net loss	$ (11,246)	$ (12,726)	$ (33,605)

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

Included in our bulk alloy revenue to external customers are equipment sales from our Dongyang subsidiary and Taesung equipment division in Korea, both of which were divested in March and June 2004 respectively. External revenue from our discontinued equipment manufacturing operations includes $0.2 million for the year ended December 31, 2004.

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

	December 31,	
	2005	2004
Total segment assets	$ 17,672	$ 23,477
Cash and cash equivalents	1,392	742
Restricted cash	—	754
Prepaid expenses and other current assets	340	801
Other property, plant and equipment	473	975
Intangibles, net	1,186	1,143
Other assets	500	616

Total Consolidated Assets	$ 21,563	$ 28,508

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

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

	Year Ended December 31,		
	2005	2004	2003
Samsung	10%	5%	10%
Charm Tech	—	32%	—
Pntel	8%	30%	2%
United States Government	9%	10%	16%
Growell Metal	—	12%	—
LLPG	—	—	12%

Revenues from sales to companies in the United States of America were $8,523, $5,546 and $6,050 during the years ended December 31, 2005, 2004 and 2003, respectively. The revenue related to the United States of America was earned under three defense-related research and development contracts and sales of coatings products.

During the year ended December 31, 2005, the Company had revenue on sales to companies outside of the United States of $7,829 of which $5,047 represented sales to companies located in South Korea. During the year ended December 31, 2004, the Company had revenue on sales to outside of the United States of $11,883 of which $9,545 represented sales to companies located in South Korea. During the year ended December 31, 2003, the Company had revenue on sales to companies outside of the United States of $7,608, of which $4,559 represented sales to companies located in South Korea.

Long-lived assets include net property, plant, and equipment and net intangible assets. The Company had long-lived assets of $2,107 and $1,594 located in the United States at December 31, 2005 and 2004, respectively. The Company had long-lived assets of $12,846 and $15,422 located in South Korea at December 31, 2005 and December 31, 2004, respectively. Further, the Company has long lived assets located in China of $106 and $47 at December 31, 2005 and 2004 respectively, as a result of a new plant that opened during August 2004 (see Note 1).

20. Income (Loss) Per Common Share

Basic EPS is computed by dividing earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the periods. Diluted EPS reflects the potential dilution of securities that could share in the earnings. A reconciliation of the number of common shares used in calculation of basic and diluted EPS is presented below:

	For the Years ended December 31,		
	2005	2004	2003
Weighted average basic shares	41,833,058	41,609,652	41,505,218
Effect of dilutive securities:			
Stock options	—	—	—
Conversion of notes payable	—	—	—
Weighted average diluted shares	41,833,058	41,609,652	41,505,218

Options to purchase 7,993,755 shares of common stock at prices ranging from $0.88to $15.00 per share were outstanding at December 31, 2005, but were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive. Options to purchase approximately 6,899,164 shares of common stock at prices ranging from $1.18 to $15.00 per share were outstanding at December 31, 2004, but were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive. Options to purchase approximately 8,171,461 shares of common stock at prices ranging from $1.16 to $15.50 per share were outstanding at December 31, 2003, but were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive.

Warrants to purchase 4,986,028 shares of common stock between $2.00 and $4.65 per share outstanding at December 31, 2005 were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive. Warrants to purchase 1,208,313 shares of common stock between $3.00 and $4.65 per share were outstanding at December 31, 2004 but were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive. Warrants to purchase 645,162 shares of common stock at $4.65 per share were outstanding at December 31, 2003.

21. Commitments and Contingencies

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

The Company and certain of the present and former officers and directors were named as defendants in nine purported class action complaints filed in the United States District Court for the Middle District of Florida, Tampa Division, and the Central District of California, Southern Division, alleging violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. In August 2004, four complaints were consolidated in the Middle District of Florida under the caption *Primavera Investors v. Liquidmetal Technologies, Inc., et al.*, Case No. 8:04-CV-919-T-23EAJ. John Lee, Chris Cowley, Dwight Mamanteo, Scott Purcell and Mark Rabold were appointed co-lead plaintiffs (the "Lead Plaintiffs"), but Mr. Mamanteo later withdrew. In September 2004, the five complaints filed in the Central District of California were transferred to the Middle District of Florida for consolidation with the *Primavera Investors* action. The Lead Plaintiffs served their Consolidated Amended Class Action Complaint on January 12, 2005. The Amended Complaint alleges that the Prospectus issued in connection with our initial public

offering in May 2002 contained material misrepresentations and omissions regarding our historical financial condition and regarding a personal stock transaction by our former chief executive officer. The Lead Plaintiffs further generally allege that during the proposed Class Period of May 21, 2002, through May 13, 2004, the defendants engaged in improper revenue recognition with respect to certain of our business transactions, failed to maintain adequate internal controls, and knowingly disclosed unrealistic but favorable information about market demand for and commercial viability of our products to artificially inflate the value of our stock. The Amended Complaint seeks unspecified compensatory damages and other relief. The Company, along with other defendants, filed a Motion to Dismiss Plaintiffs' Consolidated Amended Class Action Complaint in March 2005. The Motion to Dismiss was denied in December 2005, and the defendants served their Answer and Affirmative Defenses to the Consolidated Amended Class Action Complaint on December 16, 2005. The Lead Plaintiffs Motion for Class Certification is presently due in April 2006. The Company intends to vigorously defend against the class action. The Company cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of this lawsuit may harm the Company's business and have a material adverse impact on the Company's financial condition.

In addition to the above, certain of present and former officers and directors, as well as the Company as a nominal defendant, have been named in three shareholder derivative actions. Two shareholder derivative complaints were filed in California state court styled *Brian Clair, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al.*, Case No. 04CC00551, and *Joseph Durgin,*

Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al., Case No. 04CC00553, both commenced in the Superior Court of Orange County, California. A third shareholder derivative complaint was filed in the United States District Court for the Middle District of Florida, Tampa Division, styled *Robert Story v. John Kang, et al.*, Case No. 8:04-CV-1587-T-23TBM. These shareholder derivative lawsuits allege that the defendants breached various fiduciary duties and otherwise violated state law based primarily upon the same underlying facts and circumstances as alleged in the federal shareholder class action. The plaintiffs seek unspecified compensatory damages, restitution and disgorgement of profits, equitable and/or injunctive relief as permitted by law and other relief.

The two shareholder derivative complaints in California state court have been consolidated. The Company, along with other defendants, have thrice succeeded in having the Plaintiffs' complaints dismissed for their failure to adequately plead demand futility. Most recently, on September 15, 2005, we, along with other defendants, filed a demurrer to the Plaintiffs' Consolidated Second Amended Shareholder Derivative Complaint dated August 16, 2005. In hearings on October 19, 2005, and January 20, 2006, the presiding judge sustained the demurrer, dismissing the second amended complaint but giving the plaintiffs until February 3, 2006, within which to serve a third amended complaint. The plaintiffs filed their Consolidated Third Amended Shareholder Derivative Complaint on February 3, 2006. The Company anticipates filing a demurer, seeking dismissal of the third amended complaint.

In the Florida derivative action, the Plaintiff filed a First Amended Shareholder Derivative Complaint on November 22, 2004. The Company, along with other defendants, filed a Motion to Dismiss in December 2004, to which the Plaintiff responded in opposition in February 2005. On January 20, 2006, the presiding judge granted our Motion to Dismiss, dismissing the complaint based upon the plaintiff's failure to adequately plead futility. On February 17, 2006, the plaintiff filed its Notice of Appeal of the Court's Order granting the Motion to Dismiss. The plaintiff's initial brief is presently due on April 4, 2006. A mediation of the class and derivative actions is scheduled for early April 2006. We intend to vigorously defend against the derivative actions. The Company cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material. The resolution of this lawsuit may harm the Company's business and have a material adverse impact on our financial condition.

In March 1996, the Company entered into a distribution agreement whereby it granted to a third party exclusive rights to market and sell golf products incorporating Liquidmetal Technology to certain Japanese sporting equipment companies. The third party paid the Company a $1.0 million distribution fee as part of this agreement, of which a portion was refundable according to a formula based on the gross profit earned by the third party. The remaining unearned distribution fee of $830 has not been refunded as of December 31, 2004. On March 28, 2003, the distribution agreement was terminated and the Company entered into a new agreement to pay to the same third party a commission on the net sales price of all Liquidmetal golf equipment that is shipped by the Company or its affiliates to Japanese golf companies for sale in the Japanese end-market. This commission will apply to golf equipment shipped by the Company or its affiliates during the period beginning on March 28, 2003 and ending on March 28, 2006. If, by March 28, 2006, the Company has not paid $350 in commission payments, the balance between commission paid and $350 will be paid by April 30, 2006, thereby guaranteeing the third party a $350 minimum payment during the term of the agreement. The Company will recognize the unearned distribution fee of $830 as revenue proportionately with the payment of commissions under the new agreement. As of December 31, 2005, the unearned distribution fee remained unchanged at $830.

In August 2004, the Company entered into a consulting agreement whereby the Company was to receive services from a third party to improve the Company's bulk alloy manufacturing process. The service is to be provided from 2004 through February 2006. The total amount of service fees is $172, of which $78 and $15 was included in trade accounts payable as of December 31, 2005 and 2004, respectively.

Operating Leases

The Company leases its offices and warehouse facilities under various lease agreements, certain of which are subject to escalations based upon increases in specified operating expenses or increases in the Consumer Price Index. Future minimum lease payments under non-cancelable operating leases during subsequent years are as follows:

December 31,	Minimum Payments
2006	$ 706
2007	322
2008	117
2009	77
2010	1
Total	$ 1,223

Rent expense was $508, $479, and $1,419 for the years ended December 31, 2005, 2004, and 2003, respectively.

22. 401(k) Savings Plan

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

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

23. Related Party Transactions

In June 2003, the Company entered into an exclusive, ten-year license agreement with LLPG, Inc. ("LLPG"), a corporation primarily owned and led by Jack Chitayat, a former director. Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. In turn, the Company will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. In conjunction with its technology licensing contract, LLPG purchased two proprietary Liquidmetal alloy melting machines and three proprietary Liquidmetal alloy casting machines for a total purchase price of $2,000. No royalty payments were received to date under this agreement.

The Company has a license agreement with California Institute of Technology ("Caltech") under which we exclusively license from Caltech certain inventions and technology relating to amorphous alloys. Professor William Johnson, a member of the Company's board of directors, is a professor at Caltech, and substantially all of the amorphous alloy technology licensed to us under the Caltech license agreement was developed in Professor Johnson's Caltech laboratory. Additionally, the Company reimburses Caltech for laboratory expenses incurred by Professor Johnson's Caltech laboratory, which during the years ended December 31, 2005 and 2004, amounted to $20 and $0, respectively.

The Company is a party to a consulting agreement with William Johnson, a board member. Under this agreement, Mr. Johnson provides consulting services on an as-needed basis through 2004 as it relates to marketing and development Liquidmetal alloy. The agreement currently continues on a month-to-month basis. During the years ended December 31, 2005 and 2004, the Company incurred 15 and $90 in consulting fees from Mr. Johnson, respectively.

The Company is a party to a consulting agreement with Chitnis Consulting, Inc., which is owned 100% by Shekhar Chitnis, a former director and executive officer of the Company. Under this agreement, Chitnis Consulting has been engaged to provide consulting services on an as-needed basis through December 31, 2005. During the years ended December 31, 2005 and 2004, the Company incurred $53 and $54 in consulting fees from Chitnis Consulting, respectively.

Soo Buchanan, the sister of John Kang and James Kang, was employed by the Company and was paid aggregate compensation of approximately $104 and $43 as of December 31, 2005 and 2004. Effective, July 31, 2005, Ms. Buchanan was terminated as an employee and began providing services to the Company as a consultant. During 2005, the Company incurred $24 for her services as a consultant. Additionally, Otis Buchanan, the husband of Ms. Buchanan, was employed by the Company and was paid aggregate compensation of approximately $103 and $54 as of December 31, 2005 and 2004, respectively.

In November 2004, the Company entered into an agreement with John Kang, our Chairman, President, and Chief Executive Officer, in which Mr. Kang agreed that certain stock transactions by him in 2002 involving the Company's common stock should have resulted in a liability under Section 16(b) of the Securities Exchange Act of 1934, as amended ("Section 16(b)"). These transactions include Mr. Kang's private sale of 285,715 shares of his personal Liquidmetal Technologies common stock to Growell Metal Co., Ltd. in February 2002, prior to our initial public offering. They also include Mr. Kang's subsequent indirect purchase and disposition of Liquidmetal Technologies common stock in order to satisfy a personal agreement Mr. Kang made to Growell Metal in February 2002 regarding the guaranteed minimum value of the stock purchased by Growell Metal in February 2002 (the purchases and dispositions incident to this agreement occurred in August and November 2002, respectively). Lastly, the transactions include open-market purchases of an aggregate of 89,300 shares of the Company's common stock made by Mr. Kang in August 2002.

The Audit Committee of our Board of Directors conducted an independent inquiry into the above-described transactions with the aid of independent legal counsel and, as a result of such inquiry, the Audit Committee concluded that the transactions should have resulted in a liability to the Company under Section 16(b) in the amount of $302. Mr. Kang has acknowledged this liability, and in an agreement

negotiated between Mr. Kang and the Audit Committee and approved by the full Board, Mr. Kang will pay this liability through periodic installments in 2005 and 2006. As a result, the Company accrued for the $302 receivable in other assets and other income as of December 31, 2004. The above-described transactions involving Growell Metal was reported on a new Form 4 filed by Mr. Kang on November 15, 2004, and the open-market purchases were previously reported on a timely basis in August 2002. As of December 31, 2005, the outstanding amount of the receivable was $235, which is included in other assets. Mr. Kang has paid $67 during 2005. The Company has agreed to defer Mr. Kang's payment schedule until 2006 as Mr. Kang has agreed accept reduced compensation for the remainder of 2005. The remaining outstanding balance of $235 will be due before the end of 2006.

During the year ended December 31, 2005, the Company executed a $198 promissory note with CK Cho, member of our Board of Directors, for working capital purposes. The note was due and paid in full as of June 30, 2005. The note has an annual rate of interest of 6% resulting in the Company paying approximately $2 in interest. Mr. Cho also holds $620 of Senior Convertible Notes and holds 92,584 exercisable warrants as of December 31, 2005. Further, during the year ended December 31, 2005, Mr. Cho advanced approximately $1,260 to cover short-term liquidity needs. The advances were made without interest and were repaid as of December 31, 2005.

During the year ended December 31, 2005, Ricardo Salas, our President and Chief Executive Officer, and Young Ham, our Chief Financial Officer, advanced the company $75 and $133 to cover short-term liquidity needs, respectively. The advances were made without interest and were repaid as of December 31, 2005.

24. Fourth Quarter 2005 Adjustments and Transactions

During the fourth quarter of 2005, the Company wrote-down $260 of primarily raw material inventory considered to be long term as the carrying value of the inventory held as an "Impairment of long-lived assets" in the accompanying Statement of Operations and Comprehensive Loss. While we may use the excess raw materials beyond one year to fulfill future demand, we did not foresee use of this inventory in the foreseeable future as of December 31, 2005 (see Note 6).

Further, the Company amended its third quarter financial statements originally filed on Form 10-Q on December 1, 2005, to properly account for the beneficial conversion feature of the senior convertible notes issued in August 2005. Accounting for this feature resulted in a gain of $982 from the change in value of beneficial conversion feature and an increase to interest expense of $130 from additional amortization of debt discounts related to the revaluation of the beneficial conversion feature of the senior convertible debt issued in August 2005. In addition, the company wrote-down $833 of primarily raw material inventory considered to be long term as the carrying value of the inventory held as an impairment charge. While we may use the excess raw materials beyond one year to fulfill future demand, we did not foresee use of this inventory in the foreseeable future.

25. Subsequent Events

On March 17, 2006, the Company issued a $1,000 10% subordinated promissory note due October 16, 2006 (the "March 2006 Note") to Atlantic Realty Group, Inc., a company controlled by Jack Chitayat, a former director of the Company. The March 2006 Note is unsecured and subordinated to all prior indebtedness of the Company. All accrued interest and unpaid principal under the note will be due October 16, 2006. The proceeds from the March 2006 Note is to be used solely for working capital purposes. In connection with the March 2006 Note, the Company issued warrants to purchase an aggregate amount of up to 125,000 shares of common stock, exercisable at $2.00 per share. The warrants will expire on March 17, 2009, and include price adjustment provisions for anti-dilution purposes. There are no registration rights of the shares issauble from the exercise of the warrants. Further, cashless exercise of the warrants is permitted.

On March 21, 2006, the Company entered into an Amendment to Settlement Agreement (the "Settlement Amendment") with Innometal Co., Ltd., formerly known as Growell Metal Co., Ltd. ("Innometal"). The Company previously entered into a Settlement Agreement with Innometal on January 10, 2004 in satisfaction and settlement of certain outstanding accounts receivable and potential claims between Innometal and the Company (the "Original Settlement Agreement") (see Note 11). Under the Settlement Amendment, Innometal and the Company have agreed that the Company's obligation of $3,331 under the Settlement Agreement will be fully satisfied through the issuance to Innometal of 1,700,000 shares of the Company's common stock. The Company issued 1,700,000 shares to Innometal on March 22, 2006. The shares were issued to Innometal in a private placement exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). Specifically, the shares were issued by virtue of Section 4(2) of the Securities Act in that the issuance did not involve a public offering, Innometal has adequate access to information about the company, and appropriate restrictive legends were affixed to all certificates representing the shares issued to Innometal. The shares received by Innometal under the Settlement Amendment are "restricted securities" within the meaning of Rule 144 under the Securities Act, and Innometal has not been granted any registration rights by the company with respect to such shares.

As an inducement for Innometal to enter into the Settlement Amendment, James Kang, a director and founder of the Company, has entered into a buy-sell agreement with Innometal whereby Mr. Kang has agreed to personally purchase from Innometal, and Innometal

has agreed to sell to Mr. Kang, the 1,700,000 shares issued to Innometal under the Settlement Amendment, with such purchase and sale to take place on October 31, 2006. The aggregate purchase price for the shares payable by Mr. Kang under this buy-sell agreement will be approximately $2,800. In order to secure his obligations under the buy-sell agreement, Mr. Kang has pledged to Innometal 500,000 shares of the Company's common stock currently held by him. Mr. Kang will receive no consideration from the Company in connection with his entering into this buy-sell agreement, and Mr. Kang will not have any registration rights with respect to the shares purchased under the buy-sell agreement.

Schedule II – Valuation and Qualifying Accounts

	Balance at Beginning of Period	Additions Charged to Expenses	Write-offs and Payements	Balance at End of Period
Allowance for doubful accounts				
Year ended December 31, 2005	$ 108	$ (6)	$ (41)	$ 61
Year ended December 31, 2004	127	84	(103)	108
Year ended December 31, 2003	450	(28)	(295)	127
Product warranty accrual				
Year ended December 31, 2005	$ 519	$ 101	$ 14	$ 634
Year ended December 31, 2004	303	288	(72)	519
Year ended December 31, 2003	237	(297)	363	303
Deferred tax asset valuation allowance *				
Year ended December 31, 2005	$ 32,793	$ 783	$ —	$ 33,576
Year ended December 31, 2004	28,866	3,927	—	32,793
Year ended December 31, 2003	25,401	3,465	—	28,866

* The deferred tax asset valuation allowance represents a 100% reserve against the deferred tax asset accounts at December 31, 2005, 2004, and 2003, respectively.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

Securities and Exchange Commission filing fee	$	2,212
Accounting fees and expenses	$	25,000
Legal fees and expenses	$	50,000
Miscellaneous	$	5,000
Total expenses	$	82,212

All of the above fees and expenses will be paid by the Registrant. Other than the Securities and Exchange Commission filing fee, all fees and expenses are estimated.

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law permits the indemnification of officers and directors of the Company under certain conditions and subject to certain limitations. Section 145 also provides that a corporation has the power to purchase and maintain insurance on behalf of its officers and directors against liability asserted against such person and incurred by him or her in such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of Section 145.

In accordance with the provisions of Section 145 of the Delaware General Corporation Law, the Company's bylaws permit the Company to indemnify to the fullest extent permitted under Delaware law any director or officer of the Company. The bylaws further provide for the advancement of expenses as described in Section 145(e) of the Delaware General Corporation Law; for other rights and remedies as described in Section 145(f) of the Delaware General Corporation Law; for the continuation of indemnification of a person who has ceased to be a director or officer; for the extension of the benefits of indemnification to the heirs, executors and administrators of the director or officer; and, upon resolution passed by the Board of Directors, for the purchase and maintenance of insurance as described in Section 145(g).

Furthermore, through Indemnity Agreements with various directors and officers, the Company has, subject to certain conditions and limitations, agreed to indemnify and hold harmless an officer or director if he or she is or was a party, or is threatened to be made a party, to any Action by reason of his or her status as, or the fact that he or she is or was or has agreed to become, a director or officer of the Company, and/or is or was serving or has agreed to serve as a director or officer of an Affiliate (as defined in the Indemnity Agreements), and/or as to acts performed in the course of his or her duty to the Company and/or to an Affiliate, against Liabilities and reasonable Expenses (as defined in the Indemnity Agreements) incurred by or on behalf of the officer or director in connection with any Action (as defined in the Indemnity Agreements), including, without limitation, in connection with the investigation, defense, settlement or appeal of any Action. Also through Indemnity Agreements, the Company has agreed to pay to the officer or director, in advance of the final disposition or conclusion of any Action, the officer or director's reasonable Expenses incurred by or on behalf of the officer or director in connection with such Action, provided that certain conditions are satisfied. Finally, through Indemnity Agreements, the Company has agreed that it may purchase and maintain insurance on behalf of an officer or director against any Liability and/or Expense asserted against him or her and/or incurred by or on behalf of him or her in such capacity as an officer or director of the Company and/or of an Affiliate, or arising out of his or her status as such, whether or not the Company would have the power to indemnify him or her against such Liability or advance of Expenses under the provisions of the Indemnity Agreement or under the Statute as it may then be in effect.

Item 15. Recent Sales of Unregistered Securities.

In the past three years, Liquidmetal Technologies, Inc. (the "Company") has sold unregistered securities in the four transactions described below, all of which were private placements. Each transaction was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) of the Securities Act and, with respect to paragraphs #1 through #4 below, under Rule 506 promulgated thereunder, as such sales and issuances did not involve any public offering, were made without general solicitation or advertising, and each purchaser was an accredited investor with access to all relevant information necessary to evaluate the investment and represented to us that the securities were being acquired for investment.

(1) In March 2004, the Company sold approximately $10 million of 6% Senior Convertible Notes Due 2007 to 27 accredited investors. These notes were convertible at any time into the Company's common stock at a price of $3.00 per share. Investors in this private placement also received warrants to purchase an aggregate amount of up to approximately 1.2 million shares of common stock, exercisable at $3.00 per share for varying periods but no later than 100 days following the effectiveness of the registration statement covering the resale of shares issuable upon exercise of the warrants.

(2) On July 29, 2004, the Company completed a private exchange offer for the notes that were originally issued by the Company on March 1, 2004. Under the terms of the exchange offer, $5.46 million in aggregate principal amount of the prior were exchanged for an aggregate of (i) $2.73 million of 10% Senior Secured Notes Due 2005 (the "July 2005 Notes") and (ii) $2.73 million of 6% Senior Secured Notes Due 2007 (the "July 2007 Notes"). The July 2005 Notes had a maturity date of July 29, 2005, and a conversion price of $2.00 per share. The July 2007 Notes have a maturity date of July 29, 2007, and a conversion price of $1.00 per share.

(3) On June 13, 2005, the Company completed a private placement of 10% Convertible Unsecured Notes Due 2006 (the "June 2006 Notes") in the aggregate principal amount of $3.25 million, together with warrants to purchase up to an aggregate of 893,750 shares of the Company's common stock, to 8 accredited investors. These notes were to become due on the earlier of June 13, 2006 or the consummation of a follow-on equity or debt offering or restructuring transaction pursuant to which the Company received gross proceeds of at least $4.0 million. As part of this private placement, the Company issued warrants to the purchasers of the June 2006 Notes giving them the right to purchase up to an aggregate of 812,500 shares of the Company's common stock. In addition, warrants to purchase 81,250 shares of the Company's common stock were issued to the placement agent in the transaction. The warrants have an exercise price of $2.00 per share and will expire on June 13, 2010.

(4) On August 9, 2005, the Company completed a private placement of $9.9 million in principal amount of new 7% Convertible Secured Promissory Notes due August 2007 (the "August 2007 Notes") to 26 accredited investors. As a part of the private placement, the Company also issued warrants to the purchasers of the August 2007 Notes and the placement agent in the transaction giving them the right to purchase up to an aggregate of approximately 2.9 million shares of Company common stock. The warrants have an exercise price equal to $2.00 per share, and will expire on August 2, 2010.

(5) On March 17, 2006, the Company issued a $1.0 million subordinated promissory note to Atlantic Realty Group, a company controlled by Jack Chitayat (a former director of our company). In connection with this note, we issued to Atlantic Realty a warrant to purchase an aggregate of up to 125,000 shares of our common stock at an exercise price of $2.00 per share.

(6) On March 22, 2006, the Company issued 1.7 million shares to Innometal Co., Ltd., a South Korean company, pursuant to a settlement agreement amendment at an effective acquisition price of $2.01 per share. The shares were issued pursuant to a prior obligation of the Company to issue such shares.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits. See Exhibit Index.

(b) Financial Statement Schedules. Not Applicable.

Item 17. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

EXHIBIT INDEX

Exhibit Number	Document Description
2.1	Agreement and Plan of Merger, dated May 21, 2003, between Liquidmetal Technologies, Inc. and Liquidmetal Technologies *(incorporated by reference to Exhibit 2.1 to the Form 10-Q filed on August 14, 2003).*
3.1	Certificate of Incorporation *(incorporated by reference to Exhibit 3.1 to the Form 10-Q filed on August 14, 2003).*

3.2	Bylaws *(incorporated by reference to Exhibit 3.2 to the Form 10-Q filed on August 14, 2003).*
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Form of Common Stock Certificate *(incorporated by reference to Exhibit 4.2 to the Form 10-Q filed on August 14, 2003).*
5.1	Form of opinion of Foley & Lardner LLP
10.1	Amended and Restated License Agreement, dated September 1, 2001, between Liquidmetal Technologies, Inc. and California Institute of Technology *(incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.2	Improved Property Commercial Lease, dated September 11, 2002, between Liquidmetal Technologies, Inc. and P & S Properties *(incorporated by reference to Exhibit 10.2 of Form 10-K filed on March 31, 2003).*
10.3	Lease, dated October 4, 2001, between Plaza IV Associates, Ltd. and Liquidmetal Technologies, Inc. *(incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.4	Second Amendment of Lease, dated October 3, 2003, between Liquidmetal Technologies, Inc. and Plaza Associates IV, Ltd. *(incorporated by reference to Exhibit 10.1 of Form 10-Q filed on November 14, 2003).*
10.5	Standard Lease, dated May 27, 2001, between Investors Equity Fund, Inc. and Amorphous Technologies International (now known as Liquidmetal Technologies, Inc.) *(incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 on November 20, 2001 (Registration No. 333-73716)).*
10.6*	1996 Stock Option Plan, as amended, together with form of Stock Option Agreement *(incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.7*	2002 Equity Incentive Plan *(incorporated by reference to Exhibit 10.23 to the Registration Statement on Form S-1 (Amendment No. 2) filed on April 5, 2002 (Registration No. 333-73716)).*
10.8*	2002 Non-Employee Director Stock Option Plan *(incorporated by reference to Exhibit 10.24 to the Registration Statement on Form S-1 (Amendment No. 2) filed on April 5, 2002 (Registration No. 333-73716)).*
10.9*	Employment Agreement, dated December 31, 2000, between Liquidmetal Technologies, Inc. and John Kang, as amended by Amendment No. 1 to Employment Agreement, dated June 28, 2001 *(incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.10*	Employment Agreement, dated May 1, 2001, between Liquidmetal Technologies, Inc. and James Kang, as amended by Amendment No. 1 to Employment Agreement, dated June 28, 2001 *(incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 (Amendment No. 2) filed on April 5, 2002 (Registration No. 333-73716)).*
10.11*	Amendment No. 2 to Employment Agreement, dated September 1, 2003, between James Kang and Liquidmetal *Technologies*, Inc. *(incorporated by reference to Exhibit 10.2 of Form 10-Q filed on November 14, 2003).*

Exhibit Number	Document Description
10.12*	Employment Agreement, dated October 1, 2001, between Liquidmetal Technologies, Inc. and William Johnson, Ph.D. *(incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.13*	Employment Agreement, dated October 1, 2001, between Liquidmetal Technologies, Inc., and David Binnie *(incorporated by reference to Exhibit 10.13 to the Form 10-K filed on November 10, 2004).*
10.14*	Employment Agreement, dated November 3, 2004, between Liquidmetal Technologies, Inc. and Tony Chung *(incorporated by reference to Exhibit 10.14 to the Form 10-K filed on November 10, 2004).*
10.15*	Employment Agreement, dated December 31, 2000, between Liquidmetal Technologies, Inc. and T. Scott Wiggins *(incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.16*	Employment Agreement, dated May 21, 2001, between Liquidmetal Technologies, Inc. and Brian McDougall *(incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.17*	Employment Separation Agreement, dated December 31, 2003, between Liquidmetal Technologies, Inc. and Brian McDougall *(incorporated by reference to Exhibit 10.17 to the Form 10-K filed on November 10, 2004).*
10.18*	Letter Agreement, dated February 26, 2004, between Brian McDougall and Liquidmetal Technologies, Inc. *(incorporated by reference to Exhibit 10.18 to the Form 10-K filed on November 10, 2004).*
10.19*	Employment Agreement, December 1, 2002, between Liquidmetal Technologies, Inc. and Thomas Trotter *(incorporated by reference to Exhibit 10.19 to the Form 10-K filed on November 10, 2004).*

10.20*	Employment Separation Agreement, dated November 6, 2003, between Liquidmetal Technologies, Inc. and Thomas Trotter *(incorporated by reference to Exhibit 10.20 to the Form 10-K filed on November 10, 2004).*
10.21*	Separation and Consulting Agreement, dated November 15, 2001, between Liquidmetal Technologies, Inc. and Shekhar Chitnis, together with Consulting Agreement attached as Exhibit A *(incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 (Amendment No. 2) filed on April 5, 2002 (Registration No. 333-73716)).*
10.22	Warrant for Purchase of Shares of Common Stock, dated February 21, 2001, granted by Liquidmetal Technologies, Inc. to John Kang and Ricardo Salas *(incorporated by reference to Exhibit 10.18 to the Registration* Statement *on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.23	Warrant for Purchase of Shares of Common Stock, dated February 21, 2001, granted by Liquidmetal Technologies, Inc. to Tjoa Thian Song *(incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.24	Non-Qualified Stock Option Agreement, dated January 1, 2001, between Liquidmetal Technologies, Inc. and Paul Azinger *(incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)).*
10.25	Foreign Corporation Lease Zone Occupancy (Lease) Agreement, dated March 5, 2002, between Kyonggi Local Corporation and Liquidmetal Korea Co., Ltd. *(incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 (Amendment No. 2) filed by Liquidmetal Technologies on April 5, 2002 (Registration No. 333-73716)).*
10.26	Credit Service Agreement, dated February 2003, between Liquidmetal Korea Co., Ltd. and Kookmin Bank *(incorporated by reference to Exhibit 10.20 to the Form 10-K filed on March 31, 2003).*
10.27	Agreement for Rent dated February, 2003, between Liquidmetal Korea Co., Ltd. and Dong Myung Seo Bank *(incorporated by reference to Exhibit 10.21 to the Form 10-K filed on March 31, 2003).*
10.28	Share Transfer Agreement, dated February 28, 2004, among Liquidmetal Korea Co. Ltd., Sun Joo Ho, and Dongyang Induction Co. Ltd. *(incorporated by reference to Exhibit 10.28 to the Form 10-K filed on November 10, 2004).*
10.29	Settlement Agreement, dated January 10, 2004, between Liquidmetal Korea Co., Ltd. and Growell

Exhibit Number	Document Description
	Metal Co., Ltd. *(incorporated by reference to Exhibit 10.29 to the Form 10-K filed on November 10, 2004).*
10.30	Amended and Restated Securities Purchase Agreement, dated March 1, 2004, among Liquidmetal Technologies, Inc., Michigan Venture Capital Co., Ltd., and the investors identified as “Purchasers” therein *(incorporated by reference to Exhibit 10.1 to the Form 8-K filed on July 2, 2004).*
10.31	Form of 6% Senior Convertible Note issued under Amended and Restated Securities Purchase Agreement *(incorporated by reference to Exhibit 10.2 to the Form 8-K filed on July 2, 2004).*
10.32	Registration Rights Agreement, dated March 1, 2004, among Liquidmetal Technologies, Inc. and the purchasers under Amended and Restated Securities Purchase Agreement *(incorporated by reference to Exhibit 10.3 to the Form 8-K filed on July 2, 2004).*
10.33	Common Stock Purchase Warrant, dated March 1, 2004, granted by Liquidmetal Technologies, Inc. to Michigan Venture Capital Co., Ltd. *(incorporated by reference to Exhibit 10.4 to the Form 8-K filed on July 2, 2004).*
10.34	Factory Mortgage Agreement, dated March 1, 2004, among Liquidmetal Korea Co., Ltd., Michigan Venture Capital Co., Ltd., and the other parties identified therein *(incorporated by reference to Exhibit 10.5 to the Form 8-K filed on July 2, 2004).*
10.35	Securities Purchase Agreement, dated March 1, 2004, among Liquidmetal Technologies, Inc. and the investors identified as “Purchasers” therein *(incorporated by reference to Exhibit 10.6 to the Form 8-K filed on July 2, 2004).*
10.36	Form of 6% Senior Convertible Note issued under Securities Purchase Agreement *(incorporated by reference to Exhibit 10.7 to the Form 8-K filed on July 2, 2004).*
10.37	Registration Rights Agreement, dated March 1, 2004, among Liquidmetal Technologies, Inc. and the purchasers under Securities Purchase Agreement *(incorporated by reference to Exhibit 10.8 to the Form 8-K filed on July 2, 2004).*
10.38	Form of Common Stock Purchase Warrant granted to purchasers under Securities Purchase Agreement *(incorporated by reference to Exhibit 10.9 to the Form 8-K filed on July 2, 2004).*
10.39	Form of Placement Agent Common Stock Purchase Warrant, dated March 1, 2004 *(incorporated by reference to Exhibit 10.10 to the Form 8-K filed on July 2, 2004).*
10.40	Security Agreement, dated March 1, 2004, between Liquidmetal Technologies, Inc. and Middlebury Capital LLC, as agent *(incorporated by reference to Exhibit 10.11 to the Form 8-K filed on July 2, 2004).*
10.41	Note Exchange Agreement, dated July 29, 2004, among Liquidmetal Technologies, Inc. and certain individuals identified as

"Noteholders" therein *(incorporated by reference to Exhibit 10.1 to the Form 8-K filed on August 20, 2004).*

10.42 Form of 10% Senior Secured Notes Due 2005 of Liquidmetal Technologies, Inc. issued pursuant to Note Exchange Agreement filed as Exhibit 10.2 hereto *(incorporated by reference to Exhibit 10.2 to the Form 8-K filed on August 20, 2004).*

10.43 Form of 6% Senior Security Note Due 2007 of Liquidmetal Technologies, Inc. issued pursuant to Note Exchange Agreement filed as Exhibit 10.3 hereto *(incorporated by reference to Exhibit 10.3 to the Form 8-K filed on August 20, 2004).*

10.44 Note Exchange Agreement, dated July 29, 2004, among Liquidmetal Technologies, Inc and Winvest Venture *Partners* Inc. *(incorporated by reference to Exhibit 10.4 to the Form 8-K filed on August 20, 2004).*

10.45 10% Senior Secured Notes Due 2005 of Liquidmetal Technologies, Inc. issued to Winvest Venture Partners Inc. *(incorporated by reference to Exhibit 10.5 to the Form 8-K filed on August 20, 2004).*

10.46 Form of 6% Senior Security Note Due 2007 of Liquidmetal Technologies, Inc. issued to Winvest Venture Partners Inc. *(incorporated by reference to Exhibit 10.6 to the Form 8-K filed on August 20, 2004).*

Exhibit Number	Document Description
10.47*	Employment Agreement, dated January 14, 2005, between Liquidmetal Technologies, Inc. and John Thorne (*incorporated by reference from Exhibit 10.47 of the Registrant's 10-K filed on 03/30/05).*
10.48	Securities Purchase Agreement dated August 2, 2005, among Liquidmetal Technologies, Inc. and the parties identified as "Purchasers" therein (*incorporated by reference from Exhibit 10.1 of the Registrant's 10-Q/A filed on 08/30/05)*
10.49	Form of 7% Senior Secured Convertible Note of Liquidmetal Technologies, Inc., dated August 2, 2005 (*incorporated by reference from Exhibit 10.2 of the Registrant's 10-Q/A filed on 08/30/05)*
10.50	Form of Common Stock Purchase Warrant, dated August 2, 2005 (*incorporated by reference from Exhibit 10.3 of the Registrant's 10-Q/A filed on 08/30/05)*
10.51	Amended and Restated Registration Rights Agreement, dated August 2, 2005, among Liquidmetal Technologies, Inc. and the parties identified as "Purchasers" therein (*incorporated by reference from Exhibit 10.4 of the Registrant's 10-Q/A filed on 08/30/05)*
10.52	Amended and Restated Security Agreement, dated August 2, 2005, among Liquidmetal Technologies, Inc. and the parties identified as the "Secured Parties" therein (*incorporated by reference from Exhibit 10.5 of Registrant's 10-Q/A filed on 08/30/05)*
10.53*(1)	Employment Separation Agreement, dated September 30, 2005, between Liquidmetal Technologies, Inc. and David G. Binnie
10.54	Securities Purchase Agreement, dated June 13, 2005, among Liquidmetal Technologies, Inc. and the parties identified as "Purchasers" therein (*incorporated by reference from Exhibit 99.1 of the Registrant's 8-K filed on 06/16/05)*
10.55	Form of 10% Convertible Unsecured Note of Liquidmetal Technologies, Inc. due June 2006 (*incorporated by reference from Exhibit 99.2 of the Registrant's 8-K filed on 06/16/05)*
10.56	Form of Common Stock Purchase Warrant, dated June 13, 2005 (*incorporated by reference from Exhibit 99.3 of the Registrant's 8-K filed on 06/16/05)*
10.57	Registration Rights Agreement, dated June 13, 2005, among Liquidmetal Technologies, Inc. and the parties identified as "Purchasers" therein (*incorporated by reference from Exhibit 99.4 of the Registrant's 8-K filed on 06/16/05)*
10.58	Agreement, dated November 3, 2004, between Liquidmetal Technologies, Inc. and John Kang relating to liability under Section 16(b) *(incorporated by reference from Exhibit 10.58 to the Form 10-K filed on March 16, 2006).*
10.59	Form of Indemnity Agreement between Liquidmetal Technologies, Inc. and directors and executive officers *(incorporated by reference from Exhibit 10.59 to the Form 10-K filed on March 16, 2006).*
10.60	Factoring, Loan, and Security Agreement, dated April 21, 2005, between Liquidmetal Technologies, Inc. and Hana Financial, Inc. and Amendment #1 to Factoring, Loan, and Security Agreement, dated January 27, 2006, between Liquidmetal Technologies, Inc. and Hana Financial, Inc.
10.61	10% Subordinated Promissory Note Due October 16, 2006 of Liquidmetal Technologies, Inc., dated March 17, 2006, issued to Atlantic Realty Group, Inc.
10.62	Warrant for Purchase of Shares of Common Stock, dated March 17, 2006, granted by Liquidmetal Technologies, Inc. to Atlantic Realty Group, Inc.
10.63	Amendment to Settlement Agreement, dated March 21, 2006, between Liquidmetal Technologies, Inc. and Innometal Co., Ltd.
10.64	Employment Agreement, dated April 19, 2006, between Liquidmetal Technologies, Inc. and Ricardo Salas.
10.65	Consulting Agreement, dated April 12, 2006, between Liquidmetal Technologies, Inc. and William Johnson.

21.1	Subsidiaries of the Registrant. *(incorporated by reference from Exhibit 21 to the Form 10-K filed on November 10, 2004).*
23.1	Consent of Registered Independent Public Accounting Firm, Choi, Kim & Park, LLP.
23.2	Consent of Registered Independent Public Accounting Firm, Stonefield Josephson, Inc.
23.3	Consent of Foley & Lardner, LLP (filed as part of Exhibit (5)).

Exhibit Number	Document Description
24	Power of Attorney relating to subsequent amendments (included on the signature page to this Registration Statement)

* Denotes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this S-1.

(1) Previously filed.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Lake Forest, State of California, on April 19, 2006.

LIQUIDMETAL TECHNOLOGIES, INC.

By: /s/ Ricardo A. Salas
Ricardo A. Salas
President and Chief Executive Officer

Signature	Title	Date
/s/ Ricardo A. Salas Ricardo A. Salas	President, Chief Executive Officer and Director	April 19, 2006
/s/ John Kang John Kang	Chairman and Director	April 19, 2006
/s/ Young Ham Young Ham	Chief Financial Officer (Principal Financial and Accounting Officer)	April 19, 2006
* James Kang	Director and Founder	April 19, 2006
* Bobb Biehl	Director	April 19, 2006
* CK Cho	Director	April 19, 2006
* William Johnson, Ph.D.	Director	April 19, 2006
* Vincent Addonisio	Director	April 19, 2006
* Dean Tanella	Director	April 19, 2006

* By: /s/ John Kang
John Kang
Attorney-in-Fact

Exhibit 5.1

FOLEY & LARDNER LLP
ATTORNEYS AT LAW
100 NORTH TAMPA STREET, SUITE 2700
TAMPA, FL 33602-5810
P.O. BOX 3391
TAMPA, FL 33601-3391
813.229.2300 TEL
813.221.4210 FAX
www.foley.com

April , 2006

Liquidmetal Technologies, Inc.
25800 Commercentre Drive, Suite 100
Lake Forest, California 92630

Gentlemen:

You have requested our opinion with respect to certain matters in connection with the filing by Liquidmetal Technologies, Inc. (the "Company") of a Registration Statement (No. 333-130251) on Form S-1 (as amended, the "Registration Statement"), with the Securities and Exchange Commission (the "Commission"), including a related prospectus to be filed with the Commission pursuant to Rule 424(b) of Regulation C (the "Prospectus") under the Securities Act of 1933, as amended, and the sale from time to time by the selling stockholders named in the Registration Statement (the "Selling Stockholders") of up to 11,448,998 shares of the Company's common stock, par value $0.001 per share, (the "Shares"), in the manner set forth in the Registration Statement. The Shares consist of 11,448,998 shares of common stock issuable upon the exercise or conversion of the notes, warrants, and option described in the Registration Statement.

In connection with this opinion, we have examined and relied upon the Registration Statement and related Prospectus; the Company's Certificate of Incorporation; the Company's Bylaws; and minutes, resolutions and records of the Company's Board of Directors authorizing the issuance of the notes, warrants, and option subject to the Registration Statement, together with certain related matters, and we have considered such matters of law and of fact, including the examination of originals or copies, certified or otherwise identified to our satisfaction, of such records, documents, certificates, and other instruments of the Company, certificates of officers, directors and representatives of the Company, certificates of public officials, and such other documents as in our judgment are necessary or appropriate to enable us to render the opinion expressed below. We have assumed the genuineness and authenticity of all documents submitted to us as originals, the conformity to originals of all documents submitted to us as copies thereof, and the due execution and delivery of all documents where due execution and delivery are a prerequisite to the effectiveness thereof.

The opinions set forth in this letter are limited solely to the federal laws of the United States of America, and we express no opinion as to the laws of any other jurisdiction. This letter has been prepared and is to be construed in accordance with the Reports on Standards for Opinions of Florida Legal Counsel for Business and Real Estate Transactions (September 1998) (the "Report") and the Report is incorporated by reference in this letter.

Based upon the foregoing, and in reliance thereon, we are of the opinion that the Shares covered by the Registration Statement that are to be offered and sold from time to time by the Selling Stockholders have been duly authorized and, when the Shares have been issued in accordance with the terms of the applicable agreements, upon receipt of the consideration contemplated thereby, will be validly issued, fully paid and nonassessable. We consent to the reference to our firm under the caption "Legal Matters" in the Prospectus included in the Registration Statement and to the filing of this opinion as an exhibit to the Registration Statement. In giving our consent, we do not admit that we are "experts" within the meaning of Section 11 of the Securities Act or within the category of persons whose consent is required by Section 7 of the Securities Act.

Very truly yours,

FOLEY & LARDNER LLP

By: ____________________________

Exhibit 10.60

FACTORING, LOAN & SECURITY AGREEMENT

This Factoring, Loan and Security Agreement (this "Agreement"), dated and effective as of the Effective Date, and entered into between Hana Financial, Inc., a California corporation, with offices at 1055 Wilshire Blvd., Los Angeles, CA 90017, Telecopy No.: (213) 482-1212 ("Hana"), and Liquidmetal Technologies, Inc., a Delaware corporation, whose address is 25800 Commercentre Drive, Suite 100, Lake Forest, CA 92630, Telecopy No.: (949) 206-8088 ("Client"). Certain capitalized terms used herein will have the meanings assigned to such terms in Section 12 of this Agreement.

WHEREAS, Client has requested and Hana has agreed to purchase all of Client's Accounts, issue factor and supplier guaranties and provide certain services; and

NOW, THEREFORE, in consideration of the agreements, provisions, and covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Client and Hana agree as follows:

SECTION 1. Sale and Approval of Accounts

1.1 Client hereby agrees to sell, assign and transfer to Hana, and Hana hereby agrees to purchase, all of Client's Accounts, with full power to Hana to collect and otherwise deal with such Accounts as the sole and exclusive owner thereof. Hana will purchase an Account on the shortest selling terms for the Purchase Price thereof upon receipt by Hana of the invoice copy evidencing such Account.

1.2 (a) Client will submit for Hana's credit approval the credit requirements of Client's customers, a description of Client's normal selling terms and such other Information as Hana requests concerning Client's customers. Hana may, in Hana's sole credit judgment, establish credit lines for sales to Client's customers on Client's normal selling terms or on other selling terms approved by Hana by Written Notice and/or Transmission. Client may also submit for Hana's credit approval specific orders from Client's customers and Hana may, in Hana's sole credit judgment, approve such orders on a single order credit approval basis. All of Hana's credit approvals will be by Written Notice to Client. All sales to a customer within the credit line established for such customer on Client's normal selling terms or within the single order credit approvals given by Hana for orders from such customer will be Approved Accounts provided that: (i) Delivery is completed while the credit line or single order credit approval remains in effect and (ii) the Account is assigned to Hana within thirty (30) days of Delivery and (iii) the Account is not past due at the time of assignment.

(b) Hana may amend or withdraw a credit line or single order credit approval at any time prior to Delivery by notifying Client verbally and/or by Written Notice. A single order credit approval will be automatically withdrawn: (i) in the event Delivery is not made on or prior to the expiration date indicated on the single order credit confirmation form Hana sends to Client by Written Notice; or (ii) in the event any change is made in any of the terms of the Account without Hana's prior approval by Written Notice.

(c) Hana will have no liability to Client or to any customer for Hana's refusal to credit approve an Account or Hana's withdrawal or amendment of a credit approval.

1.3 Hana will assume only Eighty Percent (80%) of the Credit Risk on all Approved Accounts which means that Hana shall indemnify the Client for only Qualifying Losses incurred in connection with Eligible Receivables and directly caused by the failure of the Customer to pay the Client all or part of the Net Invoice Value of the Eligible Receivable(s) due to the Insolvency of the Customer, such Insolvency having occurred during the Agreement or within six (6) months thereafter. The amount payable by Hana will be calculated in accordance with Section 7, Proof and Payment of Claims, and will be subject always to the Deductible, Financing Limits and other applicable terms and conditions of the Agreement.

1.4 In the event that monies are at any time owing by a Customer for both Approved Accounts and Non-Approved Accounts, any amount when paid by or credited to the customer will be applied as follows:

(a) If Hana issued single order approvals, all amounts paid by or credited to the customer will be deemed applied first to Approved Accounts.

(b) If Hana established a credit line for such Customer and if the credit line was in force at the time amounts were received from or credited to the customer, such amounts will be deemed applied first to Non-Approved Accounts. If the credit line is canceled, any amount thereafter received or credited will be deemed applied first to Approved Accounts.

1.5 If a bankruptcy or insolvency proceeding is instituted by or against a Customer and if Hana agrees by Written Notice to Client to make a claim in such proceeding for Non-Approved Accounts, all amounts distributed to Hana in such proceeding will be shared pro rata between Approved Accounts and Non-Approved Accounts.

SECTION 2. Advances, Payments, Commissions and Fees.

2.1 (a) Subject to the terms and conditions of this subsection and this Agreement and provided that there does not exist a Default or an Event of Default and in reliance upon Client's representation and warranties herein set forth, Hana may, upon Client's request, and in Hana's sole discretion, make advances to Client or for Client's account against the Purchase Price of Eligible Accounts in amounts determined by Hana, in Hana's sole discretion, of up to the following percentage of the Purchase Price of such Accounts:

(i) if the Eligible Account is an Approved Account, Hana may advance to Client up to **eighty percent (80%)** of the Purchase Price of such Approved Account;

(ii) if the Eligible Account is a Non-Approved Account, Hana may advance to Client up to **thirty percent (30%)** of the Purchase Price of such Non-Approved Account.

(b) Hana shall establish and may adjust, in its sole discretion, standards to determine whether an Account purchased by Hana is eligible for an Advance ("Eligible Account(s)") and the percentage rate of such Advance at such time as Client requests an Advance. Each such increase or decrease in the

percentage rate or amount of any Advance shall become effective immediately for the purposes of calculating availability

of Advances herein.

(c) Without limiting the generality of the foregoing, the following Accounts are not Eligible Accounts:

(i) Accounts which are Non-Approved Accounts and which Hana deems, in its sole discretion, to be ineligible; and

(ii) Accounts with respect to which the customer is an Affiliate of Client's or a director, officer, agent, stockholder, or employee of Client's or any of Client's Affiliates; and

(iii) Accounts with respect to which there is any Dispute with the respective customer; and

(iv) any Account with respect to which the customer is a person to which Client is indebted, provided, however, that any such Account shall only be ineligible as to that portion of such Account which is less than or equal to the amount owed by Client to such person; and

(v) Accounts which have been charged back to Client pursuant to Sections 6.1, and 6.4 hereof; and

(vi) cash-on-delivery Accounts; and

(vii) cash sale Accounts; and

(viii) Approved Accounts arising from sales to a single customer, in the aggregate, in excess of an amount equal to **thirty percent (30%)** of the total Net Amount of all Accounts from all customers outstanding at such time **five hundred thousand dollars ($500,000.00)**; and

(ix) Non-Approved Accounts arising from sales to a single customer, in the aggregate, in excess of an amount equal to **fifteen percent (15%)** of the total Net Amount of all Accounts from all customers outstanding at such time **one hundred fifty thousand dollars ($150,000.00)**; and

(x) Non-Approved Accounts that are **thirty (30)** or more days past due; and

(xi) All Non-Approved Accounts from any single customer if **forty percent (40%)** or more of such customer's outstanding Accounts are **forty five (45)** or more days past due; and

(xii) Accounts due from a customer whose principal place of business is located outside the United States of America or Canada that are not covered by a letter of credit, in acceptable form to Hana, in its sole discretion or which are not otherwise Approved Accounts.

(d) Hana does not intend to make any advances on any Non-Approved Accounts to the extent any such advance would cause the aggregate amount of

outstanding advances with respect to Non-Approved Accounts to exceed **five hundred thousand dollars ($500,000.00)**; and Hana does not intend to make any advances on any Accounts to the extent any such advance would cause the aggregate amount of outstanding Obligations to exceed **one million five hundred thousand dollars ($1,500,000.00)** (the "Credit Limit").

(e) Notwithstanding the foregoing, in no event shall the total of outstanding Advances at any one time exceed the Credit Limit. To the extent that the total of aggregate outstanding Advances exceeds the Credit Limit, Client shall pay to Hana upon its demand any and all amounts necessary to reduce the aggregate outstanding Advances to or below the Credit Limit.

2.2 As payment for an Account, the Collected Amount of the Purchase Price of an Account will be credited to Client's account as of the Collection Date and disbursed to Client on the Remittance Date. The payments, when credited to Client's account, shall first be applied to all advances, interest, and other amounts due Hana hereunder. If an Approved Account remains partially or fully unpaid solely as a result of the financial inability of the customer thereon to pay such Approved Account and if such Account is not subject to a Dispute, the Purchase Price of such Approved Account less any Collected Amounts previously credited to Client's account with respect to such Approved Account and less advances, interest and any other amounts due Hana will be credited to Client's account on the Approved Payment Date for such Approved Account.

2.3 At the time Hana purchases an Account, Hana will charge Client's account with a factoring commission equal to **sixty five hundredths of a whole percent (0.65%)** of the Net Amount of the Approved Accounts plus the Surcharge Amount, as applicable. At the time Hana purchases an Account, Hana will charge Client's account with a factoring commission equal to **sixty five hundredths of a whole percent (0.65%)** of the Net Amount of the Non-Approved Accounts. On Accounts bearing payment terms in excess of sixty (60) days, the factoring commission will be increased by one quarter of one percent (0.25%) for each thirty (30) days or part thereof that the stated terms exceed sixty (60) days.

2.4 During each Contract Year, Client agrees to pay to Hana factoring commissions aggregating at least **thirty thousand dollars ($30,000.00)** ("Minimum Annual Commission"). If at the end of any Contract Year the aggregate of factoring commissions paid by Client is less than the Minimum Annual Commission, then Client shall pay to Hana, or Hana may charge Client's account with, an amount equal to the difference between the Minimum Annual Commission and the factoring commissions actually paid during that Contract Year. If Client terminates this Agreement at any time during a Contract Year or if Hana terminates this Agreement at any time during a Contract Year upon the occurrence of an Event of Default, Client shall nevertheless remain obligated to pay the Minimum Annual Commission for such Contract Year.

2.5 Client will pay to Hana or Hana may charge Client's account with (i) wire transfer fees on all wire transfers; (ii) all data transmission telephone charges relating to Transmissions; (iii) exchange on checks, charges for returned items and all other bank charges; (iv) all Costs; (v) all other amounts owing by Client to Hana under the Agreement; and (vi) all other Obligations.

2.6 Client will pay to Hana or Hana may charge Client's account a fee for each new

customer set-up on our data base, as follows: (i) a fee of $10.00 will be charged when you submit an order or invoice for any customer that has not had any activity with us for at least eighteen (18) months prior thereto and is not established in our files; and (ii) a fee of $5.00 will be charged when you submit an order or invoice for any customer that has not had any activity with us for at least eighteen (18) months, but has been active during such period with respect to other clients of ours; provided, however, that no fees will be charged for new customers set-up during the first six (6) months from the Effective Date of this Agreement.

2.7. Proof and Payment of Claims and Recoveries

A. Payment by Hana for Qualifying Losses shall be calculated as follows, subject always to the Deductible, if any, Financing Limit, and other applicable terms and conditions of the Agreement:

a) Calculate the amount of the Qualifying Loss.

b) Subtract the Non Qualifying Loss and the Deductible, if any from the amount of the Qualifying Loss.

c) Should the sum be equal to a number less than 0, then no payment shall be made by Hana.

B. The payment for a Qualifying Loss shall be made promptly, in either U.S. Dollars or in Contract Currency at Hana's sole option, after the submission by the Client of a satisfactory written proof of Loss together with evidence that the Customer is Insolvent.

For the purpose of any calculation required in the settlement of a Qualifying Loss, the rate of exchange shall be the rate as offered on the date of such settlement by a commercial bank selected by Hana.

C. The responsibility for proving a Qualifying Loss under this Agreement and evidencing that all conditions and warranties have been complied with shall at all times rest with the Client.

D. For the purpose of determining Hana's liability under this Agreement, all funds or salvage received from the Customer, or from any other source whatsoever as or towards payment of the Customer's obligations to the Client after the Customer is in default of any payment obligation to the Client for more than one hundred twenty (120) days, or is Insolvent, whichever happens first, shall be applied in chronological order of due dates until Hana indemnifies the Client for the Qualifying Loss.

The application of funds described in this paragraph shall apply regardless of any designation of funds by the Customer or any other party unless specifically agreed in writing by Hana.

After payment of a Qualifying Loss, any such funds or salvage shall be immediately paid to Hana and shared between Hana and the Client as follows:

1. Hana shall receive the Client Percentage of all sums recovered, and the Client shall receive the remaining percentage of such sums, until the amount of Hana's payment of a Qualifying Loss and Hana's cost of recovery have been fully reimbursed;

2. All further sums recovered shall inure to the benefit of the Client.

This paragraph does not apply to any funds received in payment for goods shipped to a "debtor in possession."

E. Sums recovered in respect of any Qualifying Loss retained by the Client under the Deductible shall reinstate the Deductible by the same amount.

F. In the event of any payment of a Loss under this Agreement, Hana shall be subrogated to all of the Client's rights of recovery therefore against any person or organization, and the Client shall execute and deliver all instruments and papers and do whatever else is necessary to secure such rights, including rights with respect to amounts that have been applied to the Deductible. Hana shall have the right to direct the manner in which such assets shall be liquidated. The Client shall do nothing to prejudice such rights.

It shall be a condition to the obligation of Hana to make any payment of a Qualifying Loss under this Agreement that the receivables to which it shall be subrogated shall not be subject to any lien, security interest or other third party claim superior to that of Hana.

2.8 Hana shall charge Client for each audit Hana or Hana's agent performs on behalf of Client, at reasonable industry rates at that time, together with out-of-pocket expenses.

2.9 Exclusions

A. Losses caused by or resulting from the following shall not constitute Qualifying Losses and are not covered under this Agreement:

1. Wrongful or dishonest acts or omissions of the Client or its agents;

2. Any material breach of or inaccuracy regarding any warranty or representations made herein or failure to perform or to fulfill any warranty, covenant or agreement made herein by the Client;

3. Nuclear reaction or nuclear radiation or radioactive contamination;

4. War (i) between the People's Republic of China, France, the United Kingdom, states of the former Soviet Union, and/or the United States of America; and/or (ii) between the Customer's country and the country of the Client.

B. Losses relating to any of the following Customers and/or receivables shall not constitute Qualifying Losses and are not covered under this Agreement:

1. Any Customer that, as of the first day of the Agreement, is Insolvent or past due in any payment obligations to the Client unless

(a) the total aggregate amount of such past due payment obligations does not exceed the Non Qualifying Loss Amount (payment obligations that are disputed by the Customer in writing will not be considered past due for the purposes of this paragraph); or

(b) the Agreement is renewed, in which case the Client must disclose to Hana on the renewal date if any particular Customer is Insolvent or past due in any payment obligation to the Client at the time of the renewal. If the Client fails to make such a disclosure, then any and all shipments to that particular Customer will be automatically excluded from coverage of the Qualifying Losses under the Agreement. If the Client makes the disclosures required herein, then the provisions herein will be extended to that Customer unless that Customer is specifically excluded by Hana;

2. Any Customer with which the Client has, during the twelve (12) months immediately prior to the first day of the Agreement, rescheduled or extended the due date of any amounts owing for larger than the Maximum Extension Period unless coverage for such Customer is specifically approved by Hana;

3. Any Customer about which the Client knowingly provided inaccurate information to Hana. If the inaccurate information was based on the representation or statements of third parties and was true to the best knowledge of the Client after a reasonable investigation, this exclusion shall not apply;

4. Any receivables that are sold or otherwise transferred by the Client to any other person or entity, unless otherwise agreed in writing by Hana;

5. Any receivables that are past due as of the inception date of this Agreement.

6. Sales made on terms of Confirmed or Unconfirmed Irrevocable Letter of Credit.

7. Sales made on terms of Cash in Advance or Cash on Delivery.

SECTION 3. Factor/Supplier Guaranties and Ledger Debt

3.1 The Factor/Supplier Guaranty facility shall be subject to the following terms and conditions:

(a) Subject to the terms and conditions of this Agreement and provided that there does not exist a Default or an Event of Default and in reliance upon Client's representations and warranties herein set forth and provided that there exists sufficient

Factor/Supplier Availability, Hana may issue guaranties ("Factor/Supplier Guaranties") to factors and certain of Client's domestic and foreign suppliers.

(b) The Factor/Supplier Guaranties shall be issued for valid purchases of merchandise. Client shall furnish Hana with the application for issuance of each guarantee. Hana may issue a Factor/Supplier Guaranty in connection with each such application if such application, including the amount and all terms of the Factor/Supplier Guaranty to be issued, shall be acceptable to Hana, in its sole discretion and so long as each Factor/Supplier Guaranty has an expiration date which is at least thirty (30) days before the Termination Date.

(c) No extensions, modifications or amendments to a Factor/Supplier Guaranty shall be made without Hana's prior written consent.

(d) Hana's Factor/Supplier Guaranties shall in no way be construed to create any liability, obligation, warranty or representation on Hana's part with respect to any matter other than Client's payment at maturity of the invoices to which such Factor/Supplier Guaranties relate.

(e) Client shall, on demand, reimburse Hana for any and all sums paid by Hana in any way relating to the factor/Supplier Guaranties and Client shall indemnify Hana and hold Hana harmless from and against any and all liability, loss, costs, fees and expenses, including reasonable attorneys' fees, that Hana may sustain or incur based upon, arising under, or in any way relating to the Factor/Supplier Guaranties provided; however, that the foregoing indemnity shall not apply to any liabilities, losses , costs, fees and expenses sustained or incurred by Hana solely from Hana's gross negligence or willful misconduct. Client's obligation to reimburse and indemnify Hana shall be conclusive but shall not prejudice any rights Client may have against any other person in the event that Client disputes liability of amounts owing under invoices subject to a Factor/Supplier Guaranty

(f) As compensation for the issuance of Factor/Supplier Guarantees, Client shall pay to Hana the Factor/Supplier Guaranty Fee upon issuance of each Factor/Supplier Guaranty issued.

3.2 Hana may, in its sole discretion, approve credits for Client, in amounts determined from time to time by Hana, to enable Client to purchase goods or services from other factoring clients of Hana. There would be no charge for such credit approval to the extent that Client did not pay ledger debt when due. All indebtedness owing by Client for purchases from other factoring clients of Hana is hereafter referred to as "Ledger Debt". The aggregate amount of Ledger Debt outstanding at any time shall not exceed the Ledger Debt Availability. Hana would have the right to pay such amounts and to charge such payments to Client's account.

3.3 In no event shall the total amount of outstanding Advances, Factor/Supplier Guaranties, and Ledger Debt, and any other Obligations exceed the Credit Limit. To the extent that, at any time, the foregoing limit is exceeded, Client shall pay on demand and all amounts necessary to reduce the aggregate outstanding Obligations to or below the Credit Limit.

SECTION 4. Interest and Collection Clearance Charges

4.1 Client will pay Hana interest on the Daily Balance. Interest will be calculated daily at a rate equal to the sum of **two whole percent (2.0%)** plus the Base Rate (the "Interest Rate") and will be paid by Client or charged to Client's account monthly at the end of each month. The Interest Rate will also be charged to Client on all other obligations, except those specifying a different rate, from the date incurred through the date paid. Any publicly announced decrease or increase in the Base Rate will result in an adjustment to the Interest Rate on the next business day. After the occurrence of an Event of Default and for so long as such Event of Default continues, all the Obligations will, at Hana's option, bear interest at a rate per annum equal to five percent (5.0%) plus the Interest Rate. Interest will be calculated on the basis of a 360-day year for the actual number of days elapsed. In no event will the total amount of interest received by Hana exceed the maximum rate permitted by applicable law and in the event excess interest is determined by a court of competent jurisdiction to have been paid by Client to Hana, such excess interest will be applied as a credit against the outstanding Obligations and Client will not have any action against Hana for any damages arising out of the payment or collection of such excess interest.

4.2 If an Account or any payment is charged back to Client after the Collection Date or Approved Payment Date, as applicable, Client will pay Hana interest at the Interest Rate on the Net Amount of such Account or on such payment from such date to the charge back date.

4.3 To allow for collection clearance on all checks and other payments remitted by Client's customers, Client will, in addition to interest, pay Hana a collection clearance charge computed as follows: (a) total cash collections for the day, multiplied by (b) **four (4)** business days, multiplied by (c) the Interest Rate, divided by (d) 360 days.

SECTION 5. Representations, Warranties and Covenants

5.1 Client represents, warrants and covenants as to each Account that, at the time of its creation, the Account is a valid, bona fide account, representing an undisputed indebtedness incurred by the named customer for goods actually sold and delivered; there are no setoffs, offsets or counterclaims, genuine or otherwise, against the Account; the Account does not represent a sale to any of Client's subsidiaries, affiliates, directors, officers, agents, stockholders, or employees, or a consignment, guaranteed sale, or bill and hold transaction, or a cash on delivery sale; no agreement exists permitting any deduction or discount (other than the discount stated on the invoice); Client is the lawful owner of the Account and has the right to sell and assign the same to Hana; the Account is free of all security interests, liens and encumbrances (including tax liens) other than those in favor of Hana, and the Account is due and payable in accordance with its terms.

5.2 Client represents, warrants and covenants that there are no liens on any of the collateral security described in Section 8 of this Agreement as of the Effective Date of this Agreement, and if, at any time, there is any lien that is senior to Hana's lien on the collateral security, Client will take all actions necessary to subordinate the lien so that the lien is junior to Hana's lien on the collateral security.

5.3 Client will not grant or suffer to exist in favor of any party other than Hana any lien upon or security interest in Client's inventory.

5.4 Client will maintain or cause to be maintained in good repair, working order, and condition all material properties used in Client's business and will make or cause to be made all appropriate repairs, renewals, and replacements thereof. Client has and will maintain or cause to be maintained, with financially sound and reputable insurers, public liability, product liability, and property damage insurance with respect to Client's business and properties against loss or damage of the kinds customarily carried or maintained by corporations of established reputation engaged in similar businesses and in amounts reasonably acceptable to Hana, including business interruption insurance. At all times Client shall have and maintain insurance with respect to all Inventory, to the fullest extent of the insurable value thereof, against risks of fire, theft, sprinklers, and such other risks as Hana may require, in such form, for such periods, and written by such insurers as may be reasonably satisfactory to Hana, such insurance to bear endorsements, in form acceptable to Hana, naming Hana as additional insured and designating Hana as loss payee. Client shall deliver to Hana promptly as rendered true copies of all monthly reports made to insurance companies under any reporting forms of insurance policies. Client shall promptly deliver to Hana copies of all such policies. Except as to business record insurance, if Client fails to maintain such insurance, Hana may, but need not, obtain the same and charge the cost thereof to Client's Factoring Agreement. The proceeds of any such insurance shall be applied in reduction of Client's Revolving Loans.

5.5 Client is a solvent corporation; duly incorporated and in good standing under the laws of the State of Delaware and qualified in all States where such qualification is required; the execution, delivery and performance of this Agreement have been duly authorized and are not in contravention of any applicable law, Client's corporate charter or by-laws or any agreement or order by which Client is bound; Client is not, to the best of Client's knowledge, in violation of any law, ordinance, rule, regulation, order or other requirement of any government or any instrumentality or agency thereof.

5.6 Client will not change Client's corporate name or the location of Client's office or open any new offices without giving Hana at least thirty (30) days prior Written Notice. At the present time, Client carries on business only at the above address and at the addresses set forth below: **None**.

5.7 All books and records pertaining to the Accounts or to any inventory owned by Client will be maintained solely and exclusively at the above address or the addresses listed in Section 5.5 hereof and no such books and records will be moved or transferred without giving Hana thirty (30) days prior Written Notice.

5.8 After Hana's request, Client will hold all returned, replevined or reclaimed goods relating to Accounts coming into Client's possession in trust for Hana and all such goods will be segregated and identified as held in trust for Hana's benefit and Client will, at Hana's request, and at Client's expense, deliver such goods to such place or places as Hana may designate.

5.9 The trade names or styles set forth below are the only trade names or styles under which Client transacts business or has transacted business during the last five (5) years; Accounts sold to Hana hereunder and represented by invoices bearing such trade names or styles are wholly owned by Client; the undertakings, representations and warranties made in connection therewith will be identical to and of the same force and effect as those made with respect to invoices bearing Client's corporate name; Client's

use of any trade names or styles is in compliance with all laws regarding the use of such trade names or styles. Client will give Hana thirty (30) days prior Written Notice of the change of any trade name or style or Client's use of any new trade name or style: **None**.

Client hereby assigns, transfers, and conveys to Hana, effective upon the occurrence of any Event of Default hereunder, the non-exclusive right and license to use all trade names and trade styles owned or used by Client together with any goodwill associated therewith, all to the extent necessary to enable Hana to realize on any assets of Client in which Client has granted Hana a security interest. Such right and license is granted free of charge without requirement that any monetary payment whatsoever be made to Client or third party by Hana.

5.10 Client may, in the ordinary course of business and in good faith, issue, grant or allow discounts, credits and allowances on Accounts to customers and accept returns until: (a) there exists a Default or an Event of Default or (b) Hana notifies Client to the contrary by Written Notice or Transmission. Such discount, credit or allowance once issued may be claimed only by the customer. Client will promptly issue and assign to Hana all full invoice credit memos and promptly notify Hana of any other credit memos. Failure to promptly notify Hana of any discounts, credits, and allowances or other adjustment on a customers account may result in Hana's disallowance of any such credit given.

5.11 To the best of Client's knowledge, (a) there are no judgments outstanding against or affecting Client, its officers, directors or affiliates or any of Client's property, (b) there are no actions, charges, claims, demands, suits, proceedings, or governmental investigations now pending or threatened against Client or any of Client's property, and (c) none of Client's inventory has been produced in violation of the Fair Labor Standards Act or any similar law, nor imported in violation of any United States customs regulation.

5.12 Client agrees that no provision in this Agreement and no course of dealing between the parties shall be deemed to create any fiduciary duty by Hana to Client. Client agrees that neither Hana nor any of Hana's affiliates, officers, directors, shareholders, employees, attorneys, or agents shall have any liability with respect to, and Client hereby waives, releases, and agrees not to sue any of them upon, any claim for any special, indirect, incidental, or consequential damages suffered or incurred by Client in connection with, arising out of, or in any way related to this Agreement of any of the transactions contemplated by this Agreement. Client hereby waives, releases, and agrees not to sue Hana or any of Hana's affiliates, officers, directors, shareholders, employees, attorneys, or agents for punitive damages in respect of any claim in connection with, arising out of, or in any way related to this Agreement or any of the transactions contemplated by this Agreement.

SECTION 6. Disputes and Chargebacks

6.1 With respect to any Account, upon the occurrence of a breach of any of the representations or warranties contained in Section 4.1, or upon the assertion by a customer of a Dispute, such Account may, at Hana's option, be charged back to Client.

6.2 Client will notify Hana immediately, by Written Notice, in the event that a customer alleges any Dispute, or returns or desires to return any goods purchased from Client relating to an Account. After an Event of Default, Hana may but is not obligated to

settle, compromise, adjust or litigate all such Disputes or returns upon such terms as Hana deems advisable. If an unadjusted Dispute delays the payment of any Approved Account when due, Hana will have the right to charge back to Client that Account.

6.3 Client will supply customers, in the format required by customers, with all forms, documents, certificates, etc. that customer requires to process the Account for payment. If Hana notifies Client verbally and/or by Written Notice that a customer which only accepts invoices for payment from Client through Transmission is requesting that Client review its invoice data for correctness and re-transmit invoices by Transmission and if after thirty (30) days from the date of such Notice such invoices remain unposted to such customer's records, Hana will place the Accounts evidenced by such invoices in Dispute.

6.4 Hana may at any time charge back to Client's account the amount of: (a) any Approved Account which is not paid in full when due for any reason other than Credit Risk; (b) any Approved Account which is not paid in full when due because of an act of God, civil strife, or war; (c) anticipation (interest) deducted by a customer on any Account; (d) customer claims; (e) any Account for which there is a breach of any representation or warranty. A charge back does not constitute a reassignment of an Account. Hana shall immediately charge any deduction taken by a customer to Client's account.

6.5 Client will pay Hana, or Hana may charge Client's account with, the amount of any payment which Hana receives with respect to a Non-Approved Account if such payment is subsequently disgorged by Hana, whether as a result of any proceeding in bankruptcy or otherwise.

6.6 Client shall purchase promptly all Accounts charged back by Hana, provided, however, that until payment by Client to Hana of all monies due with respect to such charged back account, title shall pass to Client subject, however, to Hana's security interest therein. Client agrees to indemnify and save Hana harmless from and against any and all loss, costs and expenses caused by or arising out of disputed Accounts, including, but not limited to, collection expenses and attorney's fees incurred with respect thereto.

6.7 Hana may maintain such reserves as Hana, in Hana's sole discretion, deems advisable as security for the payment and performance of the Obligations, including, without limitation, (i) reserves for the amount of any Account which is subject to a Dispute, (ii) reserves for the amount of any Approved Accounts from any single customer that is greater than **thirty percent (30%)** of all Accounts **five hundred thousand dollars ($500,000.00)**, (iii) reserves for the amount of any Non-Approved Accounts from any single customer that is greater than **fifteen percent (15%)** of all Accounts **one hundred fifty thousand dollars ($150,000.00)**, (iv) reserves for the amount of any Non-Approved Account that is **thirty (30)** or more days past due, and (v) reserves for the amount of all Non-Approved Accounts from any single customer if **forty percent (40%)** or more of such customer's outstanding Accounts are **forty five (45)** or more days past due.

SECTION 7. Administration

7.1 Client will, from time to time, (i) execute and deliver to Hana confirmatory schedules of Accounts assigned to Hana (each an Assignment Schedule), together with

one copy of each invoice, acceptable evidence of shipment and such other documentation and proofs of delivery as Hana may require or (ii) transmit to Hana by Transmission information concerning Accounts in a format acceptable to Hana and, upon Hana's request, deliver to Hana copies of invoices, acceptable evidence of shipment and such other documentation and proofs of delivery as Hana may require relating to Accounts so transmitted. Client will not deliver Assignment Schedules in connection with Transmissions, but Client acknowledges and agrees that every invoice transmitted to Hana by Transmission will be deemed to have been sent pursuant to the terms and conditions of an Assignment Schedule. Each invoice relating to an Account and all copies thereof will bear a notice, in form satisfactory to Hana, that the Account has been sold and assigned to and is payable only to Hana. Client agrees that Client will not change such notice on invoices and will not direct its customers to pay Client or any third party amounts due under invoices. Client agrees to prepare and mail all invoices relating to Accounts, but Hana may do so at Hana's option. Client agrees to execute and deliver to Hana such further instruments of assignment, financing statements and instruments of further assurance as Hana may reasonably require. Client authorizes Hana to execute on Client's behalf and file such UCC financing statements, as Hana may deem necessary in order to perfect and maintain the security interests granted by Client in accordance with this Agreement. Client further agrees that Hana may file this Agreement or a copy thereof as such UCC financing statement.

7.2 Notwithstanding that Client has agreed to pay the Misdirected Payment Fee pursuant hereto, if any remittances are made directly to Client, Client's employees or agents, Client will act as trustee of an express trust for Hana's benefit, hold the same as Hana's property and deliver the same to Hana forthwith in kind. Hana and/or such designee as Hana may from time to time appoint are hereby appointed Client's attorney-in-fact to endorse Client's name on any and all checks or other forms of remittances received by Hana where such endorsement is required to effect collection and to transmit notices to customers, in Client's or Hana's name, that amounts owing by them have been assigned and are payable directly to Hana; this power, being coupled with an interest, is irrevocable.

7.3 Client shall permit Hana and any authorized representatives designated by Hana to visit and inspect any of the properties of Client, including its financial and accounting records, and to make copies and take extracts therefrom, and to discuss its affairs, finances, and business with its officers at such times during normal business hours and as often as Hana requests. Hana may, at any time after the occurrence of an Event of Default, remove from Client's premises all such records, files and books relating to Accounts.

7.4 If Hana determines that the credit standing of a customer has deteriorated after Hana has assumed the Credit Risk on an Account, Client will, at Hana's request, exercise such rights as Client may have to reclaim or stop the goods in transit, and Client hereby grants to Hana the right to take such steps in Client's or Hana's name.

7.5 Hana will render a monthly statement of account to Client within twenty (20) days after the end of each month. Such statement of account will constitute an account stated unless Client makes written objection thereto by Written Notice within thirty (30) days from the date such statement is rendered to Client.

7.6 Client will maintain a system of accounting established and administered in

accordance with sound business practice to permit preparation of financial statements in conformity with GAAP. Client will promptly furnish Hana with such statements prepared by or for Client showing Client's financial condition and the results of Client's operations as Hana may request verbally or by Written Notice; provided, however, that if the request is made verbally, such request shall be promptly confirmed in writing. Client will deliver to Hana the financial statements and other reports described below:

(i) Year-End Financials: As soon as available and in any event within seventy-five (75) days after the end of each of Client's fiscal year Client will deliver the balance sheet of Client as of the end of such period and the statements of income, stockholders' equity cash flows such Fiscal Year and such financial statements shall have been audited by a firm of independent certified public accountants selected by Client and reasonably acceptable to Hana. For the purposes of this Section and the Section below, based upon the information currently available to Hana, the accountancy firm of , shall be acceptable to Hana. If after the Effective Date Hana discovers information that causes Hana to determine, in its sole and reasonable discretion, that such firm is no longer acceptable to Hana, than Client shall be required to retain the services on new accountants reasonably acceptable to Hana.

(ii) Semi-Annual Financials. As fairly soon as available but not later than forty-five (45) days after the end of each six (6) month period of Client's fiscal year, Client will deliver the balance sheet of Client as of the end of such period and the related statements of income, stockholders' equity and cash flow for such six (6) month period of a Fiscal Year and for the period from the beginning of the then current Fiscal Year to the end of such six (6) month period of a Fiscal Year and such have been prepared by Client and reasonably acceptable to Hana.

(iii) Access to Accountants. Client authorizes Hana to communicate directly with Client's independent certified public accountants and authorizes such accountants to discuss Client's financial condition and financial statements directly with Hana.

7.7 Client authorizes Hana to disclose such information, as Hana deems appropriate to persons making credit inquiries about Client.

SECTION 8. Collateral Security

As collateral security for all Obligations, Client hereby assigns and grants to Hana a continuing security interest in all of the following property, whether now owned by Client or hereafter acquired by Client or arising in Client's favor: (i) Factored Accounts; (ii) general intangibles including payment intangibles; (iii) monies, securities and other property now or hereafter held or received by, or in transit to Hana from or for Client, whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all of Client's deposits and credit balances in Hana's possession; (iv) books, records and other property at any time evidencing or relating to any of the foregoing property and; (v) proceeds of any of the foregoing property including, without limitation, the proceeds of any insurance policies covering any of the foregoing property and deposit accounts. Recourse to the collateral security herein provided will not be required, and Client will at all times remain liable for the payment and performance of the Obligations upon demand by Hana.

Client hereby grants to Hana a fully paid-up non-exclusive license (the "License") to use

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all of the trademarks and trade names owned by Client in connection with any sales of inventory by Hana made pursuant to the terms of this Agreement. The grant of the License shall be irrevocable, but shall terminate concurrently with the repayment in full by Client of all Obligations and the termination of this Agreement pursuant to Section 9 of this Agreement. Client agrees to use its best efforts to obtain the consent of its licensors, if any, to permit Hana to sell inventory otherwise subject to a license in the manner and to the extent permitted to Client under the applicable license agreement.

SECTION 9. Events of Default

The occurrence of any of the following acts or events will constitute an Event of Default: (a) if Client fails to make payment of any of the Obligations when due; (b) if Client fails to make any remittance required by this Agreement; (c) if Client commits any breach of any of the terms, representations, warranties, covenants, conditions or provisions of this Agreement, or of any present or future supplement or amendment hereto or of any other agreement between Hana and Client; (d) if Client becomes insolvent or unable to meet Client's debts as they mature; (e) if Client fails to pay when due any material obligations or liabilities owing by Client to any person or entity (including without limitation, any United States and state taxes); (f) if Client delivers to Hana a false financial statement or if any representation, warranty, certification, or other statement made by Client to Hana is false in any material respect when made; (g) if Client calls, or has called by a third party, a meeting of creditors; (h) if any bankruptcy proceeding, insolvency arrangement or similar proceeding is commenced by or against Client; (i) if Client suspends or discontinues doing business for any reason; (j) if a receiver or trustee of any kind is appointed for Client or any of Client's property; (k) if any guarantor of Client's Obligations dies or becomes insolvent or has commenced by or against such guarantor any bankruptcy proceeding, insolvency arrangement or similar proceeding; (l) if any guaranty of Client's Obligations is terminated or any guarantor alleges that the guaranty is unenforceable, or if there is a default under any such guaranty; (m) if there shall be a change in the beneficial ownership and control, directly or indirectly of the majority of the outstanding voting securities or other interests entitled (without regard to the occurrence of any contingency) to elect or appoint members of the board of directors or other managing body of Client; or (n) if a notice of lien, money judgment, levy, assessment, seizure or writ, or warrant of attachment is entered or filed against Client or with respect to the Accounts or any other collateral in which Client has granted Hana a security interest; or (o) if Client sells, leases, transfers or otherwise disposes of all or substantially all of Client's property or assets, or consolidates with or merges into or with any corporation or entity.

Upon the occurrence and during the continuance of an Event of Default, Hana will have the right to terminate this Agreement and all other arrangements existing between Hana forthwith and without notice, and the Obligations will mature and become immediately due and payable and Hana will have the right to withhold any further payments to Client until all Obligations have been paid in full.

If either party to this Agreement shall bring any action for any relief against the other, declaratory or otherwise, arising out of this Agreement, the losing party shall pay to the prevailing party a reasonable sum for attorney fees incurred in bringing such suit and/or enforcing any judgment granted therein, all of which shall be deemed to have accrued upon the commencement of such action and shall be paid whether or not such action is prosecuted to judgment. Any judgment or order entered in such action shall contain a

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specific provision providing for the recovery of attorney fees and costs incurred in enforcing such judgment. For the purpose of this section, attorney fees shall include, without limitation, fees incurred in the following: (1) postjudgment motions; (2) contempt proceedings; (3) garnishment, levy, and debtor and third party examination; (4) discovery; and (5) bankruptcy litigation.

SECTION 10. Term and Termination

10.1 This Agreement will continue in full force and effect for **one (1)** year from the Effective Date and shall renew for one (1) year terms thereafter unless either party hereto gives the other party not less than sixty (60) days prior Written Notice prior to the end of the initial or any renewal term of their intention to terminate this Agreement as of the end of such term.

10.2 In the event that this Agreement is terminated by Client prior to an Anniversary Date, Hana shall be entitled to the unpaid portion of the Minimum Annual Commission, if any, for such Period, as provided in section 2.4 above, as of the effective date of termination. Except as otherwise provided, Hana may terminate this Agreement at any time by giving Client at least sixty (60) days prior written notice of termination. However, Hana may terminate this Agreement immediately, without prior notice to Client, upon the occurrence of an Event of Default (defined in section 8 above).

10.3 Notice of termination shall be given by messenger, registered or certified mail, facsimile or commercial delivery service; provided, however, that Client will not terminate this Agreement so long as Client is indebted or obligated to Hana in connection with any other agreements between Hana and Client. Notwithstanding any such Written Notice of termination, all of Hana's rights, liens and security interests hereinabove granted to Hana (including Accounts arising, acquired or created after the date of termination of this Agreement) will continue and remain in full force and effect after any termination of this Agreement and pending a final accounting, Hana may withhold any balances in Client's account unless Hana is supplied with an indemnity satisfactory to Hana to cover all Obligations. Client agrees to continue to assign accounts receivable to Hana and to remit to Hana all collections on accounts receivable,

until all Obligations have been paid in full or Hana has been supplied with an indemnity satisfactory to Hana to cover all Obligations. All of the representations, warranties and indemnities and covenants made by Client herein will survive the termination of this Agreement.

10.4 Upon termination, Client shall cause Hana to be released from all liability under the outstanding Letters of Credit and factor/Supplier Guaranties, or, at Hana's option, Client will deposit cash collateral with Hana in an amount equal to one hundred five percent (105%) of the Letter of Credit Liability and Factor/Supplier Liability that will remain outstanding after repayment.

10.5 Notice of termination shall be given by messenger, registered or certified mail, facsimile or commercial delivery service; provided, however, that Client will not terminate this Agreement so long as Client is indebted or obligated to Hana in connection with any other agreements between Hana and Client. Notwithstanding any such Written Notice of termination, all of Hana's rights, liens and security interests hereinabove granted to Hana (including Accounts arising, acquired or created after the date of termination of this Agreement) will continue and remain in full force and effect after any termination of this Agreement and pending a final accounting, Hana may withhold any balances in Client's

account unless Hana is supplied with an indemnity satisfactory to Hana to cover all Obligations. Client agrees to continue to assign accounts receivable to Hana and to remit to Hana all collections on accounts receivable, until all Obligations have been paid in full or Hana has been supplied with an indemnity satisfactory to Hana to cover all Obligations. All of the representations, warranties and indemnities and covenants made by Client herein will survive the termination of this Agreement.

10.6 If Client shall terminate during the term of this Agreement, Client shall pay to Hana, in addition to all other Obligations, a termination fee (the "Termination Fee") equal to One Percent (1.0%) of Credit Limit.

SECTION 11. Governing Law, Venue and Waiver of Jury

APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF CALIFORNIA OR ANY OTHER JURISDICTION IN WHICH THE COLLATERAL SECURITY IS LOCATED, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.

CONSENT TO JURISDICTION. CLIENT HEREBY CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA OR ANY OTHER JURISDICTION IN WHICH THE COLLATERAL SECURITY IS LOCATED AND IRREVOCABLY AGREES THAT, SUBJECT TO HANA'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE LITIGATED IN SUCH COURTS. CLIENT EXPRESSLY SUBMITS AND CONSENTS TO THE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS. CLIENT HEREBY WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS AND AGREES THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE UPON CLIENT BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, ADDRESSED TO CLIENT, AT THE ADDRESS SET FORTH IN THIS AGREEMENT AND SERVICE SO MADE SHALL BE COMPLETE TEN (10) DAYS AFTER THE SAME HAS BEEN POSTED.

WAIVER OF JURY TRIAL. CLIENT AND HANA HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. CLIENT AND HANA ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP THAT EACH HAS RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. CLIENT AND HANA WARRANT AND REPRESENT THAT EACH AS HAD THE OPPORTUNITY OF REVIEWING THIS JURY WAIVER WITH LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS.

SECTION 12. Modifications, Waivers and Miscellaneous Provisions

This Agreement may not be changed or terminated orally; it constitutes the entire agreement between Client and Hana and will be binding upon Client's and Hana's respective successors and assigns, but may not be assigned by Client without Hana's

prior written consent. No delay or failure on Hana's part in exercising any right, privilege, or option hereunder will operate as a waiver thereof or of any other right, privilege or option. No waiver whatsoever will be valid unless in a Written Notice, signed by Hana, and then only to the extent therein set forth. If any term or provision of this Agreement is held invalid under any statute, rule or regulation of any jurisdiction competent to make such a decision, the remaining terms and provisions will not be affected, but will remain in full force and effect.

Any Written Notice to be given under this Agreement will be in writing addressed to the respective party as set forth in the heading to this Agreement and will be personally served, telecopied or sent by overnight courier service or United States mail and will be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 4:00 p.m. (Los Angeles time) or, if not, on the next succeeding Business Day; (c) if delivered by overnight courier, two (2) days after delivery to such courier properly addressed; or (d) if by U.S. Mail, four (4) Business Days after depositing in the United States mail, with postage prepaid and properly addressed.

Hana conducts business under California commercial finance lender license number 6032324.

SECTION 13. Definitions

"Accounts" — All presently existing or outstanding and all hereafter created or acquired accounts (as that term is defined in the UCC), contract rights, documents, notes, drafts and other forms of obligations owed to or owned by Client arising or resulting from the sale of goods or the rendering of services by Client, all general intangibles relating thereto, all proceeds thereof, all guaranties and security therefore, and all goods and rights represented thereby or arising therefrom, including, but not limited to, returned, reclaimed and repossessed goods, and the rights of stoppage in transit, replevin and reclamation.

"Agreement" — means this Agreement.

"Anniversary Date" — twelve months after the Effective Date and each anniversary thereof.

"Approved Account" — An Account representing a sale to a customer within the credit line established for such customer on Client's normal selling terms or within the single order credit approval given by Hana for orders from such customer provided that Delivery is completed while the credit line or single order credit approval remains in effect and which has not been charged back to Client.

"Approved Payment Date" — The date which is one hundred twenty (120) days after the due date for payment of an Approved Account.

"Base Rate" — The highest prime rate publicly announced from time to time by Wall Street Journal as its prime or base rate or equivalent rate.

"Business Day" — Any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the State of California or is a day on

which banking institutions located in such State are closed.

"Client Percentage" — means Eighty Percent (80%).

"Client" — means the seller of goods or provider of services to the Customer and the undersigned.

"Collected Amount" — The amount received by Hana from a Customer in payment of an Account up to the Net Amount of such Account.

"Collection Date" — The date on which Hana receives payment of an Account.

"Contract Currency" — means the currency in which the Customer is obligated to pay and to deliver to the Client under the terms of the contract of sale.

"Contract Year" — The twelve-month period immediately following the Effective Date and each anniversary thereof.

"Costs" — All costs, fees and expenses (including audit fees, attorney's fees and the allocated costs of internal counsel) incurred by Hana in connection with (i) the creation, negotiation or administration of this Agreement, any related instrument, document or agreement, or any waiver, forbearance, amendment or modification thereof (ii) the perfection, protection, preservation or enforcement of Hana's rights in any collateral in which Hana has been granted a security interest and (iii) all filing fees, filing taxes or search reports.

"Credit Balance" — The amount determined by subtracting the Daily Balance from the amount of all Accounts.

"Credit Risk" — The risk that a Customer will be financially unable to pay an Account at maturity, provided that the merchandise has been received or services rendered and accepted by the Customer without Dispute.

"Customer" — means i) a duly organized and legally existing corporation, proprietorship, partnership or government entity in the <u>Customer's</u> country, except for subsidiary or associated companies of the <u>Client</u>, which shall be excluded from coverage, or ii) the receiver, trustee, liquidator, custodian or similar representative of any <u>Customer</u> or its creditors, or the <u>Customer</u> as debtor in possession under Chapter 11 of Title 11 of the United States Code or any similar statute in another country (hereinafter "debtor in possession"). Any <u>Customer</u> referred to in clause (i) and any successor to such <u>Customer</u> referred to in clause (ii) shall be considered the same entity. For the purposes of applying the <u>Customer Limit</u>, the term <u>Customer</u> shall include the <u>Customer</u> and all corporations and other entities controlling, controlled by, or under common control with the <u>Customer</u>.

"Customer Limit" — means (a) the limit specified in writing by Hana for that Customer or (b) where no such limit has been specified by Hana, then an amount not exceeding the Discretionary Credit Limit, provided such amount has been approved in writing by Hana for that Customer.

"Daily Balance" — The outstanding balance of all advances made by Hana to Client or for Client's account in accordance with Section 2 and 3 hereof less all amounts credited to Client's account in accordance with subsection 2.2 hereof.

"Deductible" — means the sum of thirty thousand dollars ($30,000.00).

"Default" — A condition or event that, after notice or lapse of time or both, would constitute an Event of Default if that condition or event were not cured or removed within any applicable grace or cure period.

"Delivery" — The delivery of goods or performance of services in accordance with the terms

agreed to in writing between Client and a customer, provided that if no such terms are specified in writing, delivery shall mean delivery of goods or performance of services at the customer's place of business.

"Dilution" — The amount determined by the following formula: (i) the total amount of all non-cash reductions to Accounts, including but not limited to chargebacks, discounts and returns, during the calendar month then ending; divided by (ii) the total amount of (a) all Accounts which have their Payment Date during such calendar month, plus, (b) the total amount of all chargebacks and returns during such calendar month.

"Dilution Percentage" — The amount determined by multiplying the historical Dilution, expressed as a percentage of all Accounts, by the current outstanding Accounts.

"Discretionary Credit Limit" — means Five Thousand Dollars ($5,000.00)

"Dispute" — A dispute or claim, bona fide or otherwise, as to price, terms, quantity, quality, delivery, or any cause or defense to payment of an Account whatsoever other than financial inability of a customer to pay the Account.

"Effective Date" — The date set forth below Hana's signature hereto.

"Eligible Credit Balance" — The Credit Balance less the Dilution Percentage of all outstanding Accounts.

"Eligible Receivables" — means all accounts receivables evidenced by an invoice or other accounting entry arising from the shipment of goods or the provision of services by the Client to a Customer provided that:

a) Hana has approved and accepted the credit risk on the accounts receivables; and

b) the terms of payment provided to the Customer are no longer than the Maximum Terms of Payment; and

c) the accounts receivable are factored, owned or purchased by Hana during the Agreement.

"Factor/Supplier Availability" — The sum of Eligible Credit Balance less the sum of all Factor/Supplier Guaranties outstanding, approved Ledger Debt outstanding and approved backorder, but in no event in excess of the Credit Limit.

"Factor/Supplier Guaranty Fee" — the greater of: (i) one hundred dollars ($100.00) or, (ii) one whole percent (1.00%) of the original face amount of a Factor/Supplier Guaranty. On Factor/Supplier Guaranties bearing payment terms in excess of thirty (30) days, the Factor/Supplier Guaranty Fee will be increased by one whole percent (1.00%) for each thirty (30) days or part thereof that the stated terms exceed thirty (30) days.

"Foreign Sales" — Sales to customers located outside of the United States and its Territories. U.S. Territories include Puerto Rico, Bahamas, Guam and U.S. Virgin Islands.

"GAAP" — Generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Boards of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board that are applicable to the circumstances as of the date of determination.

"Goods Insured" — are limited to the Accounts Receivables.

"Hana Clients" — Any persons, corporations, partnerships, companies, associations or entitles (other than Client) which have entered into factoring, inter-credit or financing agreements with any of Hana's offices.

"Insolvent/Insolvency" — means that:

i) a voluntary or involuntary petition for relief under the applicable chapter of Title 11 of the United States Code, or any similar statute in another country, has been filed by or against the Customer, or a receiver, trustee, liquidator, custodian or similar representative has been appointed for the Customer, or a court having jurisdiction has taken an equivalent action against the Customer; or

ii) the Customer has made a valid assignment, composition or similar arrangement for the benefit of creditors generally; or

iii) a judicial order has been made against the Customer for the winding-up or dissolution of the Customer; or

iv) the Board of Directors (or comparable body) of the Customer has passed a resolution authorizing the voluntary winding-up or dissolution of the Customer; or

v) a compromise or arrangement of the Customer's debts has been made binding on all, or substantially all, of the Customer's trade creditors.

The date that such offer of compromise is accepted by the trade creditors shall be the date of Insolvency.

The date of Insolvency will be the date on which the first of the above events occurs.

"Ledger Debt" — Indebtedness owing by Client to Hana as a result of Hana's purchases of invoices evidencing sales to Client by Hana Clients.

"Ledger Debt Availability" — The sum of Eligible Credit Balance less the sum of all Factor/Supplier Guaranties outstanding, approved Ledger Debt outstanding and approved backlog, but in no event in excess of the Credit Limit.

"Loan Documents" — Collectively, means this Agreement, the Note, the Guaranties, {the Subordination Agreement, the Assignment of Monies Due Under the Factoring Agreement}, and all other instruments, documents and agreements executed by or on behalf of Client and/or Guarantors(s) and delivered concurrently herewith or at any time hereafter to Hana in connection with the Advances, Ledger Debt, Factor/Supplier Guaranties, and other transactions contemplated by this Agreement, all as amended, restated, supplemented, or modified from time to time.

"Maximum Terms of Payment — means the longest initial period of credit the Client may extend to the Customer, except as may be otherwise specified.

"Misdirected Payment Fee" — Fifteen percent (15.00%) of the face amount of a purchased Account on which payment has been received by Client and not delivered in kind to Hana within two (2) business days following the date of receipt by Client.

"Net Amount" — The gross amount of an Account less the discount offered by Client and taken by Hana at the time Hana purchases such Account.

"Net Invoice Value" — means the gross invoice amount of the Goods Insured in the Contract Currency, less:

(i) any credits or similar allowances excluding trade discounts,

(ii) all expenses saved by non-payment of the invoice,

(iii) before the Insolvency, any amount received from any source as or towards payment to the Client, including from the resale of the Goods Insured, and

(iv) any interest charges, including post-maturity interest charges.

"Non-Approved Account" — (a) An Account with respect to which Hana has not issued a credit approval or has subsequently withdrawn a credit approval or (b) an Approved Account that has been charged back to Client.

"Non-Qualifying Amount" — means Five Thousand Dollars ($5,000.00) per Customer.

"Obligations" — All loans, advances, debts, liabilities, obligations, covenants and duties owing by Client to Hana, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, including, without limitations, Ledger Debt and indebtedness arising under any guaranty made by Client for Hana's benefit or issued by Hana on Client's behalf.

"Overadvance Fee" — An amount, as determined by Hana from time to time, on Advances made in excess of amounts available as set forth in Section 2.1 and evidenced by the accepted Notice of Overadvance Fee letter agreement.

"Purchase Price" — An amount equal to the Net Amount of an Account, less factoring commissions, credits (including, without limitation, merchandise returns and credit memos), charge backs, allowances, and all other charges provided thereunder.

"Qualifying Loss" — means the total amount of the Net Invoice Values unpaid by the Customer due to its Insolvency and established as a valid and legally sustainable obligation of the Customer to the Client, provided such amount is in excess of the Non Qualifying Loss Amount. If such amount does not exceed the Non Qualifying Loss Amount, then such amount shall be borne by the Client for its own account, and shall not be applied to the Deductible and shall otherwise be excluded for purposes of this Agreement.

"Remittance Date" — That date which is the Wednesday immediately following the previous week's Collection Dates; provided, however, that if any such Wednesday is not a Business Day, such Collected Amount of the Purchase Price shall be remitted to Client on the next Business Day thereafter.

"Surcharge Amount" — An amount, as determined by Hana from time to time, on Approved Accounts arising from Foreign Sales or high risk customers and evidenced by the accepted Notice of the Surcharge Amount agreement.

"Takeover Account" — An Account created or existing prior to the Effective Date.

"Transmission" — Transmission through Hana's proprietary system or through Electronic Data Exchange ("EDI")

"UCC" — The Uniform Commercial Code as in effect on the date hereof in the States of California, as amended from time to time, and any successor statute.

"Written Notice" — Notice given in writing in accordance with Section 9 of this Agreement.

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In Witness Whereof, the undersigned have caused this agreement to be executed and delivered by their thereunto duly authorized officers as of the Effective Date.

HANA FINANCIAL, INC., **a California corporation**	**LIQUIDMETAL TECHNOLOGIES, INC.,** **a Delaware corporation**
/s/ Ken Lee	/s/ John Kang
Ken Lee Assistant Vice President	John Kang President

Effective Date: April 21, 2005

STATE OF California)
COUNTY OF Los Angeles) ss.

On April 25, 2005 before me, Kyeong H. Cho, a Notary Public in and for said State, personally appeared John Kang, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature /s/ Kyeong H. Cho
Notary Public in and for said County and State

AMENDMENT #1 TO FACTORING, LOAN & SECURITY AGREEMENT

This Amendment to that certain Factoring, Loan & Security Agreement ("Amendment") is made as of January 27, 2006 by and between Liquidmetal Technologies, Inc. ("Client") and Hana Financial, Inc. ("Hana") located at 1000 Wilshire Blvd., Suite 2000, Los Angeles, CA 90017, with respect to the following:

RECITALS:

WHEREAS, Client and Hana entered into that certain Factoring, Loan & Security Agreement, dated April 21, 2005 (the "Agreement"); and

WHEREAS, Client and Hana now desire to enter into this Amendment to amend the Agreement as herein provided.

AGREEMENT:

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency are hereby acknowledged, Client and Hana agree to amend the Agreement as follows:

1. Amendments.

Section 2 Paragraph 2.1(a) (i), 2.1(a)(ii), and 2.3 of the Agreement are hereby amended as follows:

"2.1(a) (i) if the Eligible Account is an Approved Account, Hana may advance to Client up to **eighty five percent (85%)** of the Purchase Price of such Approved Account."

"2.1(a)(ii) if the Eligible Account is a Non-Approved Account, Hana may advance to Client up to **fifty percent (50%)** of the Purchase Price of such Non-Approved Account."

"2.3 At the time Hana purchases an Account, Hana will charge Client's account with a factoring commission equal to **sixty five hundredths of a whole percent (0.65%)** of the Net Amount of the Accounts plus the Surcharge Amount, as applicable, up to **ten million dollars ($10,000,000.00)** of Accounts purchased during each Contract Year. At the time Hana purchases an Account, Hana will charge Client's account with a factoring commission equal to **six tenths of a whole percent (0.60%)** of the Net Amount of the Accounts plus the Surcharge Amount, as applicable in excess of **ten million dollars ($10,000,000.00)** and up to **fifteen million dollars ($15,000,000.00)** of Accounts purchased during each Contract Year. At the time Hana purchases an Account, Hana will charge Client's account with a factoring commission equal to **fifty five hundredths of a whole percent (0.55%)** of the Net Amount of the Accounts plus the Surcharge Amount, as applicable in excess of **fifteen million dollars ($15,000,000.00)** of

Accounts purchased during each Contract Year. On Accounts bearing payment terms in excess of sixty (60) days, the factoring commission will be increased by one quarter of one percent (0.25%) for each thirty (30) days or part thereof that the stated terms exceed sixty (60) days."

Section 4 Paragraph 4.1 of the Agreement is hereby amended as follows:

"4.1 Client will pay Hana interest on the Daily Balance. Interest will be calculated daily at a rate equal to the sum of **one and one half of a whole percent (1.5%)** plus the Base Rate (the "Interest Rate") and will be paid by Client or charged to Client's account monthly at the end of each month. The Interest Rate will also be charged to Client on all other obligations, except those specifying a different rate, from the date incurred through the date paid. Any publicly announced decrease or increase in the Base Rate will result in an adjustment to the Interest Rate on the next business day. After the occurrence of an

Event of Default and for so long as such Event of Default continues, all the Obligations will, at Hana's option, bear interest at a rate per annum equal to five percent (5.0%) plus the Interest Rate. Interest will be calculated on the basis of a 360-day year for the actual number of days elapsed. In no event will the total amount of interest received by Hana exceed the maximum rate permitted by applicable law and in the event excess interest is determined by a court of competent jurisdiction to have been paid by Client to Hana, such excess interest will be applied as a credit against the outstanding Obligations and Client will not have any action against Hana for any damages arising out of the payment or collection of such excess interest."

2. Interpretation. All initial capitalized terms not herein defined shall have the meaning ascribed to such terms in the Agreement.

3. Continuing Effectiveness. Except to the extent specifically herein amended, the Agreement shall continue unmodified and in full force and effect. In the event of any conflict between the provisions of the Agreement and the provisions of this Amendment, the provisions of this Amendment shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

HANA FINANCIAL, INC.	**LIQUIDMETAL TECHNOLOGIES, INC.**
/s/ Ken Lee	/s/ Ricardo Salas
Ken Lee	Ricardo Salas
Assistant Vice President	President

Exhibit 10.61

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, OR THE SECURITIES OR BLUE SKY LAWS OF CALIFORNIA OR ANY OTHER STATE AND MAY NOT BE SOLD, PLEDGED, HYPOTHECATED, TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE NOTE UNDER THE SECURITIES ACT OF 1933, AND OTHER APPLICABLE SECURITIES OR BLUE SKY LAWS, OR AN OPINION OF COUNSEL SATISFACTORY TO LIQUIDMETAL TECHNOLOGIES, INC. THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT AND APPLICABLE STATUTES.

SUBORDINATED PROMISSORY NOTE

$1,000,000 **Lake Forest, California**
March 17, 2006

FOR VALUE RECEIVED, LIQUIDMETAL TECHNOLOGIES, INC., a Delaware corporation (the "Maker"), promises to pay to the order of Atlantic Realty Group, Inc., a New York corporation**,** or its successors or assigns (the "Holder") at 1836 El Camino Del Teatro, La Jolla, California 92037, or at such other place as the Holder may designate in writing from time to time, in lawful money of the United States of America, the principal sum of ONE MILLION DOLLARS ($1,000,000.00), such principal balance being the amount of funds advanced to Liquidmetal Technologies, Inc. by Atlantic Realty Group, Inc., together with interest thereon as set forth below.

1. Payment of Interest and Conversion.

a) So long as there is no Event of Default, interest on the unpaid principal balance under this Note shall accrue at the rate of ten percent (10%) per annum, beginning on March 17, 2006. If the interest rate hereunder is determined by a court of competent jurisdiction to be usurious or otherwise in violation of California law, the interest rate under this Note shall equal the maximum interest rate allowable by California law. In all cases, interest shall accrue during the actual number of days elapsed and shall be computed on the basis of a 365-day year. This Note shall be paid as follows:

i) Payments of accrued but unpaid interest on the outstanding principal balance under this Note shall be due and payable upon scheduled maturity on October 16, 2006, unless such day is not a business day, in which case payment shall be due on the first Business Day after such day (an "Interest Payment Date"). The Maker may elect to repay the entire principal amount and all interest due thereon on or before the scheduled maturity on October 16, 2006 without any prepayment penalty but not before June 16, 2006. The Maker shall provide written notice to the Holder of its intent

to repay to the Holder at least three (3) days prior to the date on which the Maker intends to repay the obligation;

b) The Maker shall be liable for all fees and expenses arising from the interpretation or enforcement of this Note, or from the collection of amounts due hereunder, including but not limited to reasonable legal fees and expenses (collectively, the "Additional Amounts").

c) The Maker agrees that upon the occurrence of an Event of Default, as defined below, Maker shall pay a default rate of interest on any sums due at the rate of fifteen percent (15%) per annum from the date that the Event of Default occurs until paid in full.

2. Subordination. THE RIGHTS OF THE HOLDER OF THIS NOTE TO RECEIVE PAYMENT OF ANY PRINCIPAL HEREOF OR INTEREST HEREON IS SUBJECT AND SUBORDINATE TO THE PRIOR PAYMENT OF THE PRINCIPAL OF AND INTEREST ON ALL OTHER INDEBTEDNESS OF THE MAKER, WHETHER NOW OUTSTANDING OR SUBSEQUENTLY INCURRED, WHETHER SECURED OR UNSECURED, AND ANY DEFERRALS, RENEWALS OR EXTENSIONS OF SUCH INDEBTEDNESS OR ANY DEBENTURES, BONDS OR NOTES EVIDENCING SUCH INDEBTEDNESS (THE 'SENIOR INDEBTEDNESS"). UPON ANY RECEIVERSHIP, INSOLVENCY, ASSIGNMENT FOR THE BENEFIT OF CREDITORS, BANKRUPTCY, REORGANIZATION, SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS AND LIABILITIES OF THE MAKER, OR IN THE EVENT THIS NOTE IS DECLARED DUE AND PAYABLE UPON THE OCCURRENCE OF AN EVENT OF DEFAULT, THEN NO AMOUNT SHALL BE PAID BY THE MAKER WITH RESPECT TO PRINCIPAL AND INTEREST HEREON UNLESS AND UNTIL THE PRINCIPAL OF, AND INTEREST ON, ALL SENIOR INDEBTEDNESS THEN OUTSTANDING IS PAID IN FULL.

3. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Note:

a) any failure by the Maker to pay principal, accrued but unpaid interest or other amounts when due under this Note, unless such failure is cured in full within fifteen (15) days after receiving written notice informing the Maker of such failure;

b) any material breach, violation or default (including but not limited to technical and non-monetary defaults) by the Maker with respect to any of its other covenants, obligations or duties under this Note, unless such breach, violation or default is cured in full within sixty (60) Business Days after receiving written notice informing the Maker of such breach, violation or default;

c) the filing against the Maker of any bankruptcy petition that is not dismissed within ninety (90) days after filing or the filing by or on behalf of the Maker of any bankruptcy petition;

d) the appointment of receiver, custodian or trustee to operate or manage the Maker or substantially all of its assets or businesses;

e) the dissolution or liquidation of the Maker; or

f) any merger involving, consolidation involving, sale of all or substantially all assets by, or share exchange by, the Maker.

4. Rights Remedies and Waivers. The Holder shall have all rights and remedies available at law, in equity or by constitution, statute, rule, regulation or ordinance, including but not limited to rights and remedies granted in this Note with respect to any Event of Default.

Without limiting the generality of the foregoing provisions of this Section, the Holder shall have the right, upon any Event of Default, to declare the entire principal balance and accrued but unpaid interest due from the Maker to be immediately due and payable in full. The Maker shall be liable for Additional Amounts, as defined in Section 1.b. of this Note.

In no event shall a waiver of rights or remedies arise solely from the oral representations of the Holder or from any delay by it in exercising, or any past failures to exercise, rights or remedies. A waiver of rights and remedies by the Holder shall not be effective or binding unless, and then only to the extent that, such waiver appears in this Note, or the Holder signs an express written waiver of rights or remedies and causes such written waiver to be delivered to the Maker.

The Maker, to the maximum extent permitted by law, hereby waives each of the following: (a) the benefit of, and the right to assert, any statute of limitations defenses affecting the Maker's rights, duties or obligations under this Note; (b) presentation, demand, protest, notices of dishonor and protest and the benefits of homestead exemptions; and (c) all defenses and pleas with respect to any extensions of the time for payment under this Note, except as may be granted expressly by the Holder, in its sole discretion, in a written instrument signed by the Holder and delivered to the Maker.

5. Governing Law. The Holder shall be entitled to have all of its claims, causes of action, suits, demands, counterclaims and defenses under this Note interpreted and enforced in accordance with the laws of the State of California, without regard to any conflicts of law provisions or principles thereof to the contrary.

6. Modification. This Note shall not be modified unless, and then only to the extent that, a written modification is executed by the Holder and the Maker, or its respective successors and assigns.

7. Assignment. The Maker shall not assign or delegate, whether in whole or in part, any of its rights, duties or obligations under this Note, and any attempted assignment or delegation in violation of this Note shall be void.

8. Severable Provisions. All provisions in this Note are severable and each valid and enforceable provision shall remain in full force and effect, regardless of any determination that is binding upon the parties hereto and that renders other provisions of this Note invalid or unenforceable. To the extent, if any, that a court of competent jurisdiction determines that certain provisions of this Note are invalid or unenforceable, the Maker and the Holder hereby authorize such court to modify such provisions, in a manner consistent with the intent of the Maker and the Holder, as such court deems reasonably necessary to make such provisions valid and enforceable.

9. Terms of Convenience. References to this Note mean this Subordinated Promissory Note, as it may be amended or replaced from time to time. Terms such as "hereof," "herein," "hereto," "hereby," "hereunder" and similar references to this Note shall be deemed to refer to this Note as a whole and not to any particular section or provision of this Note. Captions and headings are used in this Note for convenience only and shall not be construed to affect the meaning of this Note.

10. Restrictions on Use of Proceeds. The proceeds of this Note shall be used by Maker solely for working capital of the Maker or expansion purposes of Maker's business and shall not be used to pay accrued or future salaries or bonuses to any officers, directors, or employees of Maker

11. Maximum Interest Rate. In no event shall any agreed to or actual exaction charged, reserved or taken as an advance or forbearance by Holder as consideration for this Note exceed the limits (if any) imposed or provided by the law applicable from time to time to the Note for the use or detention of money or for forbearance in seeking its collection; Holder hereby waives any right to demand such excess. If the rate of interest under this Note should be above such maximum rate of interest permitted by applicable law (if any), then notwithstanding any contrary provision in this Note and without necessity of further agreement or notice by Holder or Maker, the unpaid principal balance of the Note shall thereupon bear interest at such maximum lawful rate. In the event that the interest provisions of this Note or any exactions provided for in this Note shall result at any time or for any reason in an effective rate of interest that transcends the maximum interest rate permitted by applicable law (if any), then without further agreement or notice the obligation to be fulfilled shall be automatically reduced to such limit and all sums received by Holder in excess of those lawfully collectible as interest shall be applied against the principal of the Note immediately upon Holder's receipt thereof, with the same force and effect as though the Maker had specifically designated such extra sums to be so applied to principal.

12. WAIVER OF JURY TRIAL. THE MAKER HEREBY, AND THE HOLDER BY ITS ACCEPTANCE OF THIS PROMISSORY NOTE, KNOWINGLY, VOLUNTARILY AND

INTENTIONALLY WAIVE THE RIGHT EITHER MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS PROMISSORY NOTE AND ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION HEREWITH OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF EITHER PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE HOLDER ACCEPTING THIS PROMISSORY NOTE AND MAKING ANY LOAN, ADVANCE OR OTHER EXTENSION OF CREDIT TO THE MAKER.

IN WITNESS WHEREOF, this Subordinated Promissory Note has been executed as of the first date written above.

MAKER: LIQUIDMETAL TECHNOLOGIES, INC.
a Delaware Corporation

By: /s/ Ricardo A. Salas

Ricardo A. Salas, President

Exhibit 10.62

THIS WARRANT AND THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED UNDER STATE SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD OR TRANSFERRED IN VIOLATION OF SUCH ACT OR LAW OR THE PROVISIONS OF THIS WARRANT.

WARRANT FOR PURCHASE
OF
SHARES OF COMMON STOCK
OF
LIQUIDMETAL TECHNOLOGIES, INC.

For value received, Atlantic Realty Group, Inc., a New York corporation ("Holder"), is entitled to purchase from LIQUIDMETAL TECHNOLOGIES, INC., a Delaware corporation (the "Company"), that amount of fully paid and nonassessable shares of the Company's Common Stock, as set forth in Section 2.4 hereof, pursuant to and subject to the terms and conditions set forth in this Warrant.

This Warrant is subject to the following provisions, terms and conditions.

1. Definitions.

In addition to the terms defined elsewhere in this Warrant, the following terms have the following respective meanings:

"Common Stock" shall mean the Company's Common Stock, par value $.001 per share.

"Commission" shall mean the Securities and Exchange Commission, or any other federal agency at the time administering the Securities Act.

"Exercise Date" shall mean the date on which this Warrant is exercised.

"Exercise Period" shall mean the period commencing on the date of this Warrant and terminating on March 17, 2009.

"Exercise Price" per share of Common Stock shall mean Two Dollars ($2.00).

"Expiration Date" shall mean the last day of the Exercise Period.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Underlying Shares" shall mean the aggregate number of shares of Common Stock issuable upon exercise of this Warrant, as set forth in Section 2.3 to this Warrant, and as adjusted pursuant to Section 3 of this Warrant.

2. Exercise of Warrant.

2.1 Exercise Generally. Subject to the conditions hereinafter set forth, this Warrant is exercisable in whole or in part as to the Underlying Shares during the Exercise Period, but in no event subsequent to the end of the Exercise Period, by delivery to the Company of an Exercise Notice (in the form set forth at the end hereof duly completed and executed), together with the Exercise Price, at the principal office of the Company in Lake Forest, California specified in Section 12.2. This Warrant and all rights and options hereunder shall expire at the Expiration Date, and shall be wholly null and void to the extent this Warrant is not exercised before that time. The Exercise Price shall be paid in cash, unless the Holder elects to exercise through a cashless exercise, as described in this Section 2.2 below.

2.2 Cashless Exercise. This Warrant may be exercised, in whole or in part, through a cashless exercise by (i) the delivery to the Company of a duly executed Exercise Notice specifying the number of Underlying Shares to be applied to the aggregate Exercise Price, and (ii) the surrender to a common carrier for overnight delivery to the Company, or as soon as practicable following the date the Holder delivers the Notice of Exercise to the Company, of this Warrant (or an indemnification undertaking with respect to this Warrant in the case of its loss, theft or destruction). The number of shares of Common Stock to be issued upon exercise of this Warrant pursuant to this Section 2.2 shall equal the value of this Warrant (or the portion thereof being canceled) computed as of the date of delivery of this Warrant to the Company using the following formula:

$X = Y(A-B)/A$

where:

X = the number of shares of Common Stock to be issued to the Holder under this Section 2.2;
Y = the number of Underlying Shares identified in the Notice of Exercise as being applied to the aggregate Exercise Price;
A = the Fair Market Value price per share on such date; and
B = the Exercise Price on such delivery date

The Company acknowledges and agrees that this Warrant was issued for consideration received on the date on which this Warrant was granted. Consequently, the Company acknowledges and agrees that, if the Holder conducts a cashless exercise pursuant to this Section 3(b), the period during which the Holder held this Warrant may, for purposes of Rule 144 promulgated under the Securities Act, be "tacked" to the period during which the Holder holds the Warrant Shares received upon such cashless exercise. For purposes of this Warrant, "Fair Market Value" shall equal the average closing trading price of the

Common Stock on the Principal Market for the five (5) trading days preceding the date of determination or, if the Common Stock is not listed or admitted to trading on any Principal Market, and the average price cannot be determined as contemplated above, the Fair Market Value of the Common Stock shall be as reasonably determined in good faith by the Company's Board of Directors and the Holder. The term "Principal Market" means the OTC Bulletin Board or any other exchange, market, or quotation service on which the Company's Common Stock is primarily traded, listed, or quoted.

2.3 Holder Representations and Warranties. In connection with any exercise of this Warrant, the Holder agrees to make such representations and warranties as may be necessary to demonstrate compliance with applicable securities laws, as may be reasonably requested by the Company.

2.4 Number of Shares. The number of shares issuable pursuant to this Warrant shall be One Hundred Twenty Five Thousand (125,000) shares of Common Stock.

3. Reorganization.

3.1 Modifications of Number of Shares and Exercise Price. The number of shares purchasable upon the exercise of this Warrant and the Exercise Price shall be subject to adjustment as follows:

(a) Stock Dividends. If at any time after the date of the issuance of this Warrant (i) the Company shall fix a record date for the issuance of any stock dividend payable in shares of common shares or (ii) the number of shares of common shares shall have been increased by a subdivision or split-up of shares of common shares, then, on the record date fixed for the determination of holders of common shares entitled to receive such dividend or immediately after the effective date of subdivision or split-up, as the case may be, the number of shares to be delivered upon exercise of this Warrant will be increased so that the Holder will be entitled to receive the number of shares of common shares that such Holder would have owned immediately following such action had this Warrant been exercised immediately prior thereto, and the Exercise Price will be adjusted as provided below in paragraph (f).

(b) Combination of Stock. If the number of shares of common shares outstanding at any time after the date of the issuance of this Warrant shall have been decreased by a combination of the outstanding shares of common shares, then, immediately after the effective date of such combination, the number of shares of common shares to be delivered upon exercise of this Warrant will be decreased so that the Holder thereafter will be entitled to receive the number of shares of common shares that such Holder would have owned immediately following such action had this Warrant been exercised immediately prior thereto, and the Exercise Price will be adjusted as provided below in paragraph (f).

(c) Reorganization, etc. If any capital reorganization of the Company, or any

reclassification of the common shares, or any consolidation of the Company with or merger of the Company with or into any other person or any sale, lease or other transfer of all or substantially all of the assets of the Company to any other person, shall be effected in such a way that the holders of common shares shall be entitled to receive stock, other securities or assets (whether such stock, other securities or assets are issued or distributed by the Company or another person) with respect to or in exchange for common shares, then, upon exercise of this Warrant the Holder shall have the right to receive the kind and amount of stock, other securities or assets receivable upon such reorganization, reclassification, consolidation, merger or sale, lease or other transfer that such Holder would have been entitled to receive upon exercise of this Warrant had this Warrant been exercised immediately before such reorganization, reclassification, consolidation, merger or sale, lease or other transfer, subject to adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Warrant.

(d) Fractional Shares. No fractional shares of common shares shall be issued to any Holder in connection with the exercise of this Warrant. Instead of any fractional shares of Common Shares that would otherwise be issuable to such Holder, the Company will pay to such Holder a cash adjustment in respect of such fractional interest in an amount equal to that fractional interest of the then current Closing Price per share of common shares.

(e) Carryover. Notwithstanding any other provision of this Warrant, no adjustment shall be made to the number of shares of common shares to be delivered to the Holder (or to the Exercise Price) if such adjustment represents less than 1% of the number of shares to be so delivered, but any lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which together with any adjustments so carried forward shall amount to 1% or more of the number of shares to be so delivered.

(f) Exercise Price Adjustment. Whenever the number of shares purchasable upon the exercise of the Warrant is adjusted, as herein provided, the Exercise Price payable upon the exercise of this Warrant shall be adjusted by multiplying such Exercise Price immediately prior to such adjustment by a fraction, of which the numerator shall be the number of Warrant Shares purchasable upon the exercise of the Warrant immediately prior to such adjustment, and of which the denominator shall be the number of Warrant Shares purchasable immediately thereafter.

(g) Notice of Adjustment. Whenever the number of shares or the Exercise Price of such shares is adjusted, as herein provided, the Company shall promptly mail by first-class, postage prepaid, to the Holder, notice of such adjustment or adjustments.

4. No Impairment.

The Company may not, by amendment of its Certificate of Incorporation or Bylaws, or through reorganization, consolidation, merger, dissolution, issue or sale of securities, sale of assets or any other voluntary action, willfully avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but shall at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against impairment. Without limiting the generality of the foregoing, the Company will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon the exercise of this Warrant.

5. Reservations.

The Company shall at all times reserve and keep available such number of authorized shares of its Common Stock, solely for the purpose of issue upon the exercise of the rights represented by this Warrant, as may at any time be issuable upon the exercise of this Warrant.

6. Fractional Shares.

Fractional shares shall not be issued upon the exercise of this Warrant. The Company shall, at its sole option, in lieu of issuing any fractional share (i) pay the Holder entitled to such fraction a sum in cash equal to the full market value of any such fractional interest as it shall appear on the public market or if there is no public market for such shares, then as shall be reasonably determined by the Company, or (ii) round-up to the nearest whole number.

7. Fully Paid Stock; Voting Rights; Taxes.

7.1 The Company covenants and agrees that the shares of its capital stock represented by each certificate to be delivered on the exercise of this Warrant shall, at the time of such delivery, be validly issued and outstanding, and be fully paid and nonassessable. The Company covenants and agrees that, upon issuance of the Underlying Shares, the Underlying Shares shall have voting rights equivalent to those of any other holder of Common Stock.

7.2 The Company covenants and agrees that it shall pay, when due and payable, any and all federal and state issuance or transfer taxes that may be payable in respect of this Warrant or any Common Stock or certificates issued hereunder. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the transfer and delivery of stock certificates in the name other than that of the Holder, and any such tax shall be paid by the Holder at the time of presentation.

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8. Closing of Transfer Books.

The right to exercise this Warrant shall not be suspended during any period that the stock transfer books of the Company for its Common Stock may be closed. The Company shall not be required, however, to deliver stock certificates upon such exercise while such books are duly closed for any purpose, but the Company may postpone the delivery of such certificates until the opening of such books. In such case, the certificates shall be delivered promptly after the books are opened.

9. Restrictions on Transferability of Warrant and Shares; Compliance With Laws.

Notwithstanding anything contained in this Warrant to the contrary, the terms and provisions of this Section 9 shall remain in full force and effect at all times up to and including the end of the Exercise Period and, unless otherwise specified herein, the term "Warrant" shall include the Underlying Shares.

9.1 In General. This Warrant shall be transferable in whole or in part upon the conditions hereinafter specified, which conditions are intended to ensure compliance with the provisions of the Securities Act (or any similar federal statute at the time in effect) and any applicable state securities laws in respect of the transfer of this Warrant.

9.2 Restrictive Legends. Each certificate for Restricted Stock shall, unless otherwise permitted by the provisions of this Section 9.2, bear on the face thereof a legend reading substantially as follows:

> THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SUCH ACT AND ANY STATE SECURITIES LAWS THAT MAY BE APPLICABLE.

If the Company shall receive an opinion of counsel reasonably satisfactory to the Company (which shall include counsel to the Company and counsel to the original purchaser hereof) that, in the opinion of such counsel, such legend is not, or is no longer, necessary or required (including, without limitation, because of the availability of any exemption afforded by Rule 144 of the Commission), the Company shall, or shall instruct its transfer agents and registrars to, remove such legend from the certificates evidencing the Restricted Stock or issue new certificates without such legend.

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10. Lost, Stolen Warrants, Etc.

If this Warrant shall be mutilated, lost, stolen or destroyed, the Company shall issue a new Warrant of like date, tenor and denomination and deliver the same in exchange and substitution for and upon surrender and cancellation of the mutilated Warrant, or in lieu of the Warrant lost, stolen or destroyed, upon receipt of evidence satisfactory to the Company of the loss, theft or destruction of such Warrant, and upon receipt of indemnity satisfactory to the Company.

11. Severability.

Should any part of this Warrant for any reason be declared invalid, such decision shall not affect the validity of any remaining portion, which shall remain in force and effect as if this Warrant had been executed with the invalid portion thereof eliminated. It is hereby declared the intention of the parties hereto that they would have executed and accepted the remaining portion of this Warrant without including therein any such part, parts or portion which may, for any reason, be hereafter declared invalid.

12. Miscellaneous.

12.1 Holder Not A Stockholder. Except as otherwise specifically provided herein, prior to the exercise of this Warrant, the Holder shall not be entitled to any of the rights of a stockholder of the Company with respect to any of the Underlying Shares, including the right as a stockholder to (a) vote or consent or (b) receive dividends or any other distributions made to stockholders.

12.2 Notices. All notices, requests, consents and other communications required or permitted hereunder shall be in writing and shall be delivered or mailed first class postage prepaid, registered or certified mail return receipt requested:

(a) If to the Holder or Holders of the Company Stock, addressed to such Holder at its address as shown on the books of the Company, or at such other address as such Holder may specify by written notice to the Company; or

(b) If to the Company, at 25800 Commercentre Drive, Suite 100, Lake Forest, CA 92630, or at such other address as the Company may specify by written notice to all Holders and Holders of Conversion Stock,

and such notices and other communication shall for all purposes of this Warrant be treated as being effective or having been given (i) when delivered, or (ii) if sent by mail, 48 hours after the same has been deposited in a regularly maintained receptacle for the deposit of United States mail, addressed and postage prepaid as aforesaid, if the addressee refuses to accept or does not claim the mailed item.

12.3 Successors and Assigns. This Warrant and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company

and the Holder. This Warrant is assignable by Holder, in whole or in part, without the prior written consent of the Company.

12.4 Amendments. This Warrant sets forth the entire agreement and understanding of the parties with respect to the transactions contemplated hereby and supersede all prior agreements, arrangements and understandings relating to the subject matter hereof. This Warrant may not be modified, supplemented, varied or amended except by an instrument in writing signed by the Company and the Holder.

12.5 Headings. The index and the descriptive headings of sections of this Warrant are provided solely for convenience of reference and shall not, for any purpose, be deemed a part of this Warrant.

12.6 Governing Law. THIS WARRANT AND ALL MATTERS CONCERNING THIS WARRANT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA FOR CONTRACTS ENTERED INTO AND TO BE PERFORMED IN SUCH STATE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed and delivered by a duly authorized officer as of the 17th day of March 2006.

LIQUIDMETAL TECHNOLOGIES, INC.

By: /s/ Ricardo A. Salas
Ricardo A. Salas, President

EXERCISE NOTICE

TO LIQUIDMETAL TECHNOLOGIES:

The undersigned registered holder of the Warrant dated as of March 17, 2006 (the "Warrant") hereby irrevocably exercises the Warrant, purchases the number of shares of Common Stock in the Company determined pursuant to Section 2.3 of the Warrant, and herewith makes payment of the Exercise Price (as defined in the Warrant), and requests that the certificate(s) for such shares be issued in the name of the undersigned Holder and delivered to it at Holder's address specified in Section 12.2 of the Warrant, all on the terms and subject to the conditions specified in the Warrant.

Date: ____________________ ______________________________
[signature]

Exhibit 10.63

AMENDMENT TO SETTLEMENT AGREEMENT

This Amendment (this "Amendment") is made and entered into on March 21, 2006, by and between Liquidmetal Korea Co., Ltd., a company incorporated and existing under the laws of Korea, having its principal office at 884, Uhyun Hansan Industrial Complex, Uhyun-ri, Chungbook-myun, Pyungtaek City, Kyunggi Province, Republic of Korea ("Liquidmetal Korea")and Innometal Co., Ltd.(Previously Growell Metal Co.,Ltd.), a company incorporated and existing under the laws of Korea, having its principal office at
644-2, Sunggok-dong, Danwon-gu, Ansan City, Kyunggi Province, Republic of Korea ("Innometal").

RECITALS

WHEREAS, Liquidmetal Korea and Innometal have entered into a Settlement Agreement dated January 10, 2004 (the "Settlement Agreement") for the amicable resolution of any and all disputes between them relating to the Product Supply Agreement dated June 14, 2002 (the "Product Supply Agreement") for the supply by Innometal of certain Liquidmetal alloy products to Liquidmetal Korea.

WHEREAS, certain disputes arose thereafter between the parties in connection with the Settlement Agreement (the "Dispute");

WHEREAS, the parties now desire to enter into this Amendment to Settlement Agreement for an amicable resolution of any and all disputes between them, including without limitation the disputes relating to the Settlement Agreement.

NOW, THEREFORE, in consideration of the mutual premises and covenants set forth herein, the parties agree as follows.

ARTICLE 1 ; PAYMENTS

Liquidmetal Korea shall pay the amount of KRW 3,400,114,098 in the form of shares of common stock of Liquidmetal Technologies within 30 days from the date hereof. For this purpose, the shares of Liquidmetal Technologies common stock shall be deemed to have a value equal to US$ 2.05 or KRW 1,949 based on the basic exchange rate as of February 23 ,2006, and the number of shares to be issued to Innometal shall be 1,700,000 shares.

ARTICLE 2 REPRESENTATIONS AND WARRANTIES

Innometal represents and warrants to Liquidmetal Korea that (i) it understands the contractual obligation of Liquidmetal Korea under the Settlement Ageement shall be deemed to be fully performed by delivering 1,700,000 shares of common stock of Liquidmetal Technologies Inc. to Innometal within the date specified above. (ii) it will not create any lien or other encumbrances on any part of the assets, contractual rights, or properties of Liquidmetal Korea for any claims with respect to the Dispute, (iii) this Amendment constitutes final and only settlement with respect to the Dispute, (iv) there will be no additional claim from Industrial Bank, Kookmin Bank or other creditors of Innometal with respect to the Liquidmetal's payment obligation per the Settlement Agreement.

Liquidmetal Korea represents and warrants to Innometal that (i) it will not create any lien or other encumbrances on any part of the assets, contractual rights, or properties of Innometal for any claims with respect to the Dispute, (ii) this Amendme nt constitutes final and only settlement with respect to the Dispute, (iii) there will be no additional claim from its Affiliates, employees, officers, directors, or any other related parties of Liquidmetal Korea with respect to the "Settlement Agreement".

ARTICLE 3 RELEASE

Each of Liquidmetal Korea and Innometal (each, the "RELEASOR") hereby agrees to absolutely, fully and forever release, waive, relinquish and discharge any and all claims which it may have against the other party and the other party's former or present officers, managers, directors, agents, employees, Affiliates, assigns and successors and/or any other interested parties (the "RELEASEE") arising from (i) any and all claims whatsoever that the Releasor may have had, presently has or in the future may have against any Releasee and which arise, have arisen or may hereinafter arise, in whole or in part, out of, on account of or in connection with the "Settlement Agreement".

ARTICLE 4 ACKNOWLEDGEMENT WITH RESPECT TO SETTLEMENT AGREEMENT

Both parties acknowledge and warrants that the Settlement Agreement shall be respected except for the Amendment set forth herein.

ARTICLE 5 EFFECTIVE DATE

This Agreement shall become effect ive upon signing by the parties.

ARTICLE 6 MISCELLANEOUS

6.1 Binding Effect on Successors

This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors.

6.2 Entire Agreement

This Agreement supersedes all previous representations, understandings or agreements, oral or w ritten, among the parties with respect to the subject matter hereof, and it contains the entire understanding of the parties. No changes, alterations or modifications hereto shall be effective unless made in writing and signed by the parties.

6.3 Dispute Resolution

The Suwon District Court shall have exclusive jurisdiction over actions related to disputes arising between the parties in connection with this Agreement.

6.4 Governing Law

The validity, performance, construction and effect of this Agreement shall be governed by the laws of the Republic of Korea.

6.5. English Language.

This Agreement is written in the English language, and if either party translates this Agreement into a language other than English, the parties agree that the English version of this Agreement will control.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives on the day and year first written above.

LIQUIDMETAL KOREA CO., LTD.	INNOMETAL CO., LTD.
/s/: Kyung Jin Kim	/s/: Keon Kook Lee
President & CEO	President and CEO
March 21, 2006	March 21, 2006

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into on April 19, 2006, and made effective as of **APRIL 1, 2006** (the "Effective Date"), by and between **LIQUIDMETAL TECHNOLOGIES, Inc.,** a Delaware corporation (the "Company"), **RICARDO A. SALAS** (the "Employee").

RECITALS

WHEREAS, the Employee desires to be employed by the Company upon the terms and conditions set forth in this Agreement; and

WHEREAS, the Company desires to assure itself of the Employee's continued employment in the capacities set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the parties hereto covenant and agree as follows:

1. **Employment.** The Company hereby employs Employee, and the Employee hereby accepts such employment, upon the terms and conditions set forth in this Agreement.

2. **Term**. Subject to the terms and conditions of this Agreement, including, but not limited to, the provisions for termination set forth in Section 5 hereof, the employment of the Employee under this Agreement shall commence on the Effective Date and shall continue through the close of business on **MARCH 31, 2011** (the "Initial Term"). Upon the expiration of the Initial Term, the Employee's employment with the Company will continue on an "at-will" basis and may be terminated by Employee or the Company for any reason and at any time, provided that the terminating party shall provide at least ninety (90) days prior written notice of the termination to the other party (unless the termination is With Cause as defined in this Agreement, in which case the Employee's employment may be terminated immediately). Notwithstanding the expiration of the Initial Term of this Agreement, the provisions of this Agreement other than those of Sections 1, 4, and 5, Term, Compensation, and Termination, respectively, shall remain in full force and effect. All other provisions of this Agreement, including but without limitation, Sections 2, 6, and 7, entitled Employment, Nonsolicitation and Nondisclosure Covenants, and Employee Inventions, respectively, shall survive the expiration of the Initial Term. Notwithstanding the expiration of the this Agreement or the termination of employment by any means by any party, Sections 2, 6, and 7, entitled Term, Nonsolicitation and Nondisclosure Covenants, and Employee Inventions, respectively, shall survive and remain fully enforceable.

3. **Duties**. Employee will initially serve as **PRESIDENT & CEO** of the Company. The Employee will devote the necessary business time, attention, skill, and energy to the business of the Company, will use the Employee's best efforts to promote the success of the Company's business, and will cooperate fully with the Board of Directors in the advancement of the best

interests of the Company. Furthermore, the Employee shall assume and competently perform such reasonable responsibilities and duties as may be assigned to the Employee from time to time by the Board of Directors and Chairman of the Board of the Company or their designee. To the extent that the Company shall have any parent company, subsidiaries, affiliated corporations, partnerships, or joint ventures (collectively "Related Entities"), the Employee shall perform such duties to promote these entities and to promote and protect their respective interests to the same extent as the interests of the Company without additional compensation. At all times, the Employee agrees that the Employee has read and will abide by, and prospectively will read and abide by, any employee handbook, policy, or practice that the Company or Related Entities has or hereafter adopts with respect to its employees generally.

4. **Compensation.**

(a) Annual Base Salary. As compensation for Employee's services and in consideration for the Employee's covenants contained in this Agreement, the Company shall pay the Employee an annual base salary of $300,000.00. The annual compensation (and commission rates, if applicable) may be adjusted upward or downward in the sole discretion of the Board of Directors or Chairman of the Board. For purposes of this Agreement, the term "Salary Year" means the one year, 365-day period (or 366 day period for a leap year) that begins on the Effective Date and each successive one year period thereafter.

(b) Bonuses. In addition to the Employee's annual base compensation, during the term of the Employee's employment hereunder, the Employee shall be entitled to only such bonuses or additional compensation as may be granted to the Employee by the Board of Directors or Chairman of the Board of the Company, in their sole discretion.

(c) Reimbursement of Expenses. The Employee shall be reimbursed for all reasonable and customary travel and other business expenses incurred by Employee in the performance of Employee's duties hereunder, provided that such reimbursement shall be subject to, and in accordance with, any expense reimbursement policies and/or expense documentation requirements of the Company that may be in effect from time to time.

(d) Option Grant. In addition to the foregoing, in consideration of the execution of this Agreement by the Employee, the Company shall, on the date hereof, grant to the employee an option to purchase up to500,000 shares of the common stock of the Company in accordance with a stock option agreement in the form set forth as Exhibit A hereto.

(e) Other Benefits. During the term of the Employee's employment hereunder, the Employee shall be eligible to participate in such pension, life insurance, health insurance, disability insurance and other benefits plans, if any, which the Company may from time to time make available to similar-level employees.

(f) Vacation. The Employee shall be entitled to **4 Weeks** paid vacation during each Salary Year during the term of the Employee's employment hereunder. Vacation shall be taken at such times and with such notice so as to not disrupt or interfere with the business of the Company. Unused vacation from a particular Salary Year will carry over to succeeding Salary Years up to a maximum of **3 Weeks**.

5. **Termination**.

(a) Death. The Employee's employment under this Agreement shall terminate immediately upon Employee's death. In the event of a termination pursuant to this Section 5(a), the Employee's estate shall be entitled to receive any unpaid base salary owing to Employee up through and including the date of the Employee's death.

(b) Disability. If, during the term of the Employee's employment hereunder, the Employee becomes physically or mentally disabled in the determination of a physician appointed or selected by the Company, or, if due to any physical or mental condition, the Employee becomes unable for a period of more than sixty (60) days during any six-month period to perform Employee's duties hereunder on substantially a full-time basis as determined by a physician selected by the Company, the Company may, at its option, terminate the Employee's employment upon not less than thirty (30) days written notice. In the event of a termination pursuant to this Section 5(b), the Employee shall be entitled to receive any unpaid base salary owing to Employee up through and including the effective date of Termination.

(c) Termination By Company Without Cause. In addition to the other termination provisions of this Agreement, the Company may terminate the Employee's employment at any time without cause (a "Termination Without Cause"). In the event of a Termination Without Cause, the Employee shall continue to receive the Employee's base salary (as then in effect) during the twenty-four month period immediately following the effective date of the Termination Without Cause (the "Severance Period"). In addition to the severance pay described in the preceding sentence, the Employee shall continue to receive, during the Severance Period, all employee health and welfare benefits that Employee would have received during the Severance Period in the absence of such termination. Employee agrees and acknowledges, however, that Employee will forfeit the right to receive base salary and benefits during the Severance Period immediately upon the Employee's breach of any covenant set forth in Section 6 of this Agreement. The Employee will also forfeit the right to salary and benefits during the Severance Period upon accepting employment with another employer with comparable salary and benefits hereunder shall be forfeited and shall cease upon the Employee becoming eligible for benefits from the Employee's new employer. Notwithstanding the foregoing, the termination of the Employee's employment pursuant to the second sentence of Section 2 of this Agreement shall not constitute a Termination Without Cause and shall not give rise to any severance payment or other benefits pursuant to this Section 5(c).

(d) Termination By Company With Cause. The Company may terminate the Employee's employment at any time with Cause. As used in this Agreement, "Cause" shall include the following: (1) the Employee's failure or inability to perform Employee's duties under this Agreement; (2) dishonesty or other serious misconduct, (3) the commission of an unlawful act material to Employee's employment, (4) a material violation of the Company's policies or practices which reasonably justifies immediate termination; (5) committing, pleading guilty, nolo contendre or no contest (or their equivalent) to, entering into a pretrial intervention or diversion program regarding, or conviction of, a felony or any crime or act involving moral turpitude, fraud, dishonesty, or misrepresentation; (6) the commission by the Employee of any act which could reasonably affect or impact to a material degree the interests of the Company or Related Entities

or in some manner injure the reputation, business, or business relationships of the Company or Related Entities; (7) the Employee's inability to perform an essential function of Employee's position; or (8) any material breach by Employee of this Agreement. The Company may terminate this Agreement for Cause at any time without notice. In the event of a termination for Cause, the Company shall be relieved of all its obligations to the Employee provided for by this Agreement as of the effective date of termination, and all payments to the Employee hereunder shall immediately cease and terminate as of such date, except that Employee shall be entitled to the annual base salary hereunder up to and including the effective date of termination, provided, however, that the Employee's obligations under Sections 6 and 7 shall survive such a Termination for Cause and any liabilities or obligations which have accrued and are owed by the Employee to the Company shall not be extinguished or released thereby.

6. **Nonsolicitation and Nondisclosure Covenants.**

(a) Rationale for Restrictions. Employee acknowledges that Employee's services hereunder are of a special, unique, and extraordinary character, and Employee's position with the Company places Employee in a position of confidence and trust with customers, suppliers, and other persons and entities with whom the Company and its Related Entities have a business relationship. The Employee further acknowledges that the rendering of services under this Agreement will likely require the disclosure to Employee of Confidential Information (as defined below) including Trade Secrets of the Company relating to the Company and/or Related Entities. As a consequence, the Employee agrees that it is reasonable and necessary for the protection of the goodwill and legitimate business interests of the Company and Related Entities that the Employee make the covenants contained in this Section 6, that such covenants are a material inducement for the Company to employ the Employee and to enter into this Agreement, and that the covenants are given as an integral part of and incident to this Agreement.

(b) Nonsolicitation Covenants. As used herein, the term "Restrictive Period" means the time period commencing on the Effective Date of this Agreement and ending on the second (2nd) anniversary of the date on which the Employee's employment by the Company (or any Related Entity) expires or is terminated for any reason, including both a termination by the Company for Cause and Not for Cause. In addition, the term "Covered Business" means any business which is the same as, or similar to, any business conducted by the Company or any of the Related Entities at any time during the Restrictive Period. The Employee agrees that the Employee will not engage in any of the following acts anywhere in the world during the Restrictive Period:

(i) directly or indirectly assist, promote or encourage any existing or potential employees, customers, clients, or vendors of the Company or any Related Entity, as well as any other parties which have a business relationship with the Company or a Related Entity, to terminate, discontinue, or reduce the extent of their relationship with the Company or a Related Entity;

(ii) directly or indirectly solicit business of the same or similar type as a Covered Business, from any person or entity known by the Employee to be a customer or client of the Company, whether or not the Employee had

contact with such person or entity during the Employee's employment with the Company;

(iii) disparage the Company, any Related Entities, and/or any shareholder, director, officer, employee, or agent of the Company or any Related Entity; and/or

(iv) engage in any practice the purpose of which is to evade the provisions of this Section 6 or commit any act which adversely affects the Company, any Related Entity, or their respective businesses.

Employee acknowledges that Employee's services hereunder are of a special, unique, and extraordinary character, and Employee's position with the Company places Employee in a position of confidence and trust with customers, suppliers, and other persons and entities with whom the Company and its Related Entities have a business relationship. The Employee further acknowledges that the rendering of services under this Agreement will likely require the disclosure to Employee of Confidential Information (as defined below) and Trade Secrets (as defined below) of the Company relating to the Company and/or Related Entities. As a consequence, the Employee agrees that it is reasonable and necessary for the protection of the goodwill and legitimate business interests of the Company and Related Entities that the Employee make the covenants contained in this Section 6, that such covenants are a material inducement for the Company to employ the Employee and to enter into this Agreement, and that the covenants are given as an integral part of and incident to this Agreement. Accordingly, the Employee agrees that the geographic scope of the above covenants is a reasonable means of protecting the Company's (and the Related Entities') legitimate business interests. Notwithstanding the foregoing covenants, nothing set forth in this Agreement shall prohibit the Employee from owning the securities of (i) corporations which are listed on a national securities exchange or traded in the national over-the-counter market in an amount which shall not exceed 5% of the outstanding shares of any such corporation or (ii) any corporation, partnership, firm or other form of business organization which does not compete with, is not engaged in, and does not carry on any aspect of, either directly or indirectly through a subsidiary or otherwise, any Covered Business.

(c) Disclosure of Confidential Information. The Employee acknowledges that the inventions, innovations, software, Trade Secrets, business plans, financial strategies, finances, and all other confidential or proprietary information with respect to the business and operations of the Company and Related Entities are valuable, special, and unique assets of the Company. Accordingly, the Employee agrees not to, at any time whatsoever either during or after the Employee's term of employment with the Company, disclose, directly or indirectly, to any person or entity, or use or authorize any person or entity to use, any confidential or proprietary information with respect to the Company or Related Entities without the prior written consent of the Company, including, without limitation, information as to the financial condition, results of operations, identities of clients or prospective clients, products under development, acquisition strategies or acquisitions under consideration, pricing or cost information, marketing strategies, passwords or codes or any other information relating to the Company or any of the Related Entities which could be reasonably regarded as confidential (collectively referred to as "Confidential Information"). However, the term "Confidential Information" does not include any

information which is or shall become generally available to the public other than as a result of disclosure by the Employee or by any person or entity which the Employee knows (or which the Employee reasonably should know) has a duty of confidentiality to the Company or a Related Entity with respect to such information. In addition to the foregoing, Company will be fully entitled to all of the protections and benefits afforded by the California Uniform Trade Secrets Acts and any other applicable law. Trade Secret shall mean information, including a formula, pattern, compilation, program, device, method technique, or process that derives independent economic value, actual or potential, from being not generally known to, and not being readily ascertainable by proper means by, other persons who can derive economic value from its disclosure or use, including but not limited to the patented information and processes as well as the unpatented information and processes comprising, underlying, arising from, and associated with Liquidmetal Alloy and Liquidmetal Coatings used by the Company.

(d) Prevention of Premature Disclosure of Confidential Information and Trade Secrets. The Employee agrees and acknowledges that, because the success of the Company is heavily dependent upon maintaining the secrecy of the Company's Confidential Information and Trade Secrets and preventing the premature public disclosure of the Company's proprietary information and technology including its Confidential Information and Trade Secrets, the Employee agrees to use the Employee's best efforts and his or her highest degree of care, diligence, and prudence to ensure that no Confidential Information or Trade Secret prematurely leaks or otherwise prematurely makes its way into the public domain or any public forum, including, without limitation, into any trade publications, internet chat rooms, or other similar forums. In the event that the Employee becomes aware of any premature leak of Confidential Information or Trade Secret or becomes aware of any circumstances creating a risk of such a leak, the Employee shall immediately inform the Board of Directors, the Chief Executive Officer, or the Employee's supervisor of such leak or of such circumstances.

(e) Removal and Return of Proprietary Items. The Employee will not remove from the Company's premises (except to the extent such removal is for purposes of the performance of the Employee's duties at home or while traveling, and under such conditions and restrictions as are specifically authorized and/or required by the Company) or transmit by any means, electronic or otherwise, any document, record, notebook, plan, model, component, device, computer software or code, or Confidential Information or Trade Secret whether embodied in a disk or in any other form, including electronic form (collectively, the "Proprietary Items"). The Employee recognizes that, as between the Company and the Employee, all of the Proprietary Items, whether or not developed by the Employee, are the exclusive property of the Company. Upon termination of Employee's employment with the Company by either party (regardless of the reason for termination), or upon the request of the Company during the term of employment, the Employee will return to the Company all of the Proprietary Items in the Employee's possession or subject to the Employee's control, and the Employee shall not retain any copies, abstracts, sketches, or other physical embodiment of any of the Proprietary Items, Confidential Information, Trade Secret or any part thereof.

(f) Enforcement and Remedies. In the event of any breach of any of the covenants set forth in this Section 6, the Employee recognizes that the remedies at law will be inadequate and that in addition to any relief at law which may be available to the Company for

such violation or breach and regardless of any other provision contained in this Agreement, the Company shall be entitled to equitable remedies (including an injunction) and such other relief as a court may grant after considering the intent of this Section 6. Additionally, the period of time applicable to any covenant set forth in this Section 6 will be extended by the duration of any violation by Employee of such covenant. In the event a court of competent jurisdiction determines that any of the covenants set forth in this Section 6 are excessively broad as to duration, geographic scope, prohibited activities or otherwise, the parties agree that this covenant shall be reduced or curtailed to the extent, but only to the extent, necessary to render it enforceable.

7. **Employee Inventions**.

(a) Definition. For purposes of this Agreement, "Employee Invention" means any idea, invention, technique, modification, process, or improvement (whether patentable or not), any industrial design (whether registerable or not), any mask work, however fixed or encoded, that is suitable to be fixed, embedded or programmed in a semiconductor product (whether recordable or not), and any work of authorship (whether or not copyright protection may be obtained for it) created, conceived, or developed by the Employee, either solely or in conjunction with others, during the Employee's employment with the Company or during the twenty four (24) month period following such employment, that relates in any way to, or is useful in any manner in, the businesses then being conducted or proposed to be conducted by the Company or any Related Entity.

(b) Ownership of Employee Inventions. Employee agrees and acknowledges that all Employee Inventions will belong exclusively to the Company and that all Employee Inventions are works made for hire and the property of the Company, including any copyrights, patents, semiconductor mask protection, or other intellectual property rights pertaining thereto. If it is determined that any such works are not works made for hire, the Employee hereby assigns to the Company all of the Company's right, title, and interest, including all rights of copyright, patent, semiconductor mask protection, and other intellectual property rights, to or in such Employee Inventions. The Employee covenants that the Employee will promptly:

(i) disclose to the Company in writing any Employee Invention;

(ii) assign to the Company or to a party designated by the Company, at the Company's request and without additional compensation, all of the Employee's right to the Employee Invention for the United States and all foreign jurisdictions;

(iii) execute and deliver to the Company such applications, assignments, and other documents as the Company may request in order to apply for and obtain patents or other registrations with respect to any Employee Invention in the United States and any foreign jurisdictions;

(iv) sign all other papers necessary to carry out the above obligations; and

(v) give testimony and render any other assistance in support of the Company's rights to any Employee Invention.

8. **Essential and Independent Covenants**. The Employee's covenants in Sections 6 and 7 of this Agreement are independent covenants, and the existence of any claim by the Employee against the Company under this Agreement or otherwise will not excuse the Employee's breach of any covenant in Section 6 or 7. The covenants of Sections 6 and 7 shall survive the termination, extinguishment, or lapse of this Agreement under any circumstances, even if this Agreement is terminated by either party, whether for Cause or Not for Cause.

9. **Representations and Warranties by The Employee**. The Employee represents and warrants to the Company that the execution and delivery by the Employee of this Agreement do not, and the performance by the Employee of the Employee's obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (a) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to the Employee, or (b) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which the Employee is a party or by which the Employee is or may be bound, including, without limitation, any noncompetition agreement or similar agreement. Employee further represents and warrants that he fully and completely understands this Agreement and that he has engaged in negotiations with the Company and has either consulted with an attorney of his choice or has had ample opportunity to do so and is fully satisfied with the opportunity he has had.

10. **Notices**. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when hand-delivered, sent by facsimile transmission (as long as receipt is acknowledged), or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the address or facsimile number for each party set forth on the signature page hereto, or to such other address or facsimile number as either party may have furnished to the other in writing in accordance herewith, except that a notice of change of address shall be effective only upon receipt.

11. **Miscellaneous**. No provision of this Agreement may be modified or waived unless such waiver or modification is agreed to in writing signed by both of the parties hereto. No waiver by any party hereto of any breach by any other party hereto shall be deemed a waiver of any similar or dissimilar term or condition at the same or at any prior or subsequent time. This Agreement is the entire agreement between the parties hereto with respect to the Employee's employment by the Company, and there are no agreements or representations, oral or otherwise, expressed or implied, with respect to or related to the employment of the Employee which are not set forth in this Agreement. This Agreement shall be binding upon, and inure to the benefit of, the Company, its respective successors and assigns, and the Employee and Employee's heirs, executors, administrators and legal representatives. The duties and covenants of the Employee under this Agreement, being personal, may not be delegated or assigned by the Employee without the prior written consent of the Company, and any attempted delegation or assignment without such prior written consent shall be null and void and without legal effect. The parties agree that if any provision of this Agreement shall under any circumstances be deemed invalid or inoperative,

the Agreement shall be construed with the invalid or inoperative provision deleted and the rights and obligations of the parties shall be construed and enforced accordingly. This Agreement may be assigned by the Company without the consent of the Employee, provided, however, that the Employee is given notice of the assignment.

12. **Governing Law; Resolution of Disputes**. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of California without regard to principles of choice of law or conflicts of law thereunder. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against either of the parties in the courts of the State of California, County of Orange, or, if it has or can acquire jurisdiction, in the federal courts located in, Orange County, California, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in

any action or proceeding referred to in the preceding sentence may be served on either party anywhere in the world. The parties hereto agree that having venue and jurisdiction solely in California is reasonable in that the headquarters for the Company is in Orange County, California and that site for litigation is the most central for such matters. THE PARTIES HEREBY WAIVE A JURY TRIAL IN ANY LITIGATION ARISING UNDER OR RELATING TO THIS AGREEMENT OR THE EMPLOYMENT OF THE EMPLOYEE WITH THE COMPANY. This Agreement shall not be construed against either party but shall be construed without regard to the participation of either party in the drafting of this Agreement or any part thereof.

13. **Counterparts; Facsimile Signatures**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may be effective upon the execution and delivery by any party hereto of facsimile copies of signature pages hereto duly executed by such party; provided, however, that any party delivering a facsimile signature page covenants and agrees to deliver promptly after the date hereof two (2) original copies to the other party hereto.

14. **Modification By The Court**. In the event that any provision or Section of this Agreement violates any law of the state of California or is for some other reason unenforceable as written in the state of California, the Employee and the Company agree that the unenforceable provision or Section should not cause the entire Agreement to become unenforceable unless it is caused to fail in its essential purpose. In the event that any provision or Section of this Agreement violates any law of the state of California or is for some other reason unenforceable as written in the state of California, the Employee agrees that the provision should be reduced in scope or length or otherwise modified by the Court, if possible under the law, to cause the provision or Section of the Agreement to be legal and enforceable but to still provide to the Company the maximum protection available to it under the law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

LIQUIDMETAL TECHNOLOGIES, Inc.

By: /s/ John Kang
John Kang, Chairman

Liquidmetal Technologies
25800 Commercentre Drive
Suite 100
Lake Forest, CA
92630
Facsimile Number: 949.206.8008

EMPLOYEE

By: /s/ Ricardo A. Salas

Printed Name: RICARDO A. SALAS

Address and Facsimile Number:

64 RITZ COVE DRIVE

MONARCH BEACH, CA 92629

FAX: (949) 315-3096

Exhibit 10.65

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (this "Agreement") is made and entered into effective as of April 12, 2006 (the "Effective Date"), by and between **LIQUIDMETAL TECHNOLOGIES**, Inc.**,** a Delaware corporation (the "Company"), and **William Johnson** an individual (the "Consultant").

RECITALS

WHEREAS, upon the terms and conditions set forth in this Agreement, the Company desires to engage the Consultant to provide consulting services to the Company; and

WHEREAS, the Consultant desires to provide consulting services to the Company upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the parties hereto covenant and agree as follows:

1. **Consulting Engagement.** The Company hereby engages the Consultant to provide consulting services to the Company, and the Consultant hereby accepts such engagement, upon the terms and conditions set forth in this Agreement. The consulting services to be provided by the Consultant hereunder will be provided on an as-needed basis (as requested by the Company, in its discretion), and such consulting services will consist of the provision of advice, information, and consultation regarding the development, manufacture, fabrication, marketing, distribution, and sale of amorphous metal alloys. These business development actions will include government and commercial research and development as well as product development (collectively, the "Consulting Services"). Under this Agreement, Consultant will be required to provide approximately eight (8) hours of Consulting Services each calendar week, unless otherwise agreed upon by both parties. To the extent that the Company shall have any parent company, subsidiaries, affiliated corporations, partnerships, or joint ventures (collectively "Related Entities"), the Consultant shall, without additional compensation, perform the Consulting Services for these entities, during the term of this agreement, to the same extent as for the Company.

2. **Term**. Subject to the terms and conditions of this Agreement, including, but not limited to, the provisions for early termination set forth in Section 5 hereof, the consulting engagement of the Consultant under this Agreement shall commence as of January 1, 2006 (for past services provided from January 1, 2006 thru the date of this agreement) and shall continue through December 31, 2006 (the "Consulting Term").

3. **Independent Contractor**. At all times during the Consultant's engagement, the Consultant will act as an independent contractor. The Consultant will not be considered an employee of the Company for any purpose and will not be entitled to any of the benefits that the Company may provide for its employees. Moreover, it is expressly agreed by the parties that no agency relationship is, or will be deemed to have been, created by this Agreement, and no party will by reason of this Agreement have the power or authority to bind any other party contractually or otherwise. The Consultant will be solely responsible for the payment and reporting of any and all federal and state taxes and withholdings due on amounts paid hereunder, and Company will not withhold any amounts for federal, state or local income taxes or taxes, assessments or withholding liabilities, and the Consultant will indemnify and hold Company harmless from and against any costs, damages or liabilities relating to any

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such taxes, assessments or withholdings. In addition to the foregoing, nothing set forth in this Agreement shall be construed as creating a partnership or joint venture between the Consultant and the Company.

4. **Consulting Fees and Expenses.**

(a) Fee. As compensation for Consultant's services and in consideration for the Consultant's covenants contained in this Agreement, the Company shall pay the Consultant a total consulting fee of ***Sixty thousand dollars ($60,000)*** (the "Consulting Fee"). The Consulting Fee shall be payable monthly in arrears, and following receipt of invoice from the Consultant.

(b) Reimbursement of Expenses. The Consultant shall be reimbursed for standard travel expenses (coach airfare, moderate lodging, standard rental car, etc.), plus other reasonable and customary business expenses incurred by the Consultant and approved by the Company in connection with the performance of Consulting Services hereunder, provided that such reimbursement shall be subject to, and in accordance with, any travel policies, expense reimbursement policies and/or expense documentation requirements of the Company that may be in effect from time to time.

5. **Termination**.

(a) Death. The Consulting Term shall terminate early immediately upon Consultant's death. In the event of a termination pursuant to this Section 5(a), the Consultant's estate shall be entitled to receive any unpaid Consulting Fees owing to Consultant up through and including the date of the Consultant's death.

(b) Termination By Consultant. Consultant may, prior to the scheduled expiration of the Consulting Term, terminate the Consulting Term at any time without cause and without penalty, provided that at least thirty (30) days' prior written notice of termination is provided by the Consultant to the Company. In the event of a termination pursuant to this Section 5(b), the Consultant shall be entitled to receive any unpaid Consulting Fees owing to Consultant up through and including the effective date of the termination of the Consulting Term.

(c) Termination By Company With Cause. The Company may terminate the Consulting Term at any time with Cause. As used in this Agreement, "Cause" shall include the following: (1) the Consultant's failure or inability to perform Consultant's duties under this Agreement; (2) dishonesty or other serious misconduct, (3) the commission of an unlawful act material to Consultant's engagement hereunder, (4) a material violation of the Company's policies or practices which reasonably justifies immediate termination; (5) committing, pleading guilty, nolo contendre or no contest (or their equivalent) to, entering into a pretrial intervention or diversion program regarding, or conviction of, a felony or any crime or act involving moral turpitude, fraud, dishonesty, or misrepresentation; (6) the commission by the Consultant of any act which could reasonably affect or impact to a material degree the interests of the Company or Related Entities or in some manner injure the reputation, business, or business relationships of the Company or Related Entities; or (7) any material breach by the Consultant of this Agreement. The Company may terminate the Consulting Term for Cause at any time without notice. In the event of a termination for Cause, the Company shall be relieved of all its obligations to the Consultant provided for by this Agreement as of the effective date of

termination, and all payments to the Consultant hereunder shall immediately cease and terminate as of such date, except that Consultant shall be entitled to the Consulting Fee hereunder up to and including the effective date of termination.

(d) Survival of Certain Provisions. The provisions set forth in Sections 6 through 13 of this Agreement shall survive the expiration or termination of the Consulting Term, regardless of the reason for termination and regardless of which party causes the termination.

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6. **Nonsolicitation and Nondisclosure Covenants.**

(a) Rationale for Restrictions. Consultant acknowledges that the Consulting Services to be provided hereunder are of a special, unique, and extraordinary character, and Consultant's engagement by the Company places Consultant in a position of confidence and trust with customers, suppliers, and other persons and entities with whom the Company and its Related Entities have a business relationship. The Consultant further acknowledges that the rendering of services under this Agreement will likely require the disclosure to Consultant of Confidential Information (as defined below) relating to the Company and/or Related Entities. As a consequence, the Consultant agrees that it is reasonable and necessary for the protection of the goodwill and legitimate business interests of the Company and Related Entities that the Consultant make the covenants contained in this Section 6, that such covenants are a material inducement for the Company to engage the Consultant and to enter into this Agreement, and that the covenants are given as an integral part of and incident to this Agreement.

(b) Nonsolicitation Covenants. As used herein, the term "Restrictive Period" means the time period commencing on the Effective Date of this Agreement and ending on the second (2nd) anniversary of the date on which the Consulting Term expires or is terminated. In addition, the term "Covered Business" means any business which is the same as, or similar to, any business conducted by the Company or any of the Related Entities at any time during the Restrictive Period. The Consultant agrees that the Consultant will not engage in any of the following acts anywhere in the world during the Restrictive Period:

(i) directly or indirectly assist, promote or encourage any existing or potential employees, customers, clients, or vendors of the Company or any Related Entity, as well as any other parties which have a business relationship with the Company or a Related Entity, to terminate, discontinue, or reduce the extent of their relationship with the Company or a Related Entity;

(ii) directly or indirectly solicit business of the same or similar type as a Covered Business, from any person or entity known by the Consultant to be a customer or client of the Company, whether or not the Consultant had contact with such person or entity during the Consultant's engagement by the Company;

(iii) disparage the Company, any Related Entities, and/or any shareholder, director, officer, employee, or agent of the Company or any Related Entity; and/or

(iv) engage in any practice the purpose of which is to evade the provisions of this Section 6 or commit any act which adversely affects the Company, any Related Entity, or their respective businesses.

The Consultant acknowledges and agrees that, in light of the unique nature of the Company's business, the Company will market its products on a worldwide basis and will compete with various companies and businesses across and world. Accordingly, the Consultant agrees that the geographic scope of the above covenants is a reasonable means of protecting the Company's (and the Related Entities') legitimate business interests.

(c) Disclosure of Confidential Information. The Consultant acknowledges that the inventions, innovations, software, trade secrets, business plans, financial strategies, finances, and all other confidential or proprietary information with respect to the business and operations of the Company and Related Entities are valuable, special, and unique assets of the Company. Accordingly, the Consultant agrees not to, at any time whatsoever either during or after the Consulting Term, disclose,

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directly or indirectly, to any person or entity, or use or authorize any person or entity to use, any confidential or proprietary information with respect to the Company or Related Entities without the prior written consent of the Company, including, without limitation, information as to the financial condition, results of operations, identities of clients or prospective clients, products under development, acquisition strategies or acquisitions under consideration, pricing or cost information, marketing strategies or any other information relating to the Company or any of the Related Entities which could be reasonably regarded as confidential (collectively referred to as "Confidential Information"). However, the term "Confidential Information" does not include any information which is or shall become generally available to the public other than as a result of disclosure by the Consultant or by any person or entity which the Consultant knows (or which the Consultant reasonably should know) has a duty of confidentiality to the Company or a Related Entity with respect to such information. In addition to the foregoing, Company will be fully entitled to all of the protections and benefits afforded by the Florida Uniform Trade Secrets Act and other applicable law.

Notwithstanding the foregoing, the Company acknowledges that technology and know-how related to the Company's core technology have been and continue to be the subject of research in the Johnson research group at the Department of Materials Science for the California Institute of Technology (CIT). Consultant's past, present, and continuing federally sponsored research projects at CIT have dealt with and continue to deal with the development of bulk amorphous alloys (bulk metallic glasses), composites, and engineering properties of these materials. These included current federally supported research projects sponsored by NASA, NSF, and DARPA. The areas of research and development being investigated under these CIT projects have substantial overlap with "core technology", intellectual property position, and research activities within the Company. The Company acknowledges that CIT policies alone govern these CIT research projects and that Consultant, as CIT faculty member, is bound by these policies. Consultant has specific obligations to CIT and his research group at CIT and Consultant's employment agreement at CIT permits him to consult, participate in the creation of startup companies, and actively participate in transferring technology developed at CIT to the Company. It also recognizes the importance of protecting intellectual property developed at and assignable to CIT by way of patents, licensing agreements, and copyright agreements and requires Consultant to maintain and protect CIT's interest in this regard. It also imposes strict adherence to the concept of free and open dissemination of research results developed and/or discovered at CIT. Members of the

CIT community, and specifically Johnson's research group at CIT, should be unrestricted and free to disseminate and publish research results obtained in CIT research projects in the form of publications, conference presentations, conference proceedings, informal discussions, and presentations to colleagues.

(d) Prevention of Premature Disclosure of Information. The Consultant agrees and acknowledges that, because the success of the Company is heavily dependent upon maintaining the secrecy of the Company's Confidential Information and preventing the premature public disclosure of the Company's proprietary information and technology, the Consultant agrees to use the Consultant's best efforts and his highest degree of care, diligence, and prudence to ensure that no Confidential Information prematurely leaks or otherwise prematurely makes its way into the public domain or any public forum, including, without limitation, into any trade publications, internet chat rooms, or other similar forums. In the event that the Consultant becomes aware of any premature leak of Confidential Information or becomes aware of any circumstances creating a risk of such a leak, the Consultant shall immediately inform the Company of such leak or of such circumstances.

(e) Removal and Return of Proprietary Items. The Consultant will not remove from the Company's premises (except to the extent such removal is for purposes of the performance of the Consulting Services at home or while traveling, or except as otherwise specifically authorized by the

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Company) any document, record, notebook, plan, model, component, device, or computer software or code, whether embodied in a disk or in any other form (collectively, the "Proprietary Items"). The Consultant recognizes that, as between the Company and the Consultant, all of the Proprietary Items, whether or not developed by the Consultant, are the exclusive property of the Company. Upon expiration or termination of the Consulting Term, or upon the request of the Company during the Consulting Term, the Consultant will return to the Company all of the Proprietary Items in the Consultant's possession or subject to the Consultant's control, and the Consultant shall not retain any copies, abstracts, sketches, or other physical embodiment of any of the Proprietary Items.

(f) Enforcement and Remedies. In the event of any breach of any of the covenants set forth in this Section 6, the Consultant recognizes that the remedies at law will be inadequate and that in addition to any relief at law which may be available to the Company for such violation or breach and regardless of any other provision contained in this Agreement, the Company shall be entitled to equitable remedies (including an injunction) and such other relief as a court may grant after considering the intent of this Section 6. Additionally, the period of time applicable to any covenant set forth in this Section 6 will be extended by the duration of any violation by the Consultant of such covenant. In the event a court of competent jurisdiction determines that any of the covenants set forth in this Section 6 are excessively broad as to duration, geographic scope, prohibited activities or otherwise, the parties agree that this covenant shall be reduced or curtailed to the extent, but only to the extent, necessary to render it enforceable.

7. **Work Product**.

(a) Definition. For purposes of this Agreement, "Work Product" means any idea, invention, technique, modification, process, or improvement (whether patentable or not), any industrial design (whether registerable or not), any mask work, however fixed or encoded, that is suitable to be fixed, embedded or programmed in a semiconductor product (whether recordable or not), and any work of authorship (whether or not copyright protection may be obtained for it) created, conceived, or developed by the Consultant, either solely or in conjunction with others, during the Consulting Term or during the six (6) month period following the Consulting Term, that relates in any way to amorphous alloys or composite materials containing amorphous alloys (including, but not limited to, the composition, processing, manufacturing properties, or application of amorphous alloys or composites thereof, except that innovations in the preparation of titanium, zirconium, hafnium, vanadium, niobium, tantalum, and any of their alloys with any element(s) by the so-called Fray, FFC, or Cambridge Process are specifically excluded.

(b) Ownership of Work Product. Consultant agrees and acknowledges that all Work Product will belong exclusively to the Company and that all items of Work Product are works made for hire and the property of the Company, including any copyrights, patents, semiconductor mask protection, or other intellectual property rights pertaining thereto. If it is determined that any such works are not works made for hire, the Consultant hereby assigns to the Company all of the Consultant's right, title, and interest, including all rights of copyright, patent, semiconductor mask protection, and other intellectual property rights, to or in such Work Product. The Consultant covenants that the Consultant will promptly:

(i) disclose to the Company in writing any Work Product;

(ii) assign to the Company or to a party designated by the Company, at the Company's request and without additional compensation, all of the Consultant's right to the Work Product for the United States and all foreign jurisdictions;

(iii) execute and deliver to the Company such applications, assignments, and other documents as the Company may request in order to apply for and obtain patents or other registrations with respect to any Work Product in the United States and any foreign jurisdictions;

(iv) sign all other papers necessary to carry out the above obligations; and

(v) give testimony and render any other assistance in support of the Company's rights to any Work Product.

8. **Essential and Independent Covenants**. The Consultant's covenants in Sections 6 and 7 of this Agreement are independent covenants, and the existence of any claim by the Consultant against the Company under this Agreement or otherwise will not excuse the Consultant's breach of any covenant in Section 6 or 7.

9. **Representations and Warranties by The Consultant**. The Consultant represents and warrants to the Company that the execution and delivery by the Consultant of this Agreement do not, and the performance by the Consultant of the Consultant's obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (a) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to the Consultant, or (b) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any

agreement to which the Consultant is a party or by which the Consultant is or may be bound, including, without limitation, any noncompetition agreement or similar agreement.

10. **Notices**. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when hand-delivered, sent by facsimile transmission (as long as receipt is acknowledged), or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the address or facsimile number for each party set forth on the signature page hereto, or to such other address or facsimile number as either party may have furnished to the other in writing in accordance herewith, except that a notice of change of address shall be effective only upon receipt.

11. **Miscellaneous**. No provision of this Agreement may be modified or waived unless such waiver or modification is agreed to in writing signed by both of the parties hereto. No waiver by any party hereto of any breach by any other party hereto shall be deemed a waiver of any similar or dissimilar term or condition at the same or at any prior or subsequent time. This Agreement is the entire agreement between the parties hereto with respect to the Consultant's engagement by the Company, and there are no agreements or representations, oral or otherwise, expressed or implied, with respect to or related to the engagement of the Consultant which are not set forth in this Agreement. This Agreement shall be binding upon, and inure to the benefit of, the Company, its respective successors and assigns, and the Consultant and Consultant's heirs, executors, administrators and legal representatives. The duties and covenants of the Consultant under this Agreement, being personal, may not be delegated or assigned by the Consultant without the prior written consent of the Company, and any attempted delegation or assignment without such prior written consent shall be null and void and without legal effect. The parties agree that if any provision of this Agreement shall under any circumstances be deemed invalid or inoperative, the Agreement shall be construed with the invalid or inoperative provision deleted and the rights and obligations of the parties shall be construed and enforced accordingly.

12. **Governing Law; Resolution of Disputes**. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of California without regard to

principles of choice of law or conflicts of law thereunder. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against either of the parties in the courts of the State of California, County of Orange, or, if it has or can acquire jurisdiction, in the United States District Court located in Orange County, California, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on either party anywhere in the world. THE PARTIES HEREBY WAIVE A JURY TRIAL IN ANY LITIGATION ARISING UNDER OR RELATING TO THIS AGREEMENT.

13. **Counterparts; Facsimile Signatures**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may be effective upon the execution and delivery by any party hereto of facsimile copies of signature pages hereto duly executed by such party; provided, however, that any party delivering a facsimile signature page covenants and agrees to deliver promptly after the date hereof two (2) original copies to the other party hereto.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

LIQUIDMETAL TECHNOLOGIES

By: /s/ Ricardo A. Salas
Ricardo A. Salas, CEO and President

Liquidmetal Technologies
25800 Commercentre Drive, Suite 100
Lake Forest, CA 92630
Facsimile Number: (949) 206-8008

CONSULTANT

By: /s/ William Johnson
William Johnson, Individual

3546 Mountain View Street
Pasadena, CA 91107

Exhibit 23.1

Consent of Registered Independent Public Accounting Firm

Board of Directors
Liquidmetal Technologies, Inc.

We consent to the incorporation by reference of our report of Independent Registered Public Accounting Firm dated February 23, 2006 on the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for the year ended December 31, 2005 included in Amendment No. 1 to the Registration Statement on Form S-1 [Registration No. 333-130251] to be filed on approximately April 19, 2006 registering 11,448,998 shares held by selling stockholders. We also consent to the reference to us as experts in matters of accounting and auditing in the registration statement and prospectus.

/s/ Choi, Kim & Park, LLP.

CERTIFIED PUBLIC ACCOUNTANTS

Los Angeles, California
April 19, 2006

Exhibit 23.2

Consent of Registered Independent Public Accounting Firm

Board of Directors
Liquidmetal Technologies, Inc.

We consent to the use of our report of Independent Registered Public Accounting Firm dated March 3, 2005 on the consolidated balance sheet as of December 31, 2004, and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for each of the two years in the period ended December 31, 2004 included in Amendment No. 1 to the Registration Statement on Form S-1 [Registration No. 333-130251] to be filed on approximately April 19, 2006 registering 11,448,998 shares held by selling stockholders. We also consent to the reference to us as experts in matters of accounting and auditing in the registration statement and prospectus.

/s/ Stonefield Josephson, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Irvine, California
April 19, 2006

FOLEY & LARDNER LLP
ATTORNEYS AT LAW

100 NORTH TAMPA STREET, SUITE 2700
TAMPA, FL 33602-5810
P.O. BOX 3391
TAMPA, FL 33601-3391
813.229.2300 TEL
813.221.4210 FAX
www.foley.com

April 19, 2006

WRITER'S DIRECT LINE
813.225.4122
ccreely@foley.com Email
078489-0103

Pamela Long, Assistant Director
Andrew Schoeffler, Staff Attorney
Securities and Exchange Commission
Division of Corporate Finance
100 F. Street N.E.
Washington, D.C. 20549

Re: Liquidmetal Technologies, Inc.
Registration Statement on Form S-1 filed on December 9, 2005
File Number 333-130251

Dear Ms. Long and Mr. Schoeffler:

On behalf of Liquidmetal Technologies, Inc. (the "Company"), we are transmitting herewith Amendment No. 1 ("Amendment No. 1") to the Form S-1 Registration Statement that was originally filed by the Company on December 9, 2005 (the "Registration Statement"). Set forth below are the Company's responses to the Staff's comments to the Registration Statement, as set forth in the Staff's letter of January 5, 2006. For your convenience, the full text of each of the Staff's comments is set forth below, and the Company's response to each comment directly follows the applicable text.

For the information of the Staff and in response to the Staff's comments in its letter of January 5, please be advised that the Company also previously filed on March 16, 2006 the following documents, each of which is referred to in various parts of this letter:

- Amendment No. 2 to the Company's Form 10-K for the fiscal year ended December 31, 2004 (the "10-K/A");
- Amendment No. 1 to the Company's Form 10-Q for the quarter ended March 31, 2005 (the "First Quarter 10-Q/A");
- Amendment No. 2 to the Company's Form 10-Q for the quarter ended June 30, 2005 (the "Second Quarter 10-Q/A"); and
- Amendment No. 1 to the Company's Form 10-Q for the quarter ended September 30, 2005 (the "Third Quarter 10-Q/A").

Registration Statement on Form S-1

1. *We note the disclosure in Note 2 to your financial statements beginning on page F-9 regarding your ability to continue as a going concern. Please add disclosure under an appropriately titled heading that provides a detailed discussion of your plan to continue in existence as a going concern.*

RESPONSE: In response to this comment, the Company has added the following disclosure to the Registration Statement:

- In the "BUSINESS" section of the Registration Statement, the Company has added a subsection captioned "Going Concern" that includes a detailed discussion of the Company's plan to continue in existence as a going concern. See page 55 of Amendment No. 1.
- In the "PROSPECTUS SUMMARY" section of the Registration Statement, the Company has changed the "Risk Factors" caption to "Risk Factors/Going Concern" and has added disclosure under this caption about the Company's plan to continue in existence as a going concern. Please be advised that the added disclosure is a summary version of the new disclosure included under the "Going Concern" caption in the "BUSINESS" section, as described in the preceding bullet point. See page 2 of Amendment No. 1.
- The Company has made substantial revisions to the "Liquidity and Capital Resources" section of the MD&A to include information about the Company's plan to continue in existence as a going concern. Please see page 38 of Amendment No. 1.

2. *It appears that each of the convertible notes and warrants contains anti-dilution adjustments to the number of securities issuable thereunder in the event of any equity issuances, subject to certain exceptions, by your company at an effective price less than the applicable conversion or exercise price. Please describe these provisions in reasonable detail and illustrate the impact of the adjustments. In addition, please discuss the likelihood that these provisions will be triggered in light of the current market price of your common stock, which appears to be trading below $1.00 per share,*

and the fact that you have been issued a going concern opinion and may have to issue additional equity securities to finance your operations. Finally, please add risk factor disclosure regarding the risks to your stockholders arising from these anti-dilution provisions.

RESPONSE: The Company has added a new section under "DESCRIPTION OF CAPITAL STOCK" that explains the anti-dilution rights in the notes and warrants. This new section is captioned "Anti-Dilution Provisions in Notes and Warrants," and it begins

on page 77 of Amendment No. 1. Also, on page 17 of Amendment No. 1, the Company has added a new risk factor that discusses the risk associated with these anti-dilution provisions.

3. *Please note that Rule 416 may not be used to register for resale an indeterminate amount of shares resulting from the operation of a conversion formula. The anti-dilution provisions contemplated by Rule 416 are those that are in the nature of stock splits, dividends and the like. You must make a good-faith estimate of the number of shares you may issue upon conversion to determine the amount you may register for resale. If the actual number of shares issued is greater than the amount registered, you must file a new registration statement to resell the additional shares. Please see Paragraph 3.5. of the Securities Act section of the March 1999 Supplement to the Manual of Publicly Available Telephone Interpretations, which is available on our website at www.sec.gov. Please revise footnote (5) to the fee table and the first paragraph following the bullet points on the cover of the prospectus accordingly.*

RESPONSE: Please be advised that the Company has made the following changes in connection with this comment:

- The Company has revised footnote (5) of the fee table, which is now footnote (4), so that it now reads as follows: "Pursuant to Rule 416 under the Securities Act, this registration statement also covers such number of additional shares of common stock to prevent dilution resulting from stock splits, stock dividends, or similar transactions."

- The Company has revised the fee table to reflect only those shares that are included in the Company's good-faith estimate of the number of shares issuable upon conversion or exercise of the notes and warrants. In other words, the share numbers are no longer multiplied by 1.2, as reflected on the prospectus cover page of the original filing. In addition to revising the share numbers, the Company correspondingly revised the "Proposed Maximum Aggregate Offering Price" and "Amount of Registration Fee" columns in the fee table. Please also be advised that the Company has reduced the number of shares underlying warrants being registered as a result of the expiration of certain warrants subsequent to the original filing of the Registration Statement.

- On the prospectus cover page and consistent with the changes to the fee table, the Company has revised the share numbers in the bullet points (and also the total number of shares being registered) in accordance with the Company's good-faith estimate.

- In the "PROSPECTUS SUMMARY" section under the caption "The Offering," the Company has revised the share numbers in the bullet points (and also the total number of shares being registered) in accordance with the Company's good-faith estimate and consistent with the changes to the fee table. See page 3 of Amendment No. 1.

- In the "SELLING STOCKHOLDERS" section, the Company has revised the share number in first paragraph in accordance with the Company's good-faith estimate and consistent with the changes to the fee table. See page 20 of Amendment No. 1.

Cover Page of Prospectus

4. *Please remove the references to the "1.2" multiple used to calculate the number of registered shares and revise the section entitled "The Offering" on page 3 to explain the "1.2" multiple. In this regard, please explain in reasonable detail how your convertible notes and warrants are convertible or exercisable into shares of your common stock, including specific examples illustrating this conversion or exercise.*

RESPONSE: The Company has removed the references to the "1.2" multiple on both the prospectus cover page and "The Offering" page.

For the information of the Staff, the "1.2" multiple has no relevance to the conversion formula of the notes or exercise price or number of shares issuable pursuant to the warrants. The "1.2" multiple arose out of a specific provision in the registration rights agreement between the Company and the selling stockholders, and this provision required the Company to include in the Registration Statement a number of shares equal to 1.2 times the number of shares underlying the notes and warrants as of the date of the registration rights agreement. However, subsequent to the original filing of the Registration Statement, the Company has obtained waivers from each of the selling stockholders providing that the Company will not be in breach of this provision of the registration rights agreement to the extent that SEC rules limit the number of shares that may be included in the Registration Statement. As a result of this waiver and as a result of the fact that the share numbers are no longer being computed with reference to the "1.2" multiple (and because references to the multiple have therefore been deleted), the Company has concluded that an explanation of the multiple is no longer necessary on "The Offering" page or elsewhere. If the Staff disagrees with this conclusion, we would be happy to further discuss this matter with the Staff.

In response to the Staff's request to provide an explanation regarding how the notes and warrants convert into common stock, the Company has added a new paragraph at the bottom of page 3 explaining how the notes and warrants convert into common stock.

Prospectus Summary, page 1

5. *Please clearly disclose that you have incurred losses since inception and that you have been issued a going concern opinion.*

RESPONSE: In the "PROSPECTUS SUMMARY" section of the Registration Statement, the Company has changed the "Risk Factors" caption to "Risk Factors/Going Concern" and has added disclosure under this caption about the Company's history of losses and the fact that it has been issued a going concern opinion.

Risk Factors, page 5

6. *Please add risk factor disclosure regarding each of the following:*

- *the risk disclosed in the last sentence on page 54*;

RESPONSE: In response to this comment, the Company has added a new risk factor on page 10 of Amendment No. 1 under the caption "A substantial increase in the price or interruption in the supply of raw materials for our alloys could have an adverse effect on our profitability."

- *the fact that you have been issued a going concern opinion*;

RESPONSE: In the second risk factor (which begins with "We may require additional funding . . .."), the Company added a new sentence describing the going-concern opinion. Please see page 5 of Amendment No. 1.

- *the fact that your disclosure controls and procedures are not effective*;

RESPONSE: In response to this comment, the Company has added a new risk factor beginning on page 13 of Amendment No. 1 under the caption "We have identified material weaknesses in our internal control over financial reporting and have determined that our disclosure controls and procedures are not effective."

- *the restrictive covenants contained in your debt agreements; and*

RESPONSE: In response to this comment, the Company has added several sentences to the last paragraph of the risk factor captioned "Our level of indebtedness . . ." These sentences identify the restrictive covenants contained in the Company's debt agreements and explain that these covenants may curtail the Company's ability to obtain additional

funding or to otherwise engage in transactions that the Company believes are in the best interest of the Company's stockholders. The added language appears on page 12 of Amendment No. 1.

- *the restatement of your 2002 and 2003 financial statements*.

RESPONSE: On page 14 of Amendment No. 1, the Company has added a new risk factor entitled "The restatement of our 2003 and 2002 consolidated financial statements has had a material adverse impact on us."

We may require additional funding.... page 5

7. *Please quantify the risk described in this risk factor by providing an estimate of the amount of funding that you will require over the next twelve months and, to the extent practicable, the next three years. Please also discuss in greater detail the potential dilution to stockholders.*

RESPONSE: The Company has revised this risk factor to provide the requested estimate of the amount of funding that the Company anticipates that it may require over the next twelve months, although given the unpredictable and uncertain nature of the Company's business and future capital needs, the Company does not believe that it is practicable to provide an estimate for the next three years. The Company has also revised the risk factor to add more detail regarding the potential dilution to stockholders. Please see page 5 of Amendment No. 1.

If we cannot establish and maintain relationships.... page 6

8. *Item 503(c) of Regulation S-K states that issuers should not "present risk factors that could apply to any issuer or any offering." It appears that the risk described under this subheading could apply to nearly any issuer. Please revise to clearly explain how this risk specifically applies to you. Please also comply with this comment in risk factors 11, 14, 15 and 24.*

RESPONSE: The following risk factors have been revised to more clearly explain how each risk specifically applies to the Company:

- The risk factor beginning with "If we cannot establish . . ." See page 6 of Amendment No. 1.
- The risk factor beginning with "We may not be able to effectively compete . . ." (risk factor #11). See page 7 of Amendment No. 1.

- The risk factor beginning with "Our growth depends on our ability . . ." (risk factor #14). See page 8 of Amendment No. 1.
- The risk factor beginning with "We may not be able to successfully identify . . ." (risk factor #15). See page 8 of Amendment No. 1.

- The risk factor beginning with “Evolving regulation of corporate governance . . .” (risk factor #24). See page 16 of Amendment No. 1.

We expect to derive a substantial portion of our revenue.... page 9

9. *We note the risks set forth in the bullet points. Please revise to provide specific examples of how these risks have or could impact your company.*

RESPONSE: The Company has revised the bullet points to more specifically state how these risks impact the Company’s operations. Please see page 9 of Amendment No. 1.

Our business is subject to potential and adverse consequences of exchange rate.... page 9

10. *Please quantify the risk described in this risk factor.*

RESPONSE: The Company has added disclosure at the end of this risk factor setting forth the average exchange rates for the years ended December 31, 2003, 2004, and 2005. The additional disclosure also states the gains (losses) from fluctuation of exchange rates during such periods. See page 10 of Amendment No. 1.

Our level of indebtedness reduces our financial flexibility.... page 10

11. *The risk described in the fourth bullet point regarding a default appears to be a significant risk that should be disclosed under its own explanatory subheading. Please revise accordingly.*

RESPONSE: In response to this comment, the Company has added a new risk factor on page 12 of Amendment No. 1 under the caption “If we default on the convertible notes that we have issued, the noteholders may accelerate the amounts due under such notes and may foreclose on the security interests that secure the notes.”

We have not complied with Section 404 of the Sarbanes-Oxley Act.... page 11

12. *Please revise this risk factor to disclose the actual risk to an investor, namely the risk that investors may not be able to rely on your financial statements.*

RESPONSE: The Company has revised the risk factor by adding the following sentence to the first paragraph thereof: “As a result, investors in this offering may not be able to rely on our financial statements for the fiscal year ended December 31, 2004.” See page 12 of Amendment No. 1.

13. *Please remove language in this risk factor and elsewhere in your filing stating that the SEC has advised you as to the matters discussed, as this may be understood by investors to suggest that the disclosure has been approved by the Commission.*

RESPONSE: The Company has removed the language relating to discussions with the SEC in accordance with the Staff’s comment. See pages 12, 13, 44, and F-10 of Amendment No. 1 for the sections of the document that previously contained such references.

Selling Stockholders, page 17

14. *Please advise us as to whether any entity listed in your selling stockholder table is a broker-dealer or an affiliate of a broker-dealer. If a selling stockholder is a broker-dealer, your prospectus should state that the selling stockholder is an underwriter. If a selling stockholder is an affiliate of a broker-dealer, please provide the following representations in your prospectus:*

- *the selling stockholder purchased the securities to be resold in the ordinary course of business; and*
- *at the time of the purchase of the securities to be resold, the selling stockholder had no agreements or understandings, directly or indirectly, with any person to distribute the securities.*

If you are unable to make these representations, please state that the selling stockholder is an underwriter.

RESPONSE: The Company has surveyed each selling stockholder to determine whether any selling stockholder is a broker-dealer or an affiliate of a broker-dealer. The Company has revised this section to identify the selling stockholders that are broker-dealers in accordance with the Staff’s comment. For the information of the Staff, the

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selling stockholders that are broker-dealers are Commonwealth Associates, LP and Indigo Securities, LLC. Please be advised that both of these parties received their notes and warrants, and the shares underlying such notes and warrants being registered pursuant to the Registration Statement, as underwriting compensation in consideration for acting as a placement agent in the private placements in which the notes and warrants were issued. As these shares being registered pursuant to the Registration Statement were issued as underwriting compensation, these parties are not underwriters in this offering, and therefore we believe that they do not need to be described as such in the Registration Statement. Also, Bruce Rosen (the ultimate beneficial owner of shares held by Bear Stearns f/b/o Rosen Capital), Eric Brachfeld, Greg Osborn, Keith Barksdale, Edward Neugeboren, and Robert O’Sullivan (all selling stockholders) have advised the Company that they are affiliates of broker-dealers, and they have represented to the Company that they each purchased the securities to be resold in the ordinary course of business and at the time of the purchase of the securities to be

resold, each had no agreements or understandings, directly or indirectly, with any person to distribute the securities. Such representations have been added to the Selling Stockholders section of the prospectus in footnotes (5) and (6) thereof (see page 23 of Amendment No. 1). No other selling stockholders represented to the Company that they are broker-dealers or affiliates of broker-dealers.

15. *If a selling stockholder is not a natural person, please disclose the natural person or persons with dispositive voting or investment control. Please refer to Item 4S of the Regulation S-K section of the March 1999 Supplement to the Manual of Publicly Available Telephone Interpretations, which is available on our website at www.sec.gov,*

RESPONSE: The Company has revised this section to disclose the natural persons who exercise sole or shared voting or investment power over the shares held by selling stockholders that are entities.

16. *The amount of securities reflected in your selling stockholders table is less than the total amount registered. Please reconcile.*

RESPONSE: As reflected in the responses to Comments #3 and #4 above, the Company has reduced the total number of shares being registered so that it reflects only those shares that are included in the Company's good-faith estimate of the number of shares issuable upon conversion or exercise of the notes and warrants. This reduced number (a total of 11,448,998 shares) is now the same as the total number of shares reflected on the selling stockholders table, so the numbers are now reconciled. Please see pages 20 through 23 of Amendment No. 1.

Management's Discussion and Analysis of Financial Condition.... page 29

17. *Please disclose the information required by Item 305 of Regulation S-K.*

RESPONSE: The Company has added a subsection to the MD&A entitled "Quantitative and Qualitative Disclosures About Market Risks." This new subsection, which appears on page 47 of Amendment No. 1, contains the information required by Item 305 of Regulation S-K.

18. *It appears that the debt instruments contain restrictive covenants. Please discuss the impact of these covenants on your operations, including any impact on your financial condition or results of operations. In addition, please disclose whether you are in compliance with these covenants.*

RESPONSE: The Company has added a paragraph to the MD&A describing the restrictive covenants contained in the Company's convertible notes and the impact of noncompliance with such covenants. The new paragraph also discloses that the Company believes that it is in compliance with all such covenants. This new paragraph is set forth on page 40 of Amendment No. 1.

Business, page 46

19. *Please disclose the information required by Item 101(c)(xii) of Regulation S-K.*

RESPONSE: The Company has added a new subsection entitled "Environmental Law Compliance" on page 59 of Amendment No. 1 to disclose the information required by Item 101(c)(xii) of Regulation S-K.

Competition, page 55

20. *Please identify the principal methods of competition in your industries. Please also discuss your competition's advantages over you in each of your industries and how this meets your competitive position within each industry.*

RESPONSE: In response to this comment, the Company has substantially expanded the first paragraph under "Competition." Please see page 58 of Amendment No. 1.

Principal Stockholders. page 73

21. *We note that your calculation of beneficial ownership, including the calculation of the number of shares that may be acquired within 60 days, is based on a date of October l, 2005. You are required to calculate beneficial ownership as of the most recent practicable date. In addition, the assumptions in the third paragraph are not appropriate with respect to the calculation of beneficial ownership in this section. Please revise accordingly. See Item 403 of Regulation S-K.*

RESPONSE: The Company has revised the Principal Stockholders table (including the lead-in language and footnotes) to reflect a stated calculation date of March 20, 2006. This date is also now being used for calculation of the number of shares that may be acquired within 60 days. Additionally, the Company has deleted the third-paragraph in the section and has ensured that such shares are not included as a part of the number of shares outstanding as of March 20, 2006.

22. *Please identify the relationship to your company of each individual listed in the table. For example, are any individuals non-management 5% stockholders?*

RESPONSE: The Company has revised the Principal Stockholders table on page 74 of Amendment No. 1 by dividing the table into two parts, captioned "5% Stockholders" and "Directors and Named Executive Officers" respectively. The addresses for the 5% Stockholders were also added to the table.

Plan of Distribution, page 78

23. *Please disclose whether your company or any selling stockholder intends to use any means of distributing or delivering the prospectus other than by hand or the mails, such as electronic delivery. Please also disclose whether your company or any selling stockholder intends to use any forms of prospectus other than the printed prospectuses, such as CD-ROMs, videos, etc. and provide us copies of all such prospectuses. See SEC Releases No. 33-7233 and No. 33-7289.*

RESPONSE: The Company has added a new paragraph to page 82 of Amendment No. 1 stating the following: "We and the selling stockholders will distribute the prospectus only by hand or the mails and only in the form of this prospectus. Neither we nor the selling stockholders will distribute or deliver the prospectus electronically or in any form of prospectus other than the printed form of this prospectus."

For the information of the Staff, the intent of the selling stockholders as expressed in the foregoing paragraph was confirmed by the selling stockholders in signed questionnaires provided to the Company.

24. *Please advise us as whether your company or any selling stockholder has any arrangements with a third party to host or access the preliminary prospectus on the Internet. If so, please tell us who the party is and the address of the website. In addition, please describe the material terms of the agreement and provide us with a copy of any written agreement. Finally, please provide us with copies of all information concerning your company or this offering that appears on the third-party website.*

RESPONSE: Please be advised that the Company and the selling stockholders have no arrangements with any third party to host or access the preliminary prospectus on the Internet.

25. *We note the disclosure in the third paragraph regarding short sales. Please advise us as to whether any selling stockholder has taken or plans to take any short position prior to the effectiveness of your registration statement. In addition, please confirm that you and each of the selling stockholders are aware of our position on short sales against the box. See interpretation A.65 of the July 1997 Manual of Publicly Available Telephone Interpretations, which is available on our website at www.sec.gov,*

RESPONSE: The Company will not, and each selling stockholder has acknowledged to the Company in writing that it will not, use shares registered on the Registration Statement to cover short sales of the Company's common stock prior to the date on which the Registration Statement shall have been declared effective by the SEC. The Company has also revised this section to reflect the Commission's position on this subject by adding the words "after the effective date of the registration statement . . ." in the paragraph immediately following the numbered list on page 81 of Amendment No. 1.

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26. *We note your disclosure in the fourth paragraph. Please confirm that you are aware that you may only substitute a new selling stockholder for an original selling stockholder by means of a prospectus supplement if:*

- *the change is not material*;
- *the number of securities or dollar amount registered does not change; and*
- *the new selling stockholder's securities can be traced to those covered by the original registration statement.*

In addition, please be advised that you may not use a prospectus supplement to add selling stockholders to your registration statement if their ownership cannot be traced to securities registered in the original registration statement. Otherwise, you must make the changes by a post-effective amendment.

RESPONSE: The Company acknowledges the Staff's comment and confirms that it is aware of the substance of such comment.

27. *We note the disclosure in the fifth paragraph. If a selling stockholder enters into an agreement, after the effectiveness of the registration statement, to sell its shares to a broker-dealer as principal and the broker-dealer is acting as an underwriter, then you need to file a post-effective amendment to the registration statement identifying the broker-dealer, providing the required information on the plan of distribution, revising the appropriate disclosures in the registration statement, and filing the agreement as an exhibit to the registration statement. Please revise the disclosure in this section to indicate that you will file a post-effective amendment addressing the above information. Additionally, prior to any involvement of any broker-dealer in the offering, such broker-dealer must seek and obtain clearance of the underwriting compensation and arrangements from the NASD Corporate Finance Department.*

RESPONSE: The Company acknowledges the information in this comment and has added language to this section in accordance with the Staff's comment. The added language is set forth in the first paragraph on page 82 of Amendment No. 1.

Certain Relationships and Related Transactions, page 80

28. *Please state whether you believe that the transactions described in this Section are on terms at least as favorable to you as you would expect to negotiate with unrelated third parties.*

RESPONSE: The Company has added a sentence to this section stating that the Company believes that all of the transactions identified in the section were consummated on terms at least as favorable to the Company as the Company would expect to negotiate with unrelated third parties. This new sentence appears on page 84 of Amendment No. 1 as the last paragraph of the section.

29. *We note the disclosure in the first paragraph. Please identify the former director and disclose the amount of royalties that you have received.*

RESPONSE: In this paragraph, the Company has identified the former director (Jack Chitayat) and has disclosed that the Company has not received any royalties to date under the agreement. Please see page 83 of Amendment No. 1.

30. *We note the disclosure in the sixth paragraph that you entered into an agreement with Mr. Kang regarding Section 16 liability. Please file this agreement as an exhibit to your registration statement.*

RESPONSE: Please be advised that this agreement was filed as Exhibit 10.58 to the Company's Form 10-K for its 2005 fiscal year, as filed on March 16, 2006.

Changes of Accountants, page 81

31. *Please delete the last sentence of the fourth paragraph on page 82, as you are not permitted to incorporate by reference.*

RESPONSE: The Company has deleted the referenced sentence in accordance with the Staff's comment.

Report Independent Registered Public Accounting Firm, page F-2

32. *Amend your filing to include an audit report with a conformed signature as required by Article 2-02(a) of Regulation S-X.*

RESPONSE: The Company has revised the audit report in accordance with the Staff's comment.

33. *Tell us why the city of issuance indicated on the audit report does not match the city of issuance on their consent.*

RESPONSE: Please be advised that the independent registered public accounting firm (Stonefield Josephson, Inc.) has California offices in both Santa Monica and Irvine. The office of issuance for the consent was Santa Monica, and the office of issuance for the audit report is located in Irvine.

Going Concern/ Sarbanes Oxley Act of 2002, page F-9

34. *Please tell us the status of your assessment of internal control over financial reporting as of December 31, 2005, including generally what you have documented and tested and what controls have not been documented and tested and your plans to complete your assessment.*

RESPONSE: On January 16, 2006, the Company's management completed and concluded its documentation, assessment and evaluation of its internal controls over financial reporting as of December 31, 2005. During the course of its assessment, management identified the control deficiencies described in the Form 10-K/A filed on March 31, 2006. Management believes that these deficiencies were remediated as of December 31, 2005. However, the Company's independent auditors, Stonefield Josephson Inc., resigned on December 1, 2005, and on January 20, 2006, the Company engaged Choi, Kim & Park LLP ("CKP") as its new independent registered public accounting firm. While the Company has advised CKP of the weaknesses in internal controls, due to the untimeliness of the foregoing events, CKP was unable to conduct an audit of the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, and thus, has issued a disclaimer of an opinion on the Company's internal control over financial reporting as of December 31, 2005.

Summary of Significant Accounting Policies, page F-10

Revenue Recognition

35. *We note your use of the percentage of completion method for research and development contracts. Please tell us the percentage of total revenue accounted for using this method of accounting. Also tell us your basis for using this method.*

RESPONSE: The Company has disclosed its basis for using the percentage-of-completion method in revised language now appearing in Note 3 to the Company's consolidated financial statements included in the Registration Statement. This new disclosure appears on page F-11 of Amendment No. 1. In addition, for the information of the Staff, 9%, 10%, and 16% of total revenues were recognized under the percentage-of-completion method for research and development contracts during the years ended December 31, 2005, 2004, and 2003, respectively.

Notes Payable, page F-20

36. *Please tell us what consideration you gave to paragraph 12 of SFAS 133 and paragraph 4 of EITF 00-19 in your determination of whether the debt conversion features constitute embedded derivative instruments and whether the debt instruments qualify as "conventional convertible" instruments.*

RESPONSE: The Company reviewed its debt accounting with respect to paragraph 12 of SFAS 133 and paragraph 4 of EITF 00-19, and concluded that the conversion feature from its August 2005 private placement notes (the "Notes") constitute derivative instruments under SFAS 133 as the Notes do not qualify as "conventional convertible" instruments. The Company originally accounted for the debt conversion feature in equity. As the Notes are not conventional convertible instruments, the conversion feature should have been presented as a liability. Accordingly, the

Company restated its quarterly results for the three months ended September 30, 2005 on Form 10-Q/A, which was filed on March 16, 2006. In connection with the above-described review, the Company determined that its other convertible notes do qualify as "conventional convertible" instruments under SFAS 133.

Item 14. Indemnification of Directors and Officers, page II-1

37. *We note the disclosure in the third paragraph of this section. Please file these indemnity agreements as exhibits to your registrations statement.*

RESPONSE: Please be advised that the same form of Indemnity Agreement is used for all officers and directors, and this form of Indemnity Agreement was filed as Exhibit 10.59 to the Form 10-K for the Company's 2005 fiscal year, as filed on March 16, 2006.

38. *Please delete the last paragraph of this section, as the disclosure in this section should be materially complete.*

RESPONSE: The Company has made this deletion in accordance with the Staff's comment.

Item 15. Recent Sales of Unregistered Securities, page II-2

39. *We note the Securities Act exemption you cite with respect to each transaction listed in this section. Please briefly describe the facts upon which you relied to make each exemption available. See Item 701(d) of Regulation S-K.*

RESPONSE: The Company has revised the first paragraph of Item 15 to briefly describe the facts relied upon for purposes of claiming the exemption.

40. *Please provide the information required by paragraphs (a) through (d) of Item 701 of Regulation S -K for any options issued during the last three years.*

RESPONSE: Please be advised that the Company has not included any options in Item 15 since all options granted during the past three years have been issued under the Company's Registration Statement on Form S-8 originally filed on November 25, 2002 and were not issued under an exemption.

41. *We note the disclosure in the third sentence of paragraph (1) regarding the total number of shares issuable upon exercise of the warrants. Please reconcile with the disclosure in the last paragraph on page F-20,*

RESPONSE: Please be advised that this discrepancy was due to a rounding error. The "1.1 million" in the third sentence of paragraph (1) has been changed to "1.2" million.

Item 16. Exhibits and Financial Statements Schedules, page 11-2

42. *Please file as promptly as practicable each exhibit required by Item 601 of Regulation S-K, in particular Exhibit 5.1. These exhibits and any related disclosure are subject to review and you should allow a reasonable period of time for our review prior to requesting acceleration.*

RESPONSE: This comment is duly noted and acknowledged by the Company. Please be advised that Exhibit 5.1 has been filed as a part of Amendment No. 1, together with new Exhibits 10.58 (incorporated by reference), 10.59 (incorporated by reference), 10.60, and 10.61.

43. *Please file your factoring, loan and security agreement, dated as of April 21, 2005, as an exhibit to your registration statement,.*

RESPONSE: The Company has filed this agreement as Exhibit 10.60 to the Form 10-K for the Company's 2005 fiscal year, as filed on March 16, 2006.

Item 17. Undertakings page II-2

44. *Please provide the undertaking required by Item 512(h) of Regulation S-K.*

RESPONSE: The Company has revised this section in accordance with the Staff's comment.

Form l0-K/A for the fiscal year ended December 31, 2004

General

45. *Please consider the above comments, to the extent applicable, in the preparation of future Exchange Act reports, particularly your annual report on Form I 0-K.*

RESPONSE: This comment is duly noted and acknowledged by the Company.

46. *Please comply with the following comments in each of your Forms 10-Q for the fiscal quarters ended March 31, 2005, June 30, 2005 and September 30, 2005.*

RESPONSE: The Company duly notes and acknowledges this comment. Please be advised that, to the extent that any of the following comments have prompted an

amendment to any of these Forms 10-Q, such amendment is noted in the Company's responses below.

Item 9A. Controls and Procedures, page 3

47. *Amend the second paragraph to read that your evaluation of Disclosure Controls and Procedures was performed as of the end of the period covered by the report as required by Item 307 of Regulation S-K.*

RESPONSE: In the 10-K/A, the Company revised the second paragraph of Item 9A in accordance with the Staff's comment. Please be advised that the Company has also made corresponding revisions in Item 4 of the First Quarter 10-Q/A, Second Quarter 10-Q/A, and Third Quarter 10-Q/A.

48. *We note the conclusions of your certifying officers in the second paragraph that your disclosure controls and procedures are not effective. The description of your disclosure controls and procedures appears to be based on the definition set forth in Rule 13a-15(e) under the Exchange Act. As described, however, the description does not fully conform to that definition. Please revise accordingly. Alternatively, you may state that your certifying officers concluded that your disclosure controls and procedures, as of the end of the period covered by the report, were not effective.*

RESPONSE: In the 10-K/A, the Company revised this section to simply state that the certifying officers have concluded that the Company's disclosure controls and procedures, as of the end of the period covered by the report, were not effective. Please be advised that the Company has also made corresponding revisions in Item 4 of the First Quarter 10-Q/A, Second Quarter 10-Q/A, and Third Quarter 10-Q/A.

49. *We note the conclusions of your management regarding the effectiveness of your internal control over financial reporting. Please reconcile with the disclosure indicating that your management has not completed its assessment of your internal control over financial reporting.*

RESPONSE: The Company has reconciled this disclosure by specifically stating that management's conclusions regarding the effectiveness of internal control over financial reporting were based on the portion of the assessment that had actually been completed through the date of the report. In particular, in the second sentence in the second paragraph under the caption "Management's Report on Internal Control Over Financial Reporting" in the 10-K/A now reads as follows: "Although management has not yet completed its review and assessment of all of the Company's internal controls over

financial reporting, based on the review and assessment efforts that have actually been completed, management has identified several control deficiencies that existed during and as of the year ended December 31, 2004, some of which have been determined to be material weaknesses in internal control over financial reporting." Please be advised that the Company has also made corresponding revisions in Item 4 of the First Quarter 10-Q/A and Second Quarter 10-Q/A. The Company believes that no such revision is warranted in the Third Quarter 10-Q/A.

50. *We note the disclosure in the fourth and fifth paragraphs and have the following comments:*

- *Please disclose when the material weaknesses began.*
- *Please disclose in greater detail the material weaknesses and their impact on your financial statements.*
- *Please disclose the specific steps you have taken to remediate the material weaknesses.*
- *Please disclose the identity of the independent consulting firm you have retained and disclose the findings of this consultant.*

RESPONSE: The Company has substantially revised the disclosure set forth under the caption "Management's Report on Internal Control Over Financial Reporting" in Item 9A of the 10-K/A to address the above points. Additionally, substantial revisions have been made in Item 4 of the First Quarter 10-Q/A, Second Quarter 10-Q/A, and Third Quarter 10-Q/A to address the above points, and these revisions are set forth under the caption "Update on Management's Assessment of Internal Control Over Financial Reporting" in such reports.

51. *Please disclose any changes in your internal control over financial reporting that occurred during the last fiscal quarter that was materially affected or is reasonably likely to materially affect your internal control over financial reporting. See Item 308(c) of Regulation S-K.*

RESPONSE: In response to this comment, the Company has revised the disclosure in Item 4 of the Second Quarter 10-Q/A and Third Quarter 10-Q/A to disclose material changes in internal control over financial reporting during the relevant quarters. For the information of the Staff, no revisions were made to the 10-K/A or First Quarter 10-Q/A in response to this comment because no material changes in internal control over financial reporting were made during the last quarter of 2004 or the first quarter of 2005.

Exhibits 31.3 and 31.4

52. *Amend your December 31, 2004 certifications to include the missing two sections relating to internal control over financial reporting required for accelerated filers. Also please note that the certifying officers should not include their positions in the first line of the certification. Also amend your*

2005 10-Q certifications to reflect the missing sections of the certifications relating to internal control over financial reporting. See Item 601(b)(31) of Regulation S-K.

RESPONSE: The Company has amended the certifications to include the missing sections and to delete the certifying officers' positions in the first line. This change has been made in each of the 10-K/A, the First Quarter 10-Q/A, the Second Quarter 10-Q/A, and the Third Quarter 10-Q/A. Please be advised that, in the 10-K/A, these certifications have been renumbered as Exhibits 31.1 and 31.2.

Form 10-Q for the fiscal quarter ended September 30, 2005

Item 4. Controls and Procedures. page 34

53. We note that the conclusion of your certifying officers in the third paragraph refers to the first quarter of 2005. Your certifying officers must assess the effectiveness of your disclosure controls and procedures as of the end of the period covered by the report in which the conclusion is stated. Please revise accordingly. See Item 307 of Regulation S-K.

RESPONSE: Please be advised that this error has been corrected in Item 4 in the Third Quarter 10-Q/A.

54. We note the disclosure under the heading "Changes In Internal Controls" on page 36. Please disclose in reasonable detail the changes that were made to your internal control over financial reporting.

RESPONSE: The disclosure under the caption "Changes in Internal Controls" in the Third Quarter 10-Q/A has been substantially revised to include a more detailed description of the changes made to the Company's internal control over financial reporting.

* * * & #160; *

Please do not hesitate to contact the undersigned at (813) 225-4122 if you have any questions or comments regarding the foregoing responses to your letter.

Very truly yours,

/s/ Curt P. Creely

Curt P. Creely

Enclosures