

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from to

Commission File No. 001-31332

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Statements in this report concerning the future sales, expenses, profitability, financial resources, product mix, market demand, product development and other statements in this report concerning the future results of operations, financial condition and business of Liquidmetal Technologies, Inc. are “forward-looking” statements as defined in the Securities Act of 1933 and Securities Exchange Act of 1934. Investors are cautioned that the Company’s actual results in the future may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in the Company’s operations and business environment, including competition, need for increased acceptance of products, ability to continue to develop and extend our brand identity, ability to anticipate and adapt to a competitive market, ability to effectively manage rapidly expanding operations, amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure, ability to provide superior customer service, dependence upon key personnel and the like. The Company’s most recent filings with the Securities and Exchange Commission, including Form 10-K, contain additional information concerning many of these risk factors, and copies of these filings are available from the Company upon request and without charge.

[Table of Contents](#)

TABLE OF CONTENTS

PART I - Financial Information

Item 1 — Financial Statements	4
Condensed Consolidated Balance Sheets (unaudited)	
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (unaudited)	
Condensed Consolidated Statements of Shareholders’ Deficiency (unaudited)	
Condensed Consolidated Statements of Cash Flows (unaudited)	
Notes to Condensed Consolidated Financial Statements (unaudited)	
Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3 — Quantitative and Qualitative Disclosures about Market Risk	31
Item 4T — Controls and Procedures	31

PART II — Other Information

Item 1 — Legal Proceedings	32
Item 1A — Risk Factors	32
Item 3 — Defaults Upon Senior Securities	32
Item 4 - Submission of Matters to a Vote of Security Holders	32
Item 5 — Other Information	32
Item 6 — Exhibits	32

Signatures	33
Certifications	

[Table of Contents](#)

PART I

FINANCIAL INFORMATION

Item 1 — Financial Statements

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

	<u>June 30, 2010</u> (unaudited)	<u>December 31, 2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 918	\$ 151
Trade accounts receivables, net of allowance for doubtful accounts of \$1,293 and \$1,314	1,010	1,180
Inventories	880	982
Prepaid expenses and other current assets	584	594

Total current assets	3,392	2,907
Property, plant and equipment, net	5,117	5,668
Other intangibles, net	1,190	1,232
Investment in joint venture	—	—
Other assets	577	633
Total assets	<u>10,276</u>	<u>10,440</u>

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current liabilities:

Accounts payable and accrued expenses	9,288	9,111
Deferred revenue	239	31
Short-term debt	3,300	896
Long-term debt, current portion, net of debt discounts of \$1,899 and \$0	6,429	1,393
Warrant liabilities	1,137	3,975
Conversion feature liabilities	15	444
Other liabilities, current portion	141	141
Total current liabilities	<u>20,549</u>	<u>15,991</u>

Long-term debt, net of current portion and debt discounts of \$61 and \$0	9,661	12,661
Other long-term liabilities, net of current portion	125	155
Total liabilities	<u>30,335</u>	<u>28,807</u>

Shareholders' deficiency:

Liquidmetal Technologies, Inc. shareholders' deficiency		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 3,124,663 and 3,183,663 shares issued and outstanding as of both June 30, 2010 and December 31, 2009	4	4
Common stock, \$0.001 par value; 300,000,000 shares authorized; 49,257,343 and 47,583,102 shares issued and outstanding as of both June 30, 2010 and December 31, 2009	49	48
Additional paid-in capital	142,406	142,135
Accumulated deficit	(164,498)	(162,777)
Accumulated other comprehensive income	1,334	1,441
Total Liquidmetal Technologies, Inc. shareholders' deficiency	<u>(20,705)</u>	<u>(19,149)</u>
Noncontrolling interest	646	782
Total shareholders' deficiency	<u>(20,059)</u>	<u>(18,367)</u>

Total liabilities and shareholders' deficiency	<u>\$ 10,276</u>	<u>\$ 10,440</u>
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The accompanying notes are an integral part of the condensed consolidated financial statements.

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Revenue	\$ 2,201	\$ 3,519	\$ 4,904	\$ 7,111
Cost of sales	<u>1,616</u>	<u>1,895</u>	<u>3,772</u>	<u>4,036</u>
Gross profit	585	1,624	1,132	3,075
Operating expenses				
Selling, general, and administrative	1,332	1,357	2,644	2,945
Research and development	226	301	473	548
Total operating expenses	<u>1,558</u>	<u>1,658</u>	<u>3,117</u>	<u>3,493</u>
Loss from operations	(973)	(34)	(1,985)	(418)
Loss from extinguishment of debt	—	(1,471)	—	(1,471)
Change in value of warrants, gain	1,053	6,249	2,838	6,123
Change in value of conversion feature, gain	111	930	429	960
Other income	62	—	63	—
Interest expense	<u>(1,385)</u>	<u>(1,415)</u>	<u>(2,549)</u>	<u>(3,705)</u>
Net (loss) income before income taxes	(1,132)	4,259	(1,204)	1,489

Income taxes	—	(45)	—	(45)
Net (loss) income	(1,132)	4,214	(1,204)	1,444
Net loss attributable to noncontrolling interest	94	51	136	20
Net (loss) income attributable to Liquidmetal Technologies, Inc.	(1,038)	4,265	(1,068)	1,464
Other comprehensive (loss) income:				
Foreign exchange translation (loss) gain	(182)	336	(107)	(77)
Comprehensive (loss) income	<u>\$ (1,220)</u>	<u>\$ 4,601</u>	<u>\$ (1,175)</u>	<u>\$ 1,387</u>
Net (loss) income per share basic and diluted:				
Net (loss) income attributable to Liquidmetal Technologies, Inc.	<u>\$ (0.02)</u>	<u>\$ 0.09</u>	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Number of weighted average shares - basic and diluted	<u>48,477</u>	<u>45,408</u>	<u>48,030</u>	<u>45,117</u>

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

5

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIENCY
For the Six Months Ended June 30, 2010
(in thousands, except per share data)
(unaudited)

	Preferred Shares	Common Shares	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance, December 31, 2009	3,183,663	47,583,102	4	48	142,135	(162,777)	1,441	782	(18,367)
Conversion of preferred stocks	(59,000)	1,340,909	0	1	(1)				0
Conversion of notes payable		333,332		0	200				200
Dividends						(653)			(653)
Stock-based compensation	—	—	—	—	72	—	—	—	72
Foreign exchange translation gain (loss)	—	—	—	—	—	—	(107)	—	(107)
Net (loss)	—	—	—	—	—	(1,068)	—	(136)	(1,204)
Balance, June 30, 2010	<u>3,124,663</u>	<u>49,257,343</u>	<u>4</u>	<u>49</u>	<u>142,406</u>	<u>(164,498)</u>	<u>1,334</u>	<u>646</u>	<u>(20,059)</u>

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

6

[Table of Contents](#)

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

	For the Six Months Ended June 30,	
	2010	2009
Operating activities:		
Net (loss) income attributable to Liquidmetal Technologies, Inc.	\$ (1,068)	\$ 1,464
Adjustments to reconcile loss (income) from operations to net cash used in operating activities:		
Gain on disposal of asset		2
Loss attributable to noncontrolling interest of consolidated subsidiary	(136)	(20)
Depreciation and amortization	482	497
Loss on extinguishment of debt		1,471
Amortization of debt discount	1,462	2,151
Stock-based compensation	73	192
Bad debt expense	20	31
Warranty recovery	(148)	(91)
Gain from change in value of warrants	(2,838)	(6,123)
Gain from change in value of conversion feature	(429)	(960)

Changes in operating assets and liabilities:		
Trade accounts receivable	149	(354)
Inventories	103	23
Prepaid expenses and other current assets	9	(249)
Other assets	(78)	(304)
Accounts payable and accrued expenses	380	99
Deferred revenue	208	13
Other liabilities	(30)	(8)
Net cash used in operating activities	(1,839)	(2,168)
Investing Activities:		
Purchases of property and equipment	(159)	(209)
Investment in patents and trademarks	(28)	(251)
Net cash used in investing activities	(187)	(460)
Financing Activities:		
Proceeds from borrowings	8,184	12,131
Repayment of borrowings	(4,872)	(24,853)
Proceeds from issuance of convertible preferred stocks	—	15,328
Cash distributions	—	(9)
Net cash provided by financing activities	3,312	2,597
Effect of foreign exchange translation	(519)	29
Net increase (decrease) in cash and cash equivalents	767	(2)
Cash and cash equivalents at beginning of period	151	157
Cash and cash equivalents at end of period	<u>\$ 918</u>	<u>\$ 155</u>
Supplemental cash flow information		
Interest paid	<u>\$ 70</u>	<u>\$ 1,341</u>
Taxes paid	<u>\$ —</u>	<u>\$ —</u>

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

7

[Table of Contents](#)

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

During the six months ended June 30, 2010, \$200 of the Company's 8% Senior Convertible Notes due January 2011 was converted into 333,332 shares of the Company's common stock at a conversion price of \$0.60 per share.

8

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended June 30, 2010 and 2009
(in thousands, except share data)
(unaudited)

1. Basis of Presentation / Description of Business

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All intercompany balances and transactions have been eliminated. Operating results for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2010. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's Form 10-K filed with the Securities and Exchange Commission on August 20, 2010.

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 (see Note 10). Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipes 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. Furthermore, 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.

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

2. Basis of Presentation and Recent Accounting Pronouncements

Translation of Foreign Currency

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

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

Recent Accounting Pronouncements

In June 2009, the FASB issued and subsequently codified Accounting Standards Update No. 2009-16, Transfer and Servicing (Topic 860) — Accounting for Transfers of Financial Assets (ASU 2009-16). ASU 2009-16 removes the concept of a qualifying special-purpose entity (QSPE) from SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", and removes the exception from applying FASB Interpretation 46R, "Consolidation of Variable Interest Entities". This statement also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements.

In June 2009, the FASB issued and subsequently codified Accounting Standards Update No. 2009-17, Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-17 requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. The Company does not expect a material effect from the adoption of this standard on our consolidated financial statements.

In June 2009, the FASB issued SFAS 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162," which will be effective for us on June 30, 2010. SFAS 168's objective is to establish the FASB Accounting Standards Codification as the source of authoritative non-governmental accounting principles to be applied in the preparation of financial statements in conformity with US GAAP. Although SFAS 168 does not change GAAP, the adoption of SFAS 168 will impact our consolidated financial statements since all future references to authoritative accounting literature will be in accordance with SFAS 168.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Values Measurements (Topic 820) — Fair Value Measurements and Disclosures (ASU 2010-06)* to add additional disclosures for fair value measurements including the following: (1) amounts transferred in and out of Level 1 and 2 fair value measurements, which is effective for interim and annual reporting periods beginning after December 15, 2009 ("Part I"), and (2) activities in Level 3 fair value measurements including purchases, sales, issuances and settlements, which is effective for interim and annual reporting periods beginning after December 15, 2010 ("Part II"). The Company adopted Part I of the revised guidance for fair value measurements disclosures, which did not have a significant effect on our unaudited Condensed Consolidated Financial Statements, as of the beginning of fiscal 2010.

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.

3. Liquidity

The Company has experienced losses from continuing operations during the last three fiscal years and has an accumulated deficit of \$164,498 as of June 30, 2010. Cash used in operations for the six months ended June 30, 2010 was \$1,839. As of June 30, 2010, the Company's principal source of liquidity is \$1,010 of trade accounts receivable. Such conditions raise substantial doubt that the Company will be able to continue as a going concern. (see Note 14)

On May 1, 2009, the Company completed a financing transaction (the "Transaction") whereby aggregate cash of \$2,500 and principal and accrued interest of \$20,625 due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the "Prior Notes") were exchanged for 500,000 shares of

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the "Securities Purchase Agreement"), among the exchanging note holders and investors (collectively, the "Buyers"). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of Series A-1 Preferred Stock at \$5.00 per share at any time prior to six months from the closing date (the "Series A-1 Option"). On August 5, 2010, the Company repaid in full all principal and interest on the Exchange Notes. All security interests in Company assets securing such obligations under the Exchange Notes were released and terminated. (See Note 7 and Note 14)

On May 28, 2010, the Company issued \$2,000 of 13% Subordinated Promissory Note ("January 2011 Subordinated Note") due on the earlier date of January 3, 2011 or the date on which all outstanding amounts are due under the Company's 8% January 2011 Notes. Following the due date, the interest on the January 2011 Subordinated Note shall be 15%. The January 2011 Subordinated Note may be repaid in whole or in part at any time without penalty or premium, but is subordinate in right of payment to the January 2011 Notes and may not be paid until after the January 2011 Notes are paid in full. The company may, in its sole discretion, elect to pay all or any portion of the outstanding principal or accrued interest in cash or the Company's common stock or any combination thereof, at a value equal to the lower of \$0.26 per share or the average market price per share for the 10 previous trading days immediately prior to the date the payment is made. As a condition for the January 2011 Subordinated Note, Carlyle Liquid Holdings, LLC, a current stockholder of the Company granted the holder of the January 2011 Subordinated Note a warrant to purchase up to 7,700,000 shares of the Company's common stock at a price equal to \$0.26 per share, which warrant is exercisable for a period of 90-days beginning on the date in which the Company repays the January 2011 Subordinated Note in cash (if it repays in cash). On August 5, 2010, the Company repaid in full all principal and accrued interest of \$2,046 on the January 2011 Subordinated Note. In connection with the repayment, on August 10, 2010, the Company entered into a Subscription Agreement pursuant to which the Company issued 7,870,307 shares of the Company's common stock for an aggregate price of \$2,046. (see Note 14)

Additionally, the Company has approximately \$311 of principal and accrued interest outstanding as of June 30, 2010, under the 8% unsecured subordinated notes (the "Bridge Notes"), which were due August 17, 2007. On August 5, 2010, the Company repaid in full all principal and accrued interest of \$314 on the Bridge Notes. (see Note 14)

The Company has \$287 of outstanding loan as of June 30, 2010 under a factoring, loan and security agreement with a financing company. In June 2009, the Company received a formal notice of default from the financing company for repayment of the outstanding loan balance and has entered into a settlement agreement with the financing company whereby it agreed to repay approximately \$100 each month until the outstanding loans and accrued fees have been repaid. As of June 30, 2010, The Company was unable to pay the \$100 monthly payments. On August 5, 2010, the Company repaid in full all principal, accrued interest and fees of \$309 on the factoring loan. All security interests in Company assets securing such obligations under the factoring loan were released and terminated. (see Note 14)

The Company has outstanding liens on assets by its South Korean subsidiary by various creditors for past-due trade payables totaling \$1,026, which are held by creditors in South Korea, as of June 30, 2010. The Company is currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If it cannot repay the amounts due or obtain forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in Korea. Such a foreclosure would have material adverse effect on its operations, financial condition, and results of operations.

4. Fair Value of Financial Instruments

The fair value of cash and cash equivalents and trade receivables approximates its carrying value due to its short maturity. The estimated fair value of long-term debt was determined by discounting future cash flows using rates currently available to us for debt with similar terms and remaining maturities.

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

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

Level 1 — Quoted prices in active markets for identical assets or liabilities;

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

The following table summarizes the financial liabilities measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009:

	Level	June 30, 2010	December 31, 2009
Warrant Liabilities	2	\$ 1,137	\$ 3,975
Conversion Feature Liabilities	2	15	444

The warrant liabilities and conversion feature liabilities are recorded at fair value based on upon valuation models with utilize relevant factors such as expected life, volatility of the Company’s stock prices, risk free interest and dividend rate.

The Company calculated that the estimated fair value of the long term debt is not significantly different than the carrying value of the debt.

5. Inventories

Inventories are accounted for using the moving average basis and at standard cost, which approximate cost on a first-in, first-out basis and are valued at the lower of cost or market. Inventories were comprised of the following:

	June 30, 2010 (Unaudited)	December 31, 2009
Raw materials	\$ 635	\$ 675
Work in process	81	94
Finished goods	164	213
Total inventories	<u>\$ 880</u>	<u>\$ 982</u>

6. Product Warranty

Management estimates product warranties as a percentage of certain bulk alloy product sales earned during the period. As of June 30, 2010, the Company used 5% of bulk alloy product sales as an estimate of warranties to be claimed. The percentage is based on industry averages and historical information. Additionally, as of June 30, 2010 the Company used 1% of coatings applications sales as estimates of warranties to be claimed.

During the three and six months ended June 30, 2010, the Company recorded \$135 and \$148 of net gain on warranty, respectively. During the three and six months ended June 30, 2009, the Company recorded \$51 and \$91 of net gain on warranty, respectively. The warranty accrual balance is included in accounts payable and accrued expenses.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2010 and 2009 (in thousands, except share data) (unaudited)

7. Notes Payable

Unsecured Subordinated Notes

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

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

As of both June 30, 2010 and December 31, 2009, the Company’s gross outstanding loan balance of the August 2007 Subordinated Notes totaled \$259, and is included in current portion of long-term debt. As of June 30, 2010, the effective interest rate for the August 2007 Subordinated Notes was 8%.

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

Secured Convertible Subordinated Notes

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

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

The Company's gross outstanding loan balance of the January 2010 Notes totaled \$0 as of both June 30, 2010 and December 31, 2009. As of both June 30, 2010 and December 31, 2009, un-amortized discounts for conversion feature, warrants, and cash discount totaled \$0, and other asset debt issuance costs totaled \$0. Interest expense for the amortization of debt issuance cost and discount on note was \$0 for both the three and six months ended June 30, 2010. Interest expense for the amortization of debt issuance cost and discount on note was \$491 and \$1,816 for the three and six months ended June 30, 2009, respectively.

Pursuant to FASB ASC 815, *Derivatives and Hedging*, the Company is required to report a value of the conversion liability as a fair value and record the fluctuation to the fair value of the conversion feature liability to current operations. The change in the fair value of the conversion feature liability resulted in gains of \$0 for both the three and six months ended June 30, 2010, respectively. The change in the fair value of the conversion feature liability resulted in losses of \$1,167 and \$1,137 for three and six months ended June 30, 2009, respectively.

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

Senior Secured Convertible Notes

On May 1, 2009, the Company completed a financing transaction (the "Transaction") whereby aggregate cash of \$2,500 and principal and accrued interest of \$20,625 due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the "January 2010 Notes") were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of \$5.00 per share, 2,625,002 shares Series A-2 Preferred Stock with an original issue price of \$5.00 per share, and \$7,500 of new 8% Senior Secured Convertible Notes due January 2011 (the "January 2011 Notes"). Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the "Securities Purchase Agreement"), among the exchanging note holders and investors (collectively, the "Buyers"). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of preferred stock at \$5.00 per share at any time prior to six months from the closing date. Additionally, 8,138,352 of previously issued warrants to purchase common shares held by holders of the January 2010 Notes have been cancelled in the Transaction.

The January 2011 Notes are due January 3, 2011 and bear annual interest rate of 8% with interest payable in October and April in cash or, at the Company's option, in the form of additional notes (in which case the interest rate will be 10%). (see Note 14) The preferred stocks accrue cumulative dividends at an annual rate of 8%, which is payable semi-annually. Beginning on the second anniversary of the initial issuance, the dividend will increase to 10%. As of June 30, 2010, the Company has accrued dividends of \$1.3 million included in accounts payable and other accrued expenses. The dividends are payable in cash or in kind by the issuance of the Company of additional preferred stock, only when and as declared by the Company's Board of Directors.

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

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

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

In November 1, 2009 and May 1, 2010, the Company issued \$378 and \$391, respectively, of additional January 2011 Notes for accrued interest due under the notes in lieu of cash payments.

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

[Table of Contents](#)**LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the Six Months Ended June 30, 2010 and 2009****(in thousands, except share data)****(unaudited)**

The change in the fair value of the conversion feature liability resulted in gains of \$111 and \$429 for the three and six months ended June 30, 2010, respectively. The change in the fair value of the conversion feature liability resulted in gains of \$2,097 for both the three and six months ended June 30, 2009. The fair value of conversion feature outstanding at June 30, 2010 and December 31, 2009 was \$15 and \$444, respectively. The fair value of conversion feature outstanding at June 30, 2010 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 0.5 years; (2) volatility of 105%, (3) risk free interest of 0.22% and dividend rate of 0%. The fair value of conversion feature outstanding at December 31, 2009 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 1.01 years; (2) volatility of 152%, (3) risk free interest of 0.5% and dividend rate of 0%.

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

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

The Company's gross outstanding loan balance of the January 2011 Notes totaled \$8,069 and \$7,878 as of June 30, 2010 and December 31, 2009, respectively. As of June 30, 2010 and December 31, 2009, un-amortized discounts for conversion feature and warrants totaled \$1,899 and \$3,227, respectively, and other asset debt issuance costs totaled \$61 and \$104, respectively. Interest expense for the amortization of debt issuance cost and discount on note was \$584 and \$1,034 for the three and six months ended June 30, 2010, respectively. Interest expense for the amortization of debt issuance cost and discount on note was \$255 for both the three and six months ended June 30, 2009, respectively. The effective interest rate of the January 2011 Notes was 65% as of June 30, 2010.

Factoring Agreement

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

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

For the six months ended June 30, 2010, the Company borrowed \$3 and repaid \$0 under the Agreement. The total outstanding advance made under the agreement is \$287 and \$284 as of June 30, 2010 and December 31, 2009, respectively, which is presented as short-term debt. The weighted average rate of interest for borrowings made under the Agreement was 6.5% for both the three months ended June 30, 2010 and 2009. In June 2009, the Company received a formal notice of default from the financing company for repayment of the outstanding loan balance and has entered into a settlement agreement with the financing company whereby it agreed to repay approximately \$100 each month until the outstanding loans and accrued fees have been repaid. As of June 30, 2010, the Company was unable to pay the \$100 monthly payments. (see Note 14)

[Table of Contents](#)**LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the Six Months Ended June 30, 2010 and 2009****(in thousands, except share data)****(unaudited)****Debt of Majority Owned Subsidiary**

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

LMC was capitalized through a \$6,500 subordinated debt and equity investment by C3 Capital Partners (“C3”) and a \$5,000 senior credit facility with Bank Midwest, N.A. This debt and equity resulted in cash proceeds of \$11,102 after related debt issuance costs of \$398, which proceeds LMC used to purchase all of the assets and liabilities from the Company. The Company incurred an additional \$459 in issuance costs directly related to the debt issuance. As a result, \$857 was recorded as deferred debt issuance costs to be amortized over the life of the debt. Interest expense for the amortization of debt issuance cost was \$46 and \$90 for the three and six months ended June 30, 2010, respectively. Interest expense for the amortization of debt issuance cost was \$40 and \$80 for the three and six months ended June 30, 2009, respectively.

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

Midwest Debt

In connection with the Transaction, LMC entered into a Loan Agreement (the “Loan Agreement”), dated July 24, 2007, with Bank Midwest, N.A. (“Midwest”). Following the Transaction, the Loan Agreement has been amended to renew and modify certain terms. The Loan Agreement, as amended on October 6, 2009 (the “Loan Amendment”), provides for total loan availability of \$5,025, consisting of a \$4,000 term loan and a revolving loan of up to \$1,025 based on a percentage of LMC’s eligible receivable and inventory. The Loan Amendment adjusted, among other terms, the interest rate of all outstanding loans to a fixed rate of 9%, certain financial covenants under the Loan Agreement, maturity date of the revolving loan through June 30, 2010 with monthly interest payments, and required an immediate repayment of \$325 of the term loan and \$325 of the revolving loan. The members of the Liquidmetal Coatings, LLC (the “Members”) were required to contribute \$650 in equity to repay the amounts due under the Loan Agreement (the “Capital Call”). On October 6, 2009, the Company paid \$450 which represented its portion of the Capital Call and the remaining Members paid \$150. As a result of the payment, the monthly amortization payments due under the term loan were reduced to \$47 and the maturity date was extended to September 30, 2012. The term loan has a maturity date of July 20, 2011.

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

Additionally, LMC entered into Promissory Notes, dated August 29, 2007 and October 21, 2008 (the “Capital Loan”), with Midwest to provide for \$45 and \$105 to be used towards the purchase of a company truck and HVOF spray equipment with annual interest rates of 7.43% and 8.25%, respectively. The Capital Loan has maturity dates of September 1, 2012 and November 1, 2013. LMC is required to make monthly principal and interest payments of \$3 per month.

On June 25, 2010 LMC entered into a Credit Agreement with Enterprise Bank & Trust and retired all of its loan agreements with Midwest (see “*Enterprise Debt*” below).

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

As of June 30, 2010 and December 31, 2009, the gross outstanding loan balance under the term loan totaled \$0 and \$1,430, respectively, and the gross outstanding loan balance under the revolving loan totaled \$0 and \$307, respectively. The loans are presented as long-term debt and short-term debt on the Company’s consolidated balance sheet, respectively. Interest expense incurred under the term loan and revolving loan totaled \$39 and \$66 for the three and six months ended June 30, 2010, respectively. Interest expense incurred under the term loan and revolving loan totaled \$60 and \$122 for the three and six months ended June 30, 2009, respectively. As of June 30, 2010 and December 31, 2009, the gross outstanding loan balance under the Capital Loan totaled \$0 and \$102, respectively, which is presented as long-term debt on the Company’s consolidated balance sheet. Interest expense incurred under the Capital Loan totaled \$2 and \$4 for the three and six months ended June 30, 2010, respectively. Interest expense incurred under the Capital Loan totaled \$2 and \$5 for the three and six months ended June 30, 2009, respectively.

Enterprise Debt

On June 25, 2010, LMC entered into a Credit Agreement (“Credit Agreement”) with Enterprise Bank & Trust (“Enterprise”). The Credit Agreement provides for a total loan availability of \$3,700, consisting of \$1,500 million term loan (“Term Note”), a revolving loan of up to \$2,000 (Revolving Note”), and equipment loans (“Equipment Note”) of up to \$200. The Term Note of \$1,500 has a maturity date of June 25, 2013 and bears an interest rate of 7% per annum. LMC is required to make monthly payments of principal and interest under the Term Note, with monthly payments of (i) \$50 during months 1 through 12, (ii) \$42 during months 13 through 24 and (iii) \$33 during months 25 through 36. All remaining principal and interest shall be due and payable upon the maturity date

Borrowing availability under the Revolving Note is based on a percentage of LMC’s eligible receivables and inventory and accrues interest at the rate of the greater of *libor* plus 3.75% or 6%. LMC will make monthly interest payments on the Revolving Note until June 24, 2011, at which point all remaining principal and interests are due. LMC has the right to prepay the Term Note and the Revolving Note and the Equipment Note, in whole or in part, at any time without penalty or premium

The Credit Agreement is secured by a blanket security interest in all of the LMC’s assets. Pursuant to a subordination agreement between C3 Capital Partners, L.P., C3 Capital Partners II, L.P. (collectively the “C3 Entities”) and Enterprise, Enterprise’s security interest in the assets is senior to the C3 Entities’ security interest in the same assets.

As of June 30, 2010 and December 31, 2009, the gross outstanding loan balance under the Term Note totaled \$1,500 and \$0, respectively, and the gross outstanding loan balance under the revolving loan totaled \$403 and \$0, respectively. The loans are presented as long-term debt and short-term debt on the Company's consolidated balance sheet, respectively.

C3 Debt

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

17

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

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

The gross outstanding loan balance including accrued interest payable upon maturity of the Subordinated Note totaled \$8,161 and \$7,613 as of June 30, 2010 and December 31, 2009, respectively. Interest expense incurred under the Subordinated Notes totaled \$239 and \$470 for the three and six months ended June 30, 2010, respectively. Interest expense incurred under the Subordinated Notes totaled \$202 and \$403 for the three and six months ended June 30, 2009, respectively.

8. Stock Compensation Plan

During the six months ended June 30, 2010, there were no options granted under the Company's 2002 Non-employee Director Stock Option Plan which provides for the grant of stock options to non-employee directors. Further, all options granted under this plan had exercise prices that were equal to the fair market value on the date of grant.

During the six months ended June 30, 2010, there were no options granted under the Company's 2002 Equity Incentive Plan which provides for the grant of stock options to officers, employees, consultants and directors of the Company its subsidiaries. Further, all options granted under this plan had exercise prices that were equal to the fair market value on the date of grant.

The Company cancelled 85,756 options during the six months ended June 30, 2010, for terminated employees and options expired.

9. Preferred Units of Subsidiary

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

As of June 30, 2010, LMC has redeemed \$236 of its preferred units and distributed \$294 in priority return to the preferred unit holders. The total preferred units outstanding are \$2,264 as of June 30, 2010.

10. Segment Reporting and Geographic Information

ASC 280, *Segment Reporting*, requires companies to provide certain information about their operating segments. In April 2002, the Company began classifying operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys. The Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants. Bulk Liquidmetal alloys include market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods, tooling, prototype sampling, defense applications and metal processing equipment. Primarily, the expenses incurred by the bulk Liquidmetal alloy segment are research and development costs and selling expenses associated with identifying and developing market opportunities. Bulk Liquidmetal alloys products can be distinguished from Liquidmetal alloy

18

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

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 and product licensing arrangements are included in the bulk Liquidmetal alloy segment. The accounting policies of the reportable segments are the same as those described in Note 3 to the consolidated financial statements included in the Company's Form 10-K filed with the Securities and Exchange Commission on August 20, 2010.

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

	Coatings	Bulk Alloy	Segment Totals
Three months ended June 30, 2010			
Revenue to external customers	\$ 1,999	\$ 202	\$ 2,201
Gross profit	736	(151)	585
Total segment loss	(308)	(211)	(519)
Total identifiable assets at end of period	2,339	5,440	7,779
Three months ended June 30, 2009			
Revenue to external customers	\$ 1,706	\$ 1,813	\$ 3,519
Gross profit	592	1,032	1,624
Total segment income	(168)	640	472
Total identifiable assets at end of period	2,224	8,500	10,724
Six months ended June 30, 2010			
Revenue to external customers	\$ 4,545	\$ 359	\$ 4,904
Gross profit	1,553	(421)	1,132
Total segment (loss) income	(443)	(772)	(1,215)
Total identifiable assets at end of period	2,339	5,440	7,779
Six months ended June 30, 2009			
Revenue to external customers	\$ 4,193	\$ 2,918	\$ 7,111
Gross profit	1,506	1,569	3,075
Total segment income (loss)	(147)	854	707
Total identifiable assets at end of period	2,224	8,500	10,724

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Total segment (loss) income	\$ (519)	\$ 472	\$ (1,215)	\$ 707
General and administrative expenses, excluded	(733)	(826)	(1,376)	(1,763)
Consolidated loss before interest, income taxes, and noncontrolling interests	\$ (1,252)	\$ (354)	\$ (2,591)	\$ (1,056)
Loss from extinguishment of debt	—	(1,471)	—	(1,471)
Change in value of warrants, gain	1,053	6,249	2,838	6,123
Change in value of conversion feature, gain	111	930	429	960
Interest expense	(1,044)	(1,095)	(1,880)	(3,067)
Income taxes	—	(45)	—	(45)
Income attributable to noncontrolling interest	94	51	136	20
Consolidated net loss attributable to Liquidmetal Technologies, Inc.	\$ (1,038)	\$ 4,265	\$ (1,068)	\$ 1,464

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.

Revenues from sales to companies in the United States were \$1,550 and \$1,628 during the three months ended June 30, 2010 and 2009, respectively. The revenue related to the United States of America was earned under defense-related research and development contracts, sales of coatings products, and sales of Liquidmetal bulk alloy products.

During the three months ended June 30, 2010, the Company had revenue from sales to companies outside of the United States of \$651, of which \$37 represented sales to companies located in South Korea. During the three months ended June 30, 2009, the Company had revenues from companies outside of the United States of \$1,891 of which \$1,328 represented sales to companies located in South Korea. The revenue related to sales to companies outside of the United States was from coating materials.

Long-lived assets include net property, plant, and equipment, and net intangible assets. The Company had long-lived assets of \$1,963 and \$1,968 located in the United States at June 30, 2010 and December 31, 2009, respectively. The Company had long-lived assets of \$4,344 and \$4,931 located in South Korea at June 30, 2010 and December 31, 2009, respectively.

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

	<u>June 30,</u> <u>2010</u>
Total segment assets	\$ 7,779
Cash and cash equivalents	829
Prepaid expenses and other current assets	123
Other property, plant and equipment	44
Intangibles, net	1,173
Other assets	328
Total consolidated assets	<u>\$ 10,276</u>

Assets excluded from segment assets include assets attributable to the Company's corporate headquarters. The Company's largest corporate assets consist of intangible assets, which consist primarily of the Company's patents and trademarks.

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2010 and 2009 (in thousands, except share data) (unaudited)

11. Income (Loss) Per Common Share

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

Options to purchase 4,304,126 shares of common stock at prices ranging from \$0.09 to \$15.00 per share were outstanding at June 30, 2010, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive. Warrants to purchase 58,225,839 shares of common stock with prices ranging from \$0.50 to \$1.14 per share outstanding at June 30, 2010, were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive. 13,781,248 shares of common stock issuable upon conversion of the Company's convertible notes with conversion prices of \$0.60 per share outstanding at June 30, 2010 were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive. Additionally, 89,560,523 shares of common stock issuable upon conversion of the Company's convertible preferred stocks with conversion prices ranging from \$0.10 and \$0.22 per share outstanding at June 30, 2010 were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive.

Pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair value of the warrant liability to current operations. The change in the fair value of the warrants resulted in gains of \$1,053 and \$2,838 for the three and six months ended June 30, 2010, respectively, and gains of \$6,249 and \$6,123 for the three and six months ended June 30, 2009, respectively. The fair value of warrants outstanding at June 30, 2010 of \$1,137 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 0.88 to 4.33 years; (2) volatility of 105%, (3) risk free interest of 0.32% to 1.79%, and dividend rate of 0%. The fair value of warrants outstanding at December 31, 2009 of \$3,975 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 0.45 to 4.83 years; (2) volatility of 152%, (3) risk free interest of 0.20% to 2.69%, and dividend rate of 0%.

12. Commitments and Contingencies

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

On June 26, 2006, the Company entered into a joint venture agreement with SAGA, SpA in Padova, Italy, ("SAGA") a specialist precision parts manufacturer (See Note 14). The joint venture is named Liquidmetal SAGA Italy, Srl ("LSI"). The Company also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, the Company has option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, the Company exercised the 19.9% interest in LSI and will have two years to purchase the additional interest at a nominal price. In January 2007 and June 2007, the Company contributed additional \$217 and \$86, respectively, into LSI as additional investment. The

contribution did not change the Company's 19.9% interest in LSI. Under the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell to the Company certain business assets including manufacturing equipment acquired under the joint venture. During the fourth quarter of the year ended December 31, 2009, the Company wrote-off its investment of \$306 in the joint venture due to lower than anticipated growth in the eye wear industry. During 2009, 2008 and 2007, the Company recognized revenues of \$0, \$0, and \$103, respectively, of Liquidmetal alloys sold to LSI for use in the joint venture. There were no alloys sold to LSI during the three and six months ended June 30, 2010. (see Note 14)

We have outstanding liens on assets by our South Korean subsidiary by various creditors for past-due trade payables totaling \$1,026, which are held by creditors in South Korea, as of June 30, 2010. We are currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If we cannot repay the amounts due or obtain forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in Korea. Such a foreclosure would have material adverse effect on our operations, financial condition, and results of operations.

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

13. Related Party Transactions

During 2009, John Kang, former Chairman of the Company, advanced the Company \$250 to fund working capital needs. The Company repaid \$130 of the advance and has \$120 outstanding as of June 30, 2010, which is included in short-term debt. Further, Mr. Kang entered into a Continuing Guarantee Agreement, dated January 5, 2009, to personally guarantee repayment of the Company's outstanding borrowings made under a Factoring Agreement (see Note 7).

In May 2009, the Company completed a transaction in which (i) the holders of our 8% Convertible Subordinated Notes exchanged such notes for a combination of new 8% Senior Secured Convertible Notes (the "January 2011" Notes) and shares of a new series of convertible preferred stock designated "Series A-2 Preferred Stock", together with warrants thereon, and (ii) certain investors purchased, for an aggregate purchase price of \$2,500, shares of a new series of convertible preferred stock designated as "Series A-1 Preferred Stock" (see Note 7). The lead investors in this transaction were Carlyle Liquid, LLC and Carlyle Liquid Holdings, LLC (the "Carlyle Entities"), which are two investor entities organized by Abdi Mahamedi and Jack Chitayat. Mr. Mahamedi became a director and greater-than-5% beneficial owner of the company by reason of the May 2009 transaction, and Jack Chitayat is a former director of the Company who became a greater-than-5% beneficial owner of our company by reason of the May 2009 transaction. Mr. Mahamedi and Mr. Chitayat have shared voting and investment control over the shares held by the Carlyle Entities due to the fact that other entities owned by them are the managing members of these two Carlyle entities. Additionally, Mr. Iraj Azarm and Mr. Robert Biehl, directors of the Company, are passive investors in the Carlyle Entities.

During the six months ended June 30, 2010, Mr. Mahamedi and Carlyle Liquid Holdings, LLC advanced the Company \$30 and \$75 to fund working capital needs. The entire balance of the advance is outstanding as of June 30, 2010 and is included in short-term debt.

The Company has an exclusive license agreement with LLPG, Inc. ("LLPG"), a corporation headed by Mr. Chitayat. Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. The Company, in turn, will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. The Company recognized revenues from product sales and licensing fees of \$0 from LLPG during both the three and six months ended June 30, 2010. The Company recognized revenues from product sales and licensing fees of \$8 and \$203 from LLPG during the three and six months ended June 30, 2010, respectively. There are no accounts receivable from LLPG outstanding as of June 30, 2010 and December 31, 2009.

As of June 30, 2010 and December 31, 2009, Ricardo Salas, the Company's Executive Vice President, held \$259 of the unsecured subordinated notes for both periods. Mr. Salas advanced the Company \$210 and \$175 during 2010 and 2009, respectively, to meet working capital needs and accrues interest at an annual rate of 10%. As of June 30, 2010 \$385 is outstanding and is included in short-term debt.

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

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

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

The Company purchased production supplies and outsourced production of certain bulk alloy production with LMK. In June 2008, the Company began sharing the use of its manufacturing facility and production equipment in Pyongtaek, South Korea, with LMK as the Company began significant outsourcing of its bulk alloy parts production. The Company incurred \$0 in expenses for purchase of production supplies and outsourcing fees during both the three and six months ended June 30, 2010. The Company incurred expenses for purchase of production supplies and outsourcing fees of \$256 and \$436 during both the three and six months ended June 30, 2009, respectively. There are \$0 included in accounts payable and accrued expenses for both June 30, 2010 and December 31, 2009 for outstanding trade payables due to LMK. The Company recognized \$0 revenue from sales of raw materials and royalties during both the three and six months ended June 30, 2010. The Company recognized \$1,563 and \$2,123 revenue from sales of raw materials and royalties during both the three and six months ended June 30, 2009, respectively. There are \$0 included in net accounts receivables as of both June 30, 2010 and December 31, 2009, for outstanding trade receivables due from LMK.

In October 2009, John Kang, the Company's former Chairman, Tony Chung, the Company's Chief Financial Officer, and Ricardo Salas, the Company's Executive Vice President, acquired 80,000 shares of the Company's Series A-1 Preferred Stock and 2,000,000 warrants for an aggregate cash price of \$400. The Series A-1 Preferred Stock are convertible into the Company's common stock at a conversion price of \$0.10 per common share. Further, the warrants are issuable into the Company's common stock at an exercise price of \$0.50 per share and expire on October 30, 2014.

14. Subsequent Events

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

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

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

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

[Table of Contents](#)

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2010 and 2009

(in thousands, except share data)

(unaudited)

On August 6, 2010, SAGA, SpA in Padova, Italy, ("SAGA") filed a litigation case against the Company claiming damages of \$3,200 for payment on a loan and for breach of contract in connection with the formation of LSI, a joint venture between the Company and SAGA. The Company is in the process of responding to the claim and working with SAGA to resolve the matter.

[Table of Contents](#)

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

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

This management's discussion and analysis, as well as other sections of this report on Form 10-Q, may contain "forward-looking statements" that involve risks and uncertainties, including statements regarding our plans, future events, objectives, expectations, forecasts, or assumptions. Any statement that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as "believe," "estimate," "project," "expect," "intend," "may," "anticipate," "plans," "seeks," and similar expressions identify forward-looking statements. These statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results, and undue reliance should not be placed on these statements. These risks and uncertainties include, but are not limited to, the matters discussed under the caption "Factors Affecting Future Results" in our Annual Report

Overview

We are a materials technology company that develops and commercializes products made from amorphous alloys. Our Liquidmetal® family of alloys consists of a variety of coatings, powders, bulk alloys, and composites that utilize the advantages offered by amorphous alloy technology. We develop, manufacture, and sell products and components from bulk amorphous alloys that are incorporated into the finished goods of our customers, and we also market and sell amorphous alloy industrial coatings. We also partner with third-party licensees and distributors to develop and commercialize Liquidmetal alloy products. We have the exclusive right to develop, manufacture, and sell what we believe are the only commercially viable bulk amorphous alloys.

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

Our revenues are derived from three principal operating segments: Liquidmetal alloy industrial coatings, Liquidmetal coatings application, 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. Liquidmetal coatings application is the service provided for applying Liquidmetal products as a protective coating. 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.

[Table of Contents](#)

Selling, general, and administrative expenses currently consist primarily of salaries and related benefits, stock-based compensation, 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, 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.

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

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

Critical Accounting Policies and Estimates

The preparation of condensed 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 condensed 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:

- Exchange rate fluctuations
- Warranty accrual
- Allowance for doubtful accounts
- Inventories at lower of cost or net realizable value
- Deferred tax assets
- Valuation of derivatives of warrants and embedded conversion features

Our Annual Report on Form 10-K for the year ended December 31, 2009, contains further discussions on our critical accounting policies and estimates.

Results of Operations

Comparison of the three months ended June 30, 2010 and 2009

Revenue. Revenue decreased \$1.3 million to \$2.2 million for the three months ended June 30, 2010 from \$3.5 million for the three months ended June 30, 2009. The decrease consisted of \$1.6 million from the sales and prototyping of parts manufacture from bulk Liquidmetal alloys to consumer electronic customers as a result of decrease in demand in electronic castings applications, which were offset by an increase of \$0.3 million from sales of our coating products.

26

[Table of Contents](#)

Cost of Sales. Cost of sales decreased to \$1.6 million, or 73% of revenue, for the three months ended June 30, 2010 from \$1.9 million, or 54% of revenue, for the three months ended June 30, 2009. The decrease was a result of a continued change in revenue mix during the three months ended June 30, 2010. 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 \$1.3 million, or 61% of revenue, for the three months ended June 30, 2010 from \$1.4 million, or 39% of revenue, for the three months ended June 30, 2009. The decrease was primarily a result of a decrease in product warranty of \$0.1 million.

Research and Development Expenses. Research and development expenses were \$0.2 million, or 10% of revenue, for the three months ended June 30, 2010 and \$0.3 million, or 9% of revenue, for the three months ended June 30, 2009. The decrease is mainly due to the completion of some of our R&D contracts. We continue to perform research and development of new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants to advance the development of Liquidmetal alloys.

Loss from Extinguishment of Debt. Loss from extinguishment of debt decreased to \$0 for the three months ended June 30, 2010 from \$1.5 million, or 42% of revenue, for the three months ended June 30, 2009. The \$1.5 million loss was recognized from extinguishment of certain of our convertible and subordinated notes during 2009.

Change in Value of Warrants. Change in value of warrants decreased to a gain of \$1.1 million, or 48% of revenue, for the three months ended June 30, 2010 from a gain of \$6.2 million, or 178% of revenue, for the three months ended June 30, 2009. The change in value of warrants consisted of warrants issued from convertible and subordinated notes and convertible preferred stocks issued between 2004 and 2009 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of conversion feature liability from our convertible notes resulted in a gain of \$0.1 million, or 5% of revenue, during the three months ended June 30, 2010 from a gain of \$0.9 million, or 26% of revenue, for the three months ended June 30, 2009, primarily as a result of fluctuations in our stock price.

Other Income. Other income was \$0.1 million, or 2.8% of revenue, for the three months ended June 30, 2010 from write off of accounts payable. There was no other income for the three months ended June 30, 2009.

Interest Expense. Interest expense was \$1.4 million, or 63% of revenue, for the three months ended June 30, 2010 and was \$1.4 million, or 40% of revenue, for the three months ended June 30, 2009. Interest expense consists primarily of debt discount amortization and interest accrued on outstanding convertible and subordinated notes, borrowings under a factoring, loan, and security agreement, a revolving loan agreement, and the Kookmin loan. The decrease was due to certain of our convertible and subordinated notes retired during the second quarter of 2009.

Comparison of the six months ended June 30, 2010 and 2009

Revenue. Revenue decreased \$2.2 million to \$4.9 million for the six months ended June 30, 2010 from \$7.1 million for the six months ended June 30, 2009. The decrease consisted of \$2.6 million decrease in sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of decrease in demand in electronic casings applications and our research and development contracts, offset by an increase of \$0.4 million from the sales of our coating products.

Cost of Sales. Cost of sales decreased to \$3.7 million, or 77% of revenue, for the six months ended June 30, 2010 from \$4.0 million, or 57% of revenue, for the six months ended June 30, 2009. The decrease was a result of a continued change in revenue mix during the six months ended June 30, 2010. 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.

27

[Table of Contents](#)

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased to \$2.6 million, or 54% of revenue, for the six months ended June 30, 2010 from \$2.9 million, or 41% of revenue, for the six months ended June 30, 2009. The decrease was primarily a result of decreases in professional, consulting and contract services expenses of \$0.3 million.

Research and Development Expenses. Research and development expenses were \$0.5 million, or 9% of revenue, for the six months ended June, 2010 and \$0.5 million, or 8% of revenue for the six months ended June 30, 2009. We continue to perform research and development of new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants to advance the development of Liquidmetal alloys.

Loss from Extinguishment of Debt. Loss from extinguishment of debt decreased to \$0 for the six months ended June 30, 2010 from \$1.5 million, or 21% of revenue, for the six months ended June 30, 2009. The \$1.5 million loss was recognized from extinguishment of certain of our convertible and subordinated notes during 2009.

Change in Value of Warrants. Change in value of warrants decreased to a gain of \$2.8 million, or 58% of revenue, for the six months ended June 30, 2009 from a gain of \$6.1 million, or 86% of revenue, for the six months ended June 30, 2009. The change in value of warrants consisted of warrants issued from convertible and subordinated notes and convertible preferred stocks issued between 2004 and 2009 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of conversion feature liability from our convertible notes resulted in a gain of \$0.4 million, or 9% of revenue, during the six months ended June 30, 2010 from a gain of \$1.0 million, or 14% of revenue, for the six months ended June 30, 2009, primarily as a result of fluctuations in our stock price.

Other Income. Other income was \$0.1 million, or 1.3% of revenue, for the six months ended June 30, 2010 from write off of accounts payable. There was no other income for the three months ended June 30, 2009.

Interest Expense. Interest expense was \$2.5 million, or 52% of revenue, for the six months ended June 30, 2010 and was \$3.7 million, or 52% of revenue, for the six months ended June 30, 2009. Interest expense consists primarily of debt discount amortization and interest accrued on outstanding convertible and subordinated notes, borrowings under a factoring, loan, and security agreement, and a revolving loan agreement. The decrease was due to higher interest rates and higher balance outstanding on convertible notes during the first quarter of 2009.

Liquidity and Capital Resources

Our cash used in operating activities was \$1.8 million for the six months ended June 30, 2010. Our working capital deficit increased from \$13.1 million at December 31, 2009 to \$17.2 million at June 30, 2010. The working capital deficit increase of \$4.1 million was primarily attributable to decrease of inventories of \$0.1 million, decrease of trade accounts receivables, net of allowance for doubtful account, of \$0.2 million and increase of long term debt, current portion, of \$5.0 million, offset by increase of cash and cash equivalents of \$0.8 million, decrease of warrant liabilities of \$2.8 million and decrease of conversion feature liabilities of \$0.4 million.

Our cash used in investing activities was \$0.2 million for the six months ended June 30, 2010 for the acquisition of property and equipment and investments in patents and trademarks.

Our cash provided by financing activities was \$3.3 million for the six months ended June 30, 2010. We paid net \$4.9 million in borrowings mainly for a revolving loan agreement executed in July 2007, which were offset by \$8.2 million in borrowings mainly from additional term loan as payment for monthly accrued interest due, short term borrowings, and additional term note.

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

[Table of Contents](#)

The Exchange Notes are due January 3, 2011 and bear annual interest rate of 8% with interest payable in October and April in cash or, at our company's option, in the form of additional notes (in which case the interest rate will be 10%). The preferred stocks accrue cumulative dividends at an annual rate of 8%, which is payable semi-annually. Beginning on the second anniversary of the initial issuance, the dividend will increase to 10%. As of June 30, 2010, we have accrued dividends of \$0.7 million included in accounts payable and other accrued expenses. The dividends are payable in cash or in kind by the issuance of the company of additional preferred stock, only when and as declared by our Board of Directors. On August 5, 2010, we repaid in full all principal and interest on the Exchange Notes in the amount of \$8.2 million and all security interests on our assets securing such obligations were released and terminated.

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

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

Additionally, we have approximately \$0.3 million of principal and accrued interest outstanding as of June 30, 2010, under the 8% unsecured subordinated notes (the "Bridge Notes"), which were due August 17, 2007. On August 5, 2010, we repaid in full all principal and interest on the Bridge Notes in the amount of \$0.3 million.

We have \$0.3 million of outstanding loan as of June 30, 2010 under a factoring, loan, and security agreement with a financing company. In June 2009, we received a formal notice of default from the financing company for repayment of the outstanding loan balance and have entered into a settlement agreement with the financing company whereby it agreed to repay approximately \$100 each month until the outstanding loans and accrued fees have been repaid. As of June 30, 2010, we have not been able to pay the \$100 monthly payments. On August 5, 2010, we repaid in full all principal, interest and fees on the factoring loan in the amount of \$0.3 million and all security interests on our assets securing such obligation was released and terminated.

We have outstanding liens on assets by our South Korean subsidiary by various creditors for past-due trade payables totaling \$1,026 million, which are held by creditors in South Korea, as of June 30, 2010. We are currently working to resolve the matter with each creditor by seeking a forbearance or compromise. If we cannot repay the amounts due or obtain forbearance or compromise, the creditors may seek to foreclose on the Company's assets located in Korea. Such a foreclosure would have material adverse effect on our operations, financial condition, and results of operations.

[Table of Contents](#)

Contractual Obligations

The following table summarizes the Company's obligations and commitments as of June 30, 2010:

Contractual Cash Obligations	Payments Due by Period (in thousands)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	Thereafter
Long-term debt (2)	\$ 8,327	\$ 8,327	\$ —	\$ —	\$ —
Long-term debt of consolidated subsidiary (2)	9,382	600	8,382	400	—
Short-term debt (3)	2,897	2,897	—	—	—
Short-term debt of consolidated subsidiary	403	403	—	—	—
Interest payments (4)	2,726	1,102	1,624	—	—
Operating leases and rents	661	369	292	—	—
Dongyang	9	9	—	—	—
Nichimen	315	315	—	—	—
Totals (1)	\$ 24,720	\$ 14,022	\$ 10,298	\$ 400	\$ —

- (1) Contractual cash obligations include Long-term debt comprised of \$259 of Unsecured Subordinated Notes issued in 2006 and \$8,068 of Convertible Notes issued in 2009; Long-term debt of consolidated subsidiary comprised of \$1,500 of Enterprise Bank & Trust Term Loan, \$8,162 of C3 Capital Partners Subordinated Notes; Short-term debt comprised of \$287 outstanding advances received under factoring, loan, and security agreement, \$2,000 of promissory note, \$610 of cash advances from John Kang, our former Chairman, Ricardo Salas, Executive Vice President of our company, Abdi Mahamedi, a member for our Board of Directors and Carlyle Liquid Holdings, one of our noteholders; Short-term debt of consolidated subsidiary comprised of \$403 of Bank Midwest revolving loan; future minimum lease payments under capital and operating leases; purchase commitments from consultants; payments due from assets purchased from Foster Wheeler thermal spray coatings business; payments due from our discontinued equipment manufacturing business; and minimum payments due under a distribution agreement.
- (2) Does not include accrued and scheduled interest payments of \$2,726; and un-amortized discounts for conversion feature and warrants of \$1,899 of our convertible notes.
- (3) Does not include minimum interest and fee payments of \$30.
- (4) Interest payments include accrued and scheduled payments due on long-term debt and long-term debt of consolidated subsidiary with annual interest rates between 6% to 14%. Interest payments also include estimated interest on short-term debt and short-term debt of majority owned subsidiary with annual interest rates between 6.5% to 10% with expected maturity of approximately 1 year.

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) retained 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.

On June 26, 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy, ("SAGA") a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl ("LSI"). We also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, we have the option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, we have purchased 19.9% interest in the joint venture. In January 2007 and June 2007, we contributed additional \$0.2 million and \$0.1 million, respectively, into LSI as additional investment. The contribution did not change our 19.9% interest in LSI. Under the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell to us certain business assets including manufacturing equipment acquired under the joint venture. During the fourth quarter of the year ended December 31, 2009, we wrote-off its investment of \$0.3 million in the joint venture due to slower than anticipated growth in the eyewear industry. During 2009, 2008 and 2007, we recognized revenues of \$0, \$0 and \$0.1 million, respectively, of Liquidmetal alloys sold to SAGA for use in the joint venture. There were no alloys sold to LSI during the six months ended June 30, 2010.

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

Item 3 — Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rates. We are exposed to market risks relating to changes in interest rates as our borrowings are subject to the volatility of interest rate risk. Fluctuations in interest rates may have a negative impact to any future borrowings.

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

Foreign Exchange Rates. As a result of our operation of a manufacturing facility in South Korea, a substantial portion of our costs will be denominated in the South Korean won. Consequently, fluctuations in the exchange rates of the South Korean won to the U.S. dollar will affect our costs of goods sold and operating margins and could result in exchange losses. Although we do not currently enter into foreign exchange hedge transactions, we may do so in the future as our business grows.

Item 4T — Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2010, the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective.

Changes in Internal Controls. During the quarter ended June 30, 2010, there was no change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)

PART II OTHER INFORMATION

Item 1 — Legal Proceedings

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

Item 1A — Risk Factors

None.

Item 3 - Defaults Upon Senior Securities

We have \$0.3 million of outstanding loan as of June 30, 2010 under a factoring, loan, and security agreement with a financing company. In June 2009, we received a formal notice of default from the financing company for repayment of the outstanding loan balance. As of the filing of this report, we entered into a settlement agreement with the financing company whereby we agreed to repay approximately \$0.1 million each month until the outstanding loans and accrued fees have been repaid. As of June 30, 2010, we were unable to pay the \$100 monthly payments and are in discussions with the financing company to either extend or enter into another settlement agreement, although there is no assurance that we will be able to obtain any such agreement. On August 5, 2010, we repaid in full all principal, interest and fees on the factoring loan in the amount of \$0.3 million and all security interests on our assets securing such obligation was released and terminated.

Item 4 — Submission of Matters to a Vote of Security Holders

None.

Item 5 — Other Information

None.

Item 6 — Exhibits

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

Exhibit Number	Description of Document
10.1	Form of Convertible Subordinated Note, dated May 1, 2010.

- 31.1 Certification of the President and Chief Executive Officer, Thomas Steipp, as required by Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer, Tony Chung, as required by Section 302 of Sarbanes-Oxley Act of 2002
- 32.1 Certification of Principal Executive Officer, Thomas Steipp, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- 32.2 Certification of Principal Financial Officer, Tony Chung, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

[Table of Contents](#)

SIGNATURES

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

LIQUIDMETAL TECHNOLOGIES, INC.
(Registrant)

Date: August 20, 2010

/s/ Thomas Steipp

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

Date: August 20, 2010

/s/ Tony Chung

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

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

8% SENIOR SECURED CONVERTIBLE NOTE

Issuance Date: May 1, 2010

Principal: U.S.

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

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

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

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

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

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

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

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

(c) Mechanics of Conversion.

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

3

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

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

(iii) Book-Entry. Notwithstanding anything to the contrary set forth herein, upon

4

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

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

(d) Limitations on Conversions.

(i) Beneficial Ownership. Unless waived by the Holder upon no less than sixty one (61) days prior written notice to the Company, the Company shall not effect any conversion of this Note pursuant to Section 3(a) to the extent that after giving effect to such conversion the Holder

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

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

(ii) **INTENTIONALLY OMITTED.**

(4) RIGHTS UPON EVENT OF DEFAULT.

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

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

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

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

Indebtedness;

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

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

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

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

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

(ix) **INTENTIONALLY OMITTED;**

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

7

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

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

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

(5) RIGHTS UPON CHANGE OF CONTROL.

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

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

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

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

8

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

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

(c) Redemption Right. At any time during the period beginning after the Holder’s receipt of a Change of Control Notice and ending on the date of the consummation of such Change of Control (or, in the event a Change of Control Notice is not delivered at least 10 days prior to a Change of Control, at any time on or after the date which is 10 days prior to a Change of Control and ending ten days after the consummation of such Change of Control), the Holder may require the Company to redeem all or any portion of this Note by delivering written notice thereof (“**Change of Control Redemption Notice**”) to the Company, which Change of Control Redemption Notice shall indicate the Conversion Amount the Holder is electing to redeem; provided, however, that the Company shall not be under any obligation to redeem all or any portion of this Note or to deliver the applicable Change of Control Redemption Price unless and until the applicable Change of Control is consummated. The portion of this Note subject to redemption pursuant to this Section 5 shall be redeemed by the Company in cash at a price equal to the sum of (i) the Conversion Amount of the portion to be redeemed, plus (ii) the Black Scholes Value, as of the date immediately preceding the date the Change of Control is consummated, of the Holder’s right to convert the Conversion Amount hereunder upon the terms set forth herein (the “**Change of Control Redemption Price**”). For the purpose of this Note, “**Black Scholes Value**” means the value, as reasonably calculated by the Company, of this Note, which shall be determined by use of the Black Scholes Option Pricing Model reflecting (i) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of this Note as of such date of request and (ii) an expected volatility equal to the greater of 60% and the 100 day volatility obtained from the HVT function on Bloomberg; provided that the

Black Scholes Value of this Note shall not for this purpose exceed an amount equal to \$2.50 multiplied by the number of shares of Common Stock for which this Note may be converted at the time the Change of Control is consummated (with such \$2.50 cap being subject to adjustment for stock dividends, stock splits, reverse stock splits, and the like).

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

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

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

(7) RIGHTS UPON ISSUANCE OF OTHER SECURITIES.

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

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

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

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

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

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

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

(8) **INTENTIONALLY OMITTED.**

(9) COMPANY'S RIGHT OF MANDATORY CONVERSION. (a) Mandatory Conversion. If at any time from and after the Issuance Date, the Weighted Average Price of the Common Stock exceeds 250% of the conversion price of the Original Notes as of the Original Issuance Date (subject to appropriate adjustments for stock splits, stock dividends, stock combinations and other similar transactions after the Original Issuance Date) for each of any 20 consecutive Trading Days (the "**Mandatory Conversion Measuring Period**") and the Conditions to Mandatory Conversion (as set forth in Section 9(c)) are satisfied or waived in writing by the Holder, the Company shall have the right to require the Holder to convert all or any such portion of the Conversion Amount of this Note designated in the Mandatory Conversion Notice into fully paid, validly issued and nonassessable shares of Common Stock in accordance with Section 3(c) hereof at the Conversion Rate as of the Mandatory Conversion Date (as defined below) (a "**Mandatory Conversion**"). The Company may exercise its right to require conversion under this Section 9(a) by delivering within not more than five Trading Days

12

following the end of such Mandatory Conversion Measuring Period a written notice thereof by facsimile and overnight courier to all, but not less than all, of the Holders of Notes and the Transfer Agent (the "**Mandatory Conversion Notice**" and the date all of the Holders received such notice is referred to as the "**Mandatory Conversion Notice Date**"). The Mandatory Conversion Notice shall be irrevocable.

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

(c) Conditions to Mandatory Conversion. For purposes of this Section 9, "**Conditions to Mandatory Conversion**" means the following conditions: (i) during the

13

period beginning on the date that is six months prior to the Mandatory Conversion Date and ending on and including the Mandatory Conversion Date, the Company shall have delivered shares of Common Stock upon any conversion of Conversion Amounts as set forth in Section 3(c)(i); (ii) on each day during the period beginning on the first Trading Day of the Mandatory Conversion Measuring Period and ending on and including the Mandatory Conversion Date, the Common Stock shall be traded, listed, or quoted (as applicable) on the Principal Market, the NASDAQ Global Market or Global Select Market, the NASDAQ Capital Market, the New York Stock Exchange, or the American Stock Exchange; (iii) on the Mandatory Conversion Date either (x) the Registration Statement or Registration Statements required pursuant to the Registration Rights Agreement shall be effective and available for the sale for all of the Registrable Securities in accordance with the terms of the Registration Rights Agreement or (y) all shares of Common Stock issuable upon conversion of the Notes shall be eligible for sale without restriction and without the need for registration under any applicable federal or state securities laws; (iv) on the

Mandatory Conversion Date, an Authorized Share Failure shall not be in effect; and (v) the average number of shares of Common Stock traded on the Principal Market for the 20 Trading Days prior to the Mandatory Conversion Date shall equal or exceed 200,000 shares per day.

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

(11) RESERVATION OF AUTHORIZED SHARES.

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

14

Holders of Notes, pro rata based on the principal amount of the Notes then held by such Holders.

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

(12) HOLDER’S REDEMPTIONS.

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

15

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

(13) SUBORDINATION TO SENIOR INDEBTEDNESS.

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

or hereinafter incurred. However, notwithstanding anything to the contrary set forth in this Note, the provisions of this Section 13 shall apply only to Senior Indebtedness described in clause (ii) of Section 29(q) of this Note.

(b) No Payment if Default in Senior Indebtedness.

(i) no cash payment on account of Principal or Redemption Price of, or Interest on, this Note or any other payment payable with respect to this Note shall be made, and no portion of this Note shall be redeemed or purchased directly or indirectly by the Company, if at the time of such payment or purchase or immediately after giving effect thereto, (A) a default in the payment of principal, premium, if any, interest or other obligations in respect of any Senior Indebtedness occurs and is continuing (or, in the case of Senior Indebtedness for which there is a period of grace, in the event of such a default that continues beyond the period of grace, if any, specified in the instrument evidencing such Senior Indebtedness) (a “**Payment Default**”), unless and until such Payment Default shall have been cured or waived or shall have ceased to exist or (B) the Company shall have received notice (a “**Payment Blockage Notice**”) from the holder or holders of Senior Indebtedness that there exists under such Senior Indebtedness a default, which shall not have been cured or waived, permitting the holder or holders thereof to declare

16

such Senior Indebtedness due and payable, but in the case of this clause (B), only for the period (the “**Payment Blockage Period**”) commencing on the date of receipt of the Payment Blockage Notice and ending on the date such default shall have been cured or waived. The Company shall resume payments on and distributions in respect of this Note, including any past scheduled payments of the principal of (and premium, if any) and interest on this Note to which the Holder would have been entitled but for the provisions of this Section 13(b)(ii), within five (5) Business Days of the date upon which such Payment Default is cured or waived or ceases to exist or the date on which the Payment Blockage Period ends (and if payment is made within such time period, any Event of Default with respect to such nonpayment shall be cured).

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

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

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

17

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

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

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

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

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

(h) Holders of Senior Indebtedness. These provisions regarding subordination will constitute a continuing offer to all Persons who, in reliance upon such provisions, become holders of, or continue to hold, Senior Indebtedness; such provisions are made for the benefit of the holders of Senior Indebtedness, and such holders are hereby made obligees under such provisions to the same extent as if they were named therein, and they or any of them may proceed to enforce such subordination and no amendment or modification of the provisions contained herein shall diminish the rights of such holders unless such holders have agreed in writing thereto. The holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the

18

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

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

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

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

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

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

19

Corporation Law, and as expressly provided in this Note.

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

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

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

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

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

(16) PARTICIPATION. The Holder, as the holder of this Note, shall be entitled to such dividends paid and distributions made to the holders of Common Stock (each, a “**Distribution**”), in each such case to the extent of the Distribution as if the Holder had converted this Note into Common Stock (without regard to any limitations on conversion herein

20

or elsewhere) and had held such shares of Common Stock on the record date for such dividends and distributions. Payments (if any) under the preceding sentence shall be made concurrently with the dividend or distribution to the holders of Common Stock.

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

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

(19) REISSUANCE OF THIS NOTE.

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

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

21

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

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

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

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

22

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

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

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

(25) NOTICES; PAYMENTS.

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

23

notices given pursuant to this Note.

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

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

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

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

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

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

24

reverse stock splits, and the like, unless such increased amount of shares is approved by the holders of the Company's Common Stock and the holders of the Company's Series A-1 Preferred Stock and Series A-2 Preferred Stock voting together as a single class. For purposes of this definition, "fully-diluted basis"

shall take into account all outstanding shares of Common Stock as well as all shares of Common Stock issuable upon the conversion of all outstanding convertible securities of the Company, including all options and warrants granted.

(b) **“Bloomberg”** means Bloomberg Financial Markets.

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

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

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

25

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

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

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

(i) **“Issuance Date”** means May 1, 2010.

26

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

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

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

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

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

(o) “SEC” means the United States Securities and Exchange Commission.

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

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

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

(s) “Trading Day” means any day on which the Common Stock is traded on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock is then traded; provided that “Trading Day” shall not include any day on which the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or

27

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

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

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

[Signature Page Follows]

28

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

LIQUIDMETAL TECHNOLOGIES, INC.

By: _____

Name: Tony Chung
Title: Chief Financial Officer

EXHIBIT I

LIQUIDMETAL TECHNOLOGIES, INC.
CONVERSION NOTICE

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

Date of Conversion: _____

Aggregate Conversion Amount to be converted: _____

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

Please confirm the following information:

Conversion Price: _____

Number of shares of Common Stock to be issued: _____

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

Issue to: _____

Facsimile Number: _____

Authorization: _____

By: _____ Title: _____

Dated: _____

Account Number: _____
(if electronic book entry transfer)

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

ACKNOWLEDGMENT

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

LIQUIDMETAL TECHNOLOGIES, INC.

By: _____
Name:
Title:

CERTIFICATION

I, Thomas Steipp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liquidmetal Technologies, Inc. for the quarter ended June 30, 2010;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-1f(f) and 15d-1f(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 20, 2010

/s/ Thomas Steipp

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

CERTIFICATION

I, Tony Chung, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liquidmetal Technologies, Inc. for the quarter ended June 30, 2010;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-1f(f) and 15d-1f(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 20, 2010

/s/ Tony Chung

Tony Chung

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Chief Executive Officer of Liquidmetal Technologies, Inc. (the "Company"), hereby certifies, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2010, (the "Report") fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas Steipp

Thomas Steipp, President and Chief Executive Officer

August 20, 2010

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

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Chief Financial Officer of Liquidmetal Technologies, Inc. (the "Company"), hereby certifies, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2010, (the "Report") fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tony Chung

Tony Chung, Chief Financial Officer

August 20, 2010
