

LIQUIDMETAL TECHNOLOGIES INC  
Form 10-K/A  
October 07, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K/A**

(Amendment No. 1)

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

For the fiscal year ended December 31, 2013

**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

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**LIQUIDMETAL TECHNOLOGIES, INC.**  
(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)  
**30452 Esperanza**  
**Rancho Santa Margarita, CA 92688**  
(Address of principal executive offices, zip code)

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

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

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

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

**Title of each Class**

Common Stock, \$0.001 par value

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

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

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

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 28, 2013 was approximately \$19,777,092. For purposes of this calculation only, (i) shares of common stock are deemed to have a market value of \$0.07 per share, the closing price of the common stock as reported on the OTC Bulletin Board on June 28, 2013 and (ii) each of the executive officers, directors and persons holding more than 10% of the outstanding common stock as of June 28, 2013 is deemed to be an affiliate. The number of shares of common stock outstanding as of March 4, 2014 was 389,302,110.

**Explanatory Note**

Liquidmetal Technologies, Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to amend the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the “Form 10-K”). This Amendment is being filed solely to provide a signed copy of the report of the Company’s independent registered public accounting firm because such signature was inadvertently omitted from the report that was included in the Form 10-K.

In addition, in connection with the filing of this Amendment, the Company has included new certifications of the Company’s Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and pursuant to 18 U.S.C. §1350. No other changes have been made to the Form 10-K. This Amendment speaks as of the original filing date of the Form 10-K, does not reflect any events that may have occurred subsequent to the original filing date, and does not modify or update in any way the disclosures contained in the original Form 10-K.

This amendment arose from the Commission’s review of the Form 10-K, and the Commission had no comments on such Form 10-K as a result of such review other than the need to include a signed version of the accounting firm report in the filing.

**Item 8. Financial Statements and Supplementary Data**

The financial statements required by this item can be found beginning on page 9 of this Annual Report on Form 10-K/A.

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**Item 15. Exhibits, Financial Statement Schedules**

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

1. *Financial Statements*. See the Index to Consolidated Financial Statements on page 9.

2. *Exhibits*. See Item 15(b) below.

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

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

## EXHIBIT INDEX

Exhibit Number	Document Description
3.1	Amended and Restated Certificate of Incorporation ( <i>incorporated by reference to Exhibit 3.1 to the 8-K filed on October 28, 2013</i> ).
3.2	Bylaws ( <i>incorporated by reference to Exhibit 3.2 to the Form 10-Q filed on August 14, 2003</i> ).
3.3	Amendment to ByLaws of Liquidmetal Technologies, Inc. ( <i>incorporated by reference to Exhibit 3.1 to the Form 8-K filed on September 21, 2011</i> ).
4.1	Reference is made to Exhibits 3.1, 3.2, and 3.3.
4.2	Form of Common Stock Certificate ( <i>incorporated by reference to Exhibit 4.2 to the Form 10-Q filed on August 14, 2003</i> ).
10.1	Amended and Restated License Agreement, dated September 1, 2001, between Liquidmetal Technologies, Inc. and California Institute of Technology ( <i>incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)</i> ).
10.2*	1996 Stock Option Plan, as amended, together with form of Stock Option Agreement ( <i>incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on November 20, 2001 (Registration No. 333-73716)</i> ).
10.3*	2002 Equity Incentive Plan ( <i>incorporated by reference to Exhibit 10.23 to the Registration Statement on Form S-1 (Amendment No. 2) filed on April 5, 2002 (Registration No. 333-73716)</i> ).
10.4*	2002 Non-Employee Director Stock Option Plan ( <i>incorporated by reference to Exhibit 10.24 to the Registration Statement on Form S-1 (Amendment No. 2) filed on April 5, 2002 (Registration No. 333-73716)</i> ).
10.5	Form of Indemnity Agreement between Liquidmetal Technologies, Inc. and directors and executive officers ( <i>incorporated by reference from Exhibit 10.59 to the Form 10-K filed on March 16, 2006</i> ).
10.6	Standard Industrial / Commercial Single-Tenant Lease, dated February 13, 2007, between Liquidmetal Technologies, Inc. and 30452 Esperanza LLC ( <i>incorporated by reference from Exhibit 10.1 to the Form 10-Q filed on May 15, 2007</i> ).
10.7	Lease, dated March 19, 2007, between Liquidmetal Technologies, Inc. and Larry Ruffino and Roland Ruffino ( <i>incorporated by reference from Exhibit 10.1 to the Form 10-Q filed on May 15, 2007</i> ).
10.8	Form of Common Stock Purchase Warrant issued in connection with the 8% Senior Secured Convertible Subordinated Notes ( <i>incorporated by reference from Exhibit 10.3 to the Form 8-K filed on May 7, 2009</i> ).

- 10.9 Form of Common Stock Purchase Warrant issued in connection with the Series A Preferred Stock  
*(incorporated by reference from Exhibit 10.4 to the Form 8-K filed on May 7, 2009).*
- 10.10\* Employment Agreement, dated August 3, 2010, between Thomas Steipp and Liquidmetal Technologies, Inc.  
*(incorporated by reference from Exhibit 10.1 to the Form 10-Q filed on November 4, 2010).*
- 10.11\* Restricted Stock Agreement, dated August 3, 2010, between Thomas Steipp and Liquidmetal Technologies,  
Inc. *(incorporated by reference from Exhibit 10.2 to the Form 10-Q filed on November 4, 2010).*

- 10.12\*\* Master Transaction Agreement, dated August 5, 2010, between Apple Inc., Liquidmetal Technologies, Inc., Liquidmetal Coatings, LLC and Crucible Intellectual Property, LLC (*incorporated by reference from Exhibit 10.3 to the Form 10-Q filed on November 4, 2010*).
- 10.13 Subscription Agreement, dated August 10, 2010, between Liquidmetal Technologies, Inc. and Norden LLC (*incorporated by reference from Exhibit 10.4 to the Form 10-Q filed on November 4, 2010*).
- 10.14 Consent Agreement between Liquidmetal Technologies, Inc. and holders of the Series A-1 Preferred Stock and holders of the Series A-2 Preferred Stock (*incorporated by reference from Exhibit 10.5 to the Form 10-Q filed on November 4, 2010*).
- 10.15 Amendment No. 1 to Restricted Stock Award Agreement, dated July 27, 2011, between Liquidmetal Technologies, Inc. and Thomas Steipp (*incorporated by reference from Exhibit 10.2 on the Form 10-Q filed on August 10, 2011*).
- 10.16 Stock Purchase Agreement, dated August 5, 2011, between Liquidmetal Technologies, Inc. and Innovative Materials Groups, LLC (*incorporated by reference from Exhibit 10.3 on the Form 10-Q filed on August 10, 2011*).
- 10.17\*\* License Agreement, dated August 5, 2011, between Liquidmetal Technologies, Inc. and Innovative Materials Groups, LLC (*incorporated by reference from Exhibit 10.4\* on the Form 10-Q filed on August 10, 2011*).
- 10.18\* Liquidmetal Technologies, Inc. 2012 Equity Incentive Plan (*incorporated by reference from Exhibit 10.1 to the Form 8-K filed on July 2, 2012*).
- 10.19 Securities Purchase Agreement, dated as of July 2, 2012, by and among Liquidmetal Technologies, Inc. and each of the investors named on the Schedule of Buyers attached thereto (*incorporated by reference from Exhibit 10.1 to the Form 8-K filed on July 2, 2012*).
- 10.20 Registration Rights Agreement, dated as of July 2, 2012, by and among Liquidmetal Technologies, Inc. and the investors named on the Schedule of Buyers attached thereto (*incorporated by reference from Exhibit 10.2 to the Form 8-K filed on July 2, 2012*).
- 10.21 Form of Senior Convertible Note (*incorporated by reference from Exhibit 10.3 to the Form 8-K filed on July 2, 2012*).
- 10.22 Form of Warrant to Purchase Common Stock (*incorporated by reference from Exhibit 10.4 to the Form 8-K filed on July 2, 2012*).
- 10.23 Master Transaction Agreement, dated as of June 1, 2012, between Liquidmetal Technologies, Inc. and Visser Precision Cast, LLC. (*incorporated by reference from Exhibit 10.32 to the Registration Statement on S-1 filed July 18, 2012*)
- 10.24\*\* Manufacturing Services Agreement, dated as of June 1, 2012, between Liquidmetal Technologies, Inc. and Visser Precision Cast, LLC. (*incorporated by reference from Exhibit 10.33 to the Registration Statement on S-1 filed July 18, 2012*)
- 10.25



Subscription Agreement, dated as of June 1, 2012, between Liquidmetal Technologies, Inc. and Visser Precision Cast, LLC. *(incorporated by reference from Exhibit 10.34 to the Registration Statement on S-1 filed July 18, 2012)*

10.26 Security Agreement, dated as of June 1, 2012, between Liquidmetal Technologies, Inc. and Visser Precision Cast, LLC. *(incorporated by reference from Exhibit 10.35 to the Registration Statement on S-1 filed July 18, 2012)*

- 10.27 Registration Rights Agreement, dated as of June 1, 2012, between Liquidmetal Technologies, Inc. and Visser Precision Cast, LLC. *(incorporated by reference from Exhibit 10.36 to the Registration Statement on S-1 filed July 18, 2012)*
- 10.28 VPC Sublicense Agreement, dated as of June 1, 2012, between Liquidmetal Technologies, Inc. and Visser Precision Cast, LLC. *(incorporated by reference from Exhibit 10.37 to the Registration Statement on S-1 filed July 18, 2012)*
- 10.29 6% Senior Secured Convertible Note, dated June 1, 2012, issued to Visser Precision Cast, LLC. *(incorporated by reference from Exhibit 10.38 to the Registration Statement on S-1 filed July 18, 2012)*
- 10.30 Common Stock Purchase Warrant, dated June 1, 2012, issued to Visser Precision Cast, LLC. *(incorporated by reference from Exhibit 10.39 to the Registration Statement on S-1 filed July 18, 2012)*
- 10.31 Common Stock Purchase Warrant, dated June 28, 2012, issued to Visser Precision Cast, LLC. *(incorporated by reference from Exhibit 10.40 to the Registration Statement on S-1 filed July 18, 2012)*
- 10.32 Amendment Number One to Master Transaction Agreement and Other Transaction Documents, dated June 15, 2012, between Apple Inc., Liquidmetal Technologies, Inc., Liquidmetal Coatings, LLC and Crucible Intellectual Property, LLC. *(incorporated by reference from Exhibit 10.41 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 3, 2012).*
- 10.33 Form of Change of Control Agreement, dated September 13, 2013. *(incorporated by reference from Exhibit 10.1 of the Form 8-K filed September 13, 2013)*
- 10.34 Common Stock Purchase Agreement, dated November 8, 2013 among Liquidmetal Technologies, Inc., Kingsbrook Opportunities Master Fund LP, Tech Opportunities LLC and Iroquois Master Fund Ltd. *(incorporated by reference from Exhibit 10.1 to the Form 8-K filed November 12, 2013)*
- 10.35 Registration Rights Agreement, dated November 8, 2013 among Liquidmetal Technologies, Inc., Kingsbrook Opportunities Master Fund LP, Tech Opportunities LLC and Iroquois Master Fund Ltd. *(incorporated by reference from Exhibit 10.2 to the Form 8-K filed November 12, 2013)*
- 14 Code of Ethics for Chief Executive Officer and Senior Financial and Accounting Officers *(incorporated by reference to Exhibit 14 to the Form 10-K filed on November 10, 2004).*
- 21.1 Subsidiaries of the Registrant *(incorporated by reference from Exhibit 21.1 to the Registration Statement on S-1 filed July 18, 2012).*
- 24.1 Power of Attorney relating to subsequent amendments (included on the signature page(s) of the original 10-K).
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended.

Certification pursuant to 18 U.S.C. Section 1350.

32.1

The following financial statements from Liquidmetal Technologies, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i)

- 101 Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Consolidated Statements of Shareholder's Equity (Deficit), (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.

\* Denotes a management contract or compensatory plan or arrangement.

Portions of this exhibit have been omitted pursuant to a confidential treatment request. Omitted

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information has been filed separately with the Securities and Exchange Commission.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **Liquidmetal Technologies, Inc.**

By: /s/ Tony Chung  
Tony Chung

Chief Financial Officer

(Principal Financial Officer, Principal Accounting Officer, and Duly Authorized Representative)

Date: October 7, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Liquidmetal Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Liquidmetal Technologies, Inc. and subsidiaries (collectively, the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity (deficit), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the consolidated financial statements, the Company has suffered recurring losses from operations and has an accumulated deficit. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ SingerLewak LLP

SingerLewak LLP

Los Angeles, California

March 5, 2014

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

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b><u>ASSETS</u></b>		
Current assets:		
Cash	\$2,062	\$7,162
Trade accounts receivable, net of allowance for doubtful accounts of \$0 and \$11	215	64
Related party notes receivable	-	-
Prepaid expenses and other current assets	412	689
<b>Total current assets</b>	<b>\$2,689</b>	<b>\$7,915</b>
Property and equipment, net	249	161
Patents and trademarks, net	764	869
Other assets	401	28
<b>Total assets</b>	<b>\$4,103</b>	<b>\$8,973</b>
<b><u>LIABILITIES AND SHAREHOLDERS' DEFICIT</u></b>		
Current liabilities:		
Accounts payable	361	154
Accrued liabilities	710	248
Accrued dividends	-	222
Short-term debt	-	-
Convertible note, net of debt discount	-	2,365
Embedded conversion feature liability	-	3,934
<b>Total current liabilities</b>	<b>\$1,071</b>	<b>\$6,923</b>
Long-term liabilities		
Warrant liabilities	4,921	2,766
Other long-term liabilities	856	856
<b>Total liabilities</b>	<b>\$6,848</b>	<b>\$10,545</b>
Shareholders' deficit:		
Convertible, redeemable Series A Preferred Stock, \$0.001 par value; 10,000,000 shares authorized; 0 and 506,936 shares issued and outstanding at December 31, 2013 and December 31, 2012, respectively	-	-
	376	242



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Common stock, \$0.001 par value; 700,000,000 shares authorized; 375,707,190 and 242,074,324 shares issued and outstanding at December 31, 2013 and December 31, 2012, respectively

Warrants	18,179	18,179
Additional paid-in capital	182,832	169,891
Accumulated deficit	(204,090)	(189,884)
Non-controlling interest in subsidiary	(42 )	-
<b>Total shareholders' deficit</b>	<b>\$(2,745 )</b>	<b>\$(1,572 )</b>
<b>Total liabilities and shareholders' deficit</b>	<b>\$4,103</b>	<b>\$8,973</b>

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(in thousands, except share and per share data)

	<b>Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Revenue		
Products	\$1,007	\$591
Licensing and royalties	19	59
<b>Total revenue</b>	<b>1,026</b>	<b>650</b>
Cost of revenue, products	774	354
<b>Gross margin</b>	<b>252</b>	<b>296</b>
Operating expenses		
Selling, marketing, general and administrative	5,157	4,850
Research and development	1,156	943
Manufacturing contract costs	-	6,300
<b>Total operating expenses</b>	<b>6,313</b>	<b>12,093</b>
<b>Operating loss</b>	<b>(6,061)</b>	<b>(11,797)</b>
Change in value of warrants, gain (loss)	(2,155)	6,547
Change in value of embedded conversion feature liability, gain	621	4,931
Debt discount amortization expense	(6,504)	(11,949)
Financing costs	-	(1,355)
Other income	-	34
Interest expense	(245)	(459)
Interest income	5	23
Gain on extinguishment of debt (Note 11)	91	-
<b>Loss before income taxes</b>	<b>(14,248)</b>	<b>(14,025)</b>
Income taxes	-	-
<b>Net loss and comprehensive loss</b>	<b>(14,248)</b>	<b>(14,025)</b>
Net loss attributable to non-controlling interest	42	-
<b>Net loss and comprehensive loss attributable to Liquidmetal Technologies shareholders</b>	<b>(14,206)</b>	<b>(14,025)</b>
Per common share basic and diluted:		
Net loss per common share attributable to Liquidmetal Technologies shareholders, basic	\$(0.04)	\$(0.07)

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Net loss per common share attributable to Liquidmetal Technologies shareholders, diluted	\$(0.04	) \$(0.07	)
Number of weighted average shares - basic	341,451,559	188,298,113	
Number of weighted average shares - diluted	341,451,559	188,298,113	

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

## LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

(in thousands, except share and per share data)

	Preferred Shares	Common Shares	Preferred Stock	Common Stock	Warrants part of Additional Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Non- controlling Interest	Total
<b>Balance, December 31, 2011</b>	<b>1,299,151</b>	<b>134,467,554</b>	<b>\$ 1</b>	<b>\$ 130</b>	<b>\$ 24,438</b>	<b>\$ 149,064</b>	<b>\$(175,859 )</b>	<b>\$ -</b>	<b>\$(2,226 )</b>
Conversion of preferred stock	(792,215 )	25,669,752	(1 )	26	-	(25 )	-	-	-
Common stock issuance	-	80,171,418	-	83	-	13,839	-	-	13,922
Warrant exercises	-	1,411,600	-	1	(6,259 )	6,258	-	-	-
Stock option exercises	-	354,000	-	1	-	43	-	-	45
Stock-based compensation	-	-	-	-	-	53	-	-	53
Restricted stock issued to officer	-	-	-	-	-	310	-	-	310
Dividend distribution	-	-	-	-	-	349	-	-	349
Net loss	-	-	-	-	-	-	(14,025 )	-	(14,025)
<b>Balance, December 31, 2012</b>	<b>506,936</b>	<b>242,074,324</b>	<b>\$ -</b>	<b>\$ 242</b>	<b>\$ 18,179</b>	<b>\$ 169,891</b>	<b>\$(189,884 )</b>	<b>\$ -</b>	<b>\$(1,572 )</b>
Conversion of preferred stock	(506,936 )	16,896,070	-	17	-	(17 )	-	-	-
Common stock issuance	-	116,136,796	-	116	-	12,137	-	-	12,253
Stock option exercises	-	600,000	-	1	-	74	-	-	75
Stock-based compensation	-	-	-	-	-	213	-	-	213
	-	-	-	-	-	312	-	-	312

Restricted stock issued to officer									
Dividend distribution	-	-	-	-	-	222	-	-	222
Net loss	-	-	-	-	-	-	(14,206 )	(42 )	(14,248)
<b>Balance, December 31, 2013</b>	-	<b>375,707,190</b>	<b>\$ -</b>	<b>\$ 376</b>	<b>\$ 18,179</b>	<b>\$ 182,832</b>	<b>\$ (204,090 )</b>	<b>\$ (42 )</b>	<b>\$ (2,745 )</b>

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

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands, except share and per share data)

	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Net loss	\$(14,248)	\$(14,025)
Adjustments to reconcile net loss to net cash provided (used in) operating activities:		
Depreciation and amortization	214	186
Bad debt expense	11	-
Impairment charge	-	221
Stock-based compensation	213	53
Restricted stock compensation issued to officer	312	310
Loss (Gain) from change in value of warrants	2,155	(6,547 )
Gain from change in value of embedded conversion feature liability	(621 )	(4,931 )
Gain on extinguishment of debt (Note 11)	(91 )	-
Manufacturing contract costs	-	6,300
Debt discount amortization	6,504	11,949
Non-cash interest expense	242	434
Financing costs	-	1,355
Changes in operating assets and liabilities:		
Trade accounts receivable	(162 )	177
Prepaid expenses and other current assets	(83 )	(5 )
Other assets	-	24
Accounts payable and accrued expenses	577	(854 )
Deferred revenue	-	(67 )
Other liabilities	-	247
<b>Net cash used in operating activities</b>	<b>(4,977 )</b>	<b>(5,173 )</b>
<b>Investing Activities:</b>		
Purchases of property and equipment	(185 )	(51 )
Proceeds from sale of fixed assets	1	-
Investment in patents and trademarks	(13 )	(35 )
<b>Net cash used in investing activities</b>	<b>(197 )</b>	<b>(86 )</b>
<b>Financing Activities:</b>		
Proceeds from short-term debt	-	1,050
Repayment of short-term debt	-	(2,762 )
Payment of debt issuance costs	-	(1,033 )

Proceeds from exercise of stock options	74	44
Proceeds from convertible debt issuance	-	12,000
Proceeds from stock issuance	-	3,000
<b>Net cash provided by financing activities</b>	<b>74</b>	<b>12,299</b>
<b>Net increase (decrease) in cash</b>	<b>(5,100 )</b>	<b>7,040</b>
<b>Cash at beginning of period</b>	<b>7,162</b>	<b>122</b>
<b>Cash at end of period</b>	<b>\$2,062</b>	<b>\$7,162</b>

**Supplemental Schedule of Non-Cash Investing and Financing Activities:**

Offering cost in relation to common stock issuance	-	2,905
Cashless exercise of warrants	-	6,259
Pre-installment payment of convertible debt through common stock issuance	7,187	1,240
Dividends paid in common stock upon preferred stock conversion	222	-
Financing costs paid through common stock issuance	373	-

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

## **LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2013 and 2012**

**(in thousands, except share and per share data)**

#### **1. Description of Business**

Liquidmetal Technologies, Inc. (the “Company”) is a materials technology company that develops and commercializes products made from amorphous alloys. The Company’s family of alloys consists of a variety of bulk alloys and composites that utilizes the advantages offered by amorphous alloys technology. The Company designs, develops and sells products and components from bulk amorphous alloys to customers in various industries. The Company also partners with third-party manufacturers and licensees to develop and commercialize Liquidmetal alloy products. The Company believes that its proprietary bulk alloys are the only commercially viable bulk amorphous alloys currently available in the marketplace.

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

The Company’s revenues are derived from i) selling bulk Liquidmetal alloy products, which include non-consumer electronic devices, medical products, automotive components, and sports and leisure goods, ii) selling tooling and prototype parts such as demonstration parts and test samples for customers with products in development; iii) product licensing and royalty revenue, and iv) research and development revenue. The Company expects that these sources of revenue will continue to significantly change the character of the Company’s revenue mix.



## 2. Summary of Significant Accounting Policies

*Principles of Consolidation.* The consolidated financial statements include the accounts of Liquidmetal Technologies, Inc. and its special-purpose wholly-owned subsidiaries, Crucible Intellectual Property and Liquidmetal Golf. All intercompany balances and transactions have been eliminated.

*Non-controlling interest.* The results of operations attributable to the non-controlling interest of subsidiaries are presented within equity and are shown separately from the Company's equity.

*Revenue Recognition.* Revenue is recognized pursuant to applicable accounting standards including FASB ASC Topic 605 ("ASC 605"), Revenue Recognition. ASC 605 summarize certain points of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements and provide guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry.

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

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

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



## LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

(in thousands, except share and per share data)

*Cash.* The Company considers all highly liquid investments with maturity dates of three months or less when purchased to be cash equivalents. The Company limits the amount of credit exposure to each individual financial institution and places its temporary cash into investments of high credit quality with a financial institution that exceeds federally insured limits. The Company has not experienced any losses related to these balances and believes its credit risk to be minimal. As of December 31, 2013 and 2012, the Company held no deposits in such highly liquid investments.

*Trade Accounts Receivable.* The Company grants credit to its customers generally in the form of short-term trade accounts receivable. The creditworthiness of customers is evaluated prior to signing a contract with the customer. As of December 31, 2013, three customers represented 99%, or \$212, of the total outstanding trade accounts receivable. As of December 31, 2012, three customers represented 96%, or \$72, of the total outstanding trade accounts receivable. During 2013, there was one major customer, who accounted for 80% of the revenue. During 2012, there were three major customers, who together accounted for 70% of the revenue. In the future, the Company expects that a significant portion of the revenue may continue to be concentrated in a limited number of customers, even if the bulk alloys business grows.

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

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

*Intangible Assets.* Intangible assets consist of the costs incurred to purchase patent rights and costs incurred to internally develop patents and trademarks. Intangible assets are reported net of accumulated amortization. Patents and

trademarks are amortized using the straight-line method over a period based on their contractual lives ranging from ten to seventeen years.

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

*Fair Value Measurements.* The estimated fair values of amounts reported in the consolidated financial statements have been determined using available market information and valuation methodologies, as applicable. The fair value of cash and trade receivables, prepaid expenses and other current assets, accounts payable, and accrued liabilities approximate their carrying value due to their short maturities. The fair value of non-current assets and liabilities approximate their carrying value unless otherwise stated. The carry amounts reported for debt obligations approximate fair value due to the effective interest rate of these obligations reflecting the Company's current borrowing rate.

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

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

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

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company has one Level 2 financial instrument, warrants that are recorded at fair value on a periodic basis. Warrants are evaluated under the hierarchy of FASB ASC Subtopic 480-10, FASB ASC Paragraph 815-25-1 and FASB ASC Subparagraph 815-10-15-74 addressing embedded derivatives. The fair value of such warrants is estimated using the Black-Scholes option pricing model. The foregoing warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815 (see note 12).



**LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Years Ended December 31, 2013 and 2012****(in thousands, except share and per share data)**

The Company had one Level 3 financial instrument during the year ended December 31, 2013, that being an embedded derivative that was recorded at fair value on a periodic basis. The embedded derivative was evaluated under the hierarchy of FASB ASC Subtopic 480-10, FASB ASC Paragraph 815-25-1 and FASB ASC Subparagraph 815-10-15-74 addressing embedded derivatives. The fair value of such embedded derivative was estimated using the Monte Carlo simulation model. The foregoing embedded derivative had certain anti-dilution and exercise price reset provisions which qualified the embedded derivative to be classified as a liability under FASB ASC 815. Upon the final settlement of the Senior Convertible Notes, this liability was extinguished as the underlying conversion option had been executed. As such, the fair value of the liability was reduced to zero upon conversion (see note 11).

As of December 31, 2013, the following table represents the Company's fair value hierarchy for items that are required to be measured at fair value on a recurring basis:

	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Warrant liabilities	-	-	4,921	-

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

*Advertising and Promotion Expenses.* Advertising and promotion expenses are expensed when incurred. Advertising and promotion expenses were \$78 and \$41, for the years ended December 31, 2013 and 2012, respectively.

*Legal Costs.* Legal costs are expensed as incurred.

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

*Income Taxes.* Income taxes are provided under the asset and liability method as required by FASB ASC Topic 740, *Accounting for Income Taxes*. Under this method, deferred income taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect of a tax rate change on deferred taxes is recognized in operations in the period that the change in the rate is enacted. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized. Under the provision of FASB ASC Topic 740, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company may recognize interest and penalties related to uncertain tax positions in income tax expense. There was no expense related to interest and penalties for the year ended December 31, 2013 and 2012.

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

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

*Subsequent Events.* In May 2009, the FASB issued a new accounting standard which established general accounting standards and disclosure for subsequent events. In accordance with this standard, the Company evaluated subsequent events through the filing of its Annual Report on Form 10-K with the SEC.

**LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2013 and 2012**

**(in thousands, except share and per share data)**

*Recent Accounting Pronouncements.*

*Offsetting Assets and Liabilities*

In December 2011 and December 2012, the FASB issued accounting standards updates modifying the disclosure requirements about the nature of an entity's rights of offsetting assets and liabilities in the consolidated balance sheet under master netting agreements and related arrangements associated with financial and derivative instruments. The guidance requires increased disclosure of the gross and net recognized assets and liabilities, collateral positions and narrative descriptions of setoff rights. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements and accompanying disclosures.

*Presentation of Items Reclassified out of Accumulated Other Comprehensive Income*

In February 2013, the FASB issued an accounting standards update which requires disclosure related to items reclassified out of accumulated other comprehensive income (AOCI). The guidance requires entities to present separately, for each component of other comprehensive income (OCI), current period reclassifications and the remainder of the current-period OCI. In addition, for certain current period reclassifications, an entity is required to disclose the effect of the item reclassified out of AOCI on the respective line item of net income. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements and accompanying disclosures.

*Joint and Several Liabilities*



In February 2013, the FASB issued an accounting standard update which modifies the requirements for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance requires companies to measure these obligations as the sum of the amount the company has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. This guidance is effective for all fiscal years, and interim periods within those years, beginning after December 31, 2013. The Company does not expect this guidance to have a material impact on the Company's Consolidated Financial Statements.

#### *Presentation of Unrecognized Tax Benefits*

In July 2013, the FASB issued an accounting standards update which will require that an unrecognized tax benefit be presented on the balance sheet as a reduction of a deferred tax asset for a net operating loss ("NOL") or tax credit carryforward under certain circumstances. The guidance is effective for all fiscal years, and interim periods within those years, beginning December 15, 2013. The Company does not expect this guidance to have a material impact on the Company's Consolidated Financial Statements.

### **3. Significant Transactions**

#### *2013 Stock Purchase Agreement*

On November 8, 2013, the Company entered into a Common Stock Purchase Agreement (the "2013 Purchase Agreement") with Kingsbrook Opportunities Master Fund LP, Tech Opportunities LLC, and Iroquois Master Fund Ltd. (each, a "2013 Selling Stockholder" and collectively, the "2013 Selling Stockholders"). The 2013 Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein, each of the 2013 Selling Stockholders has committed to purchase such 2013 Selling Stockholders' pro rata portion of up to \$20.0 million (the "Total Commitment") worth of the Company's common stock, \$0.001 par value (the "Shares"), over the 36-month term of the 2013 Purchase Agreement.

In consideration for the 2013 Selling Stockholders' execution and delivery of the 2013 Purchase Agreement, on November 8, 2013, the Company delivered irrevocable instructions to its transfer agent to issue to each 2013 Selling Stockholder, not later than 4:00 p.m. (New York City time) on the second trading day immediately following November 8, 2013, certificates representing such 2013 Selling Stockholder's pro rata portion of 2,666,667 shares of common stock (the "Commitment Shares"). The Commitment Shares are being registered for resale, together with the shares that may be purchased under the 2013 Purchase Agreement.

From time to time over the term of the 2013 Purchase Agreement, the Company may, at its sole discretion, provide each of the 2013 Selling Stockholders with draw down notices (each a "Draw Down Notice") to purchase a specified

dollar amount of Shares (the “Draw Down Amount”) over a five (5) consecutive trading day period commencing on the trading day specified in the applicable Draw Down Notice (the “Pricing Period”) with each draw down subject to the limitations discussed below. The maximum amount of Shares requested to be purchased pursuant to any single Draw Down Notice cannot exceed a dollar amount equal to the lesser of (i) 300% of the average trading volume of the Company’s common stock during the ten (10) trading days immediately preceding the date the applicable Draw Down Notice is delivered (the “Applicable Draw Down Exercise Date”) multiplied by the lower of (A) the closing trade price of the Company’s common stock on the trading day immediately preceding the Applicable Draw Down Exercise Date and (B) the average of the closing trade prices of our common stock for the three (3) trading days immediately preceding the Applicable Draw Down Exercise Date (such lower price, the “Reference Price”), and (ii) a specified dollar amount set forth in the 2013 Purchase Agreement based on the Reference Price as of the Applicable Draw Down Exercise Date.

## **LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Once presented with a Draw Down Notice, each of the 2013 Selling Stockholders is required to purchase such 2013 Selling Stockholder's pro rata portion of the applicable Draw Down Amount on each trading day during the applicable Pricing Period on which the daily volume weighted average price for the Company's common stock (the "VWAP") equals or exceeds an applicable floor price equal to the product of (i) 0.775 and (ii) the Reference Price, subject to adjustment (the "Floor Price"), provided that in no event shall the Floor Price be less than \$0.03875. If the VWAP falls below the applicable Floor Price on any trading day during the applicable Pricing Period, the 2013 Purchase Agreement provides that the 2013 Selling Stockholders will not be required to purchase their pro rata portions of the applicable Draw Down Amount allocated to that trading day. The per share purchase price for the Shares subject to a Draw Down Notice shall be equal to 90% of the lowest daily VWAP that equals or exceeds the applicable Floor Price during the applicable Pricing Period. Each purchase pursuant to a draw down shall reduce, on a dollar-for-dollar basis, the Total Commitment under the 2013 Purchase Agreement.

The Company is prohibited from issuing a Draw Down Notice if (i) the amount requested in such Draw Down Notice exceeds the Maximum Draw Down Amount, (ii) the sale of Shares pursuant to such Draw Down Notice would cause the Company to issue or sell or the 2013 Selling Stockholders to acquire or purchase an aggregate dollar value of Shares that would exceed the Total Commitment, (iii) the sale of Shares pursuant to the Draw Down Notice would cause the Company to sell or the 2013 Selling Stockholders to purchase an aggregate number of shares of the Company's common stock which would result in the collective beneficial ownership by the 2013 Selling Stockholders of more than 9.99% of the Company's common stock (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder), or (iv) the applicable Floor Price would be less than \$0.03875 on the Applicable Draw Down Exercise Date. The Company cannot make more than one draw down in any Pricing Period and must allow two (2) trading days to elapse between the completion of the settlement of any one draw down and the commencement of a Pricing Period for any other draw down.

On February 11, 2014 an initial registration statement, covering 96,555,893 shares to be issued under the Stock Purchase agreement, was declared effective by the SEC.

No draw-downs were made under the 2013 Stock Purchase Agreement during 2013. During 2014, as of the filing date of this report, the Company has received an aggregate of \$3,000 under the 2013 Stock Purchase Agreement through the issuance of 13,292,020 share of its common stock.

***July 2012 Private Placement***

On July 2, 2012, the Company entered into a private placement transaction (the “July 2012 Private Placement”) pursuant to which the Company issued \$12,000 in principal amount of senior convertible notes that were due on September 1, 2013. The notes were convertible into shares of the Company’s common stock at a conversion price of \$0.352 per share. The notes bore interest at 8% per annum and were payable in twelve equal monthly installments of principal and interest beginning on October 1, 2012. Each monthly installment payment may have been made in cash, shares of the Company’s common stock, or a combination thereof. If paid in shares, such shares were valued at the lower of (i) the then applicable conversion price or (ii) a price that was 87.5% of the arithmetic average of the ten (or in some cases fewer) lowest weighted average prices of the Company’s common stock during the twenty trading day period ending two trading days before the payment date or the date on which the Company elected to pay in shares, whichever was lower. As of July 17, 2013, the Company had issued 163,641,547 shares of common stock in full satisfaction of notes.

As a part of the July 2012 Private Placement, the Company issued warrants to purchase 18,750,000 shares of the Company’s common stock at an exercise price of \$0.384 per share, and such warrants first became exercisable on January 2, 2013, which was six months after the issuance date thereof. In the event that the Company were to issue or sell shares of their common stock at a price per share that is less than the exercise price then in effect, the exercise price of the warrants will be reduced based on a weighted-average formula. In addition, on the two year anniversary of the issuance date, the then applicable exercise price will be reset to equal the lesser of (i) the then current exercise price or (ii) 87.5% of the arithmetic average of the ten lowest weighted average prices of the common stock during the twenty trading day period ending two trading days immediately preceding the reset date. All of the warrants will expire on July 2, 2017.

***June 2012 Visser MTA Agreement***

On June 1, 2012, the Company entered into a Master Transaction Agreement (the “Visser MTA Agreement”) with Visser Precision Cast, LLC (“Visser”) relating to a strategic transaction for manufacturing services and financing.

## **LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2013 and 2012**

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Under the manufacturing and service component of the Visser MTA Agreement, the Company agreed to engage Visser as a perpetual, exclusive manufacturer of non-consumer electronic products and to not, directly or indirectly, conduct manufacturing operations, subcontract for the manufacture of products or components or grant a license to any other party to conduct manufacturing operations, except for certain limited exceptions. Further, the Company agreed to sublicense to Visser, on a fully-paid up, royalty-free, irrevocable, perpetual, worldwide basis, all intellectual property rights held by the Company. Visser's use of such sublicense is limited to the exercise of its manufacturing rights, provided that such limitation will terminate if the Company were to fail to comply with certain technical, administrative, and research and development support obligations set forth in the transaction agreements with Visser and such failure is not cured within 60 days. In addition, Visser has a right of first refusal over any proposed transfer of the Company's technology pursuant to any license, sublicense, sale or other transfer, other than a license to a machine or alloy vendor.

Under the financing component of the Visser MTA Agreement, the Company issued and sold to Visser in a private placement transaction (i) 30,000,000 shares of common stock at a purchase price of \$0.10 per share resulting in proceeds of \$3,000, (ii) warrants to purchase 15,000,000 shares of common stock (subsequently increased to 18,539,762 shares under the anti-dilution provision of the warrants, see note 12) at an exercise price of \$0.22 per share (subsequently reduced to \$0.18 per share under the anti-dilution provision of the warrants) which expire on June 1, 2017 and (iii) a secured convertible promissory note (the "Promissory Note") in the aggregate principal amount of up to \$2,000 which was convertible into shares of common stock at a conversion rate of \$0.22 per share. The Promissory Note was issued pursuant to a \$2,000 loan facility made available by Visser, but no borrowings were made by us under this loan facility, as the deadline for making borrowings under the facility expired on November 15, 2012. All of the shares of common stock issuable upon exercise of the warrants are subject to a lock-up period through December 31, 2016.

The warrants under the Visser MTA Agreement contain certain anti-dilution and exercise price reset provisions which results in liability accounting under FASB ASC 815 (see note 12). In relation to the financing cost component to the Visser transaction, the Company performed a prorated allocation of the fair value of the warrants on the convertible promissory note and the common stock based on their relative fair values. The Company capitalized deferred financing costs in relation to the convertible promissory note totaling \$1,355 and offset additional paid-in capital for \$2,905 in relation to the warrants. The Company assessed the value of the deferred financing costs as of the quarter ended June 30, 2012 and determined that the value was impaired due to the limitations on the Company's ability to request for advances as discussed above. Therefore, the Company expensed the deferred financing costs totaling \$1,355 as of the quarter ended June 30, 2012.

In connection with the Visser MTA Agreement, the Company performed a valuation analysis of the manufacturing service and financing components of the Visser MTA Agreement as part of the bundled contract. The Company has assessed and determined that while these components may have market values on a standalone basis, the values of the manufacturing component and sublicense component were deemed immaterial for accounting purposes. Further, the Company's weighted average market stock price was approximately \$0.31 per share at the time of share issuances to Visser. As the actual share purchase price related to the financing component of the Visser MTA Agreement was \$0.10 per share, the \$0.21 per share difference was treated as manufacturing contract costs and \$6,300 was expensed as operating expenses during the second quarter ended June 30, 2012.

On January 17, 2012, February 27, 2012, March 28, 2012 and April 25, 2012, the Company issued 8% unsecured, bridge promissory notes to Visser that were due upon demand in the amounts of \$200, \$200, \$350 and \$300, respectively. The aggregate principal amount of \$1,050 and accrued interest under the bridge promissory notes were all paid off on June 1, 2012 by utilizing a portion of the proceeds received under the financing component of the Visser MTA Agreement.

In November 2013, the Company and Visser entered into arbitration proceedings to resolve disputes associated with the Visser MTA Agreement.

### *Apple License Transaction*

On August 5, 2010, the Company entered into a license transaction with Apple Inc. ("Apple") pursuant to which (i) the Company contributed substantially all of its intellectual property assets to a newly organized special-purpose, wholly-owned subsidiary, called Crucible Intellectual Property, LLC ("CIP"), (ii) CIP granted to Apple a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in the field of consumer electronic products, as defined in the license agreement, in exchange for a license fee, and (iii) CIP granted back to the Company a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in all other fields of use. Additionally, in connection with the license transaction, Apple required the Company to complete a statement of work related to the exchange of Liquidmetal intellectual property information. The Company recognized a portion of the one-time license fee upon receipt of the initial payment and completion of the foregoing requirements under the license transaction. The remaining portion of the one-time license fee was recognized at the completion of the required statement of work.

## **LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Under the agreements relating to the license transaction with Apple, the Company is obligated to contribute all intellectual property that it developed through February 2012. Subsequently, the Company amended the Capture Period to extend through February 2014. The Company is also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction.

#### ***Other License Transactions***

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

On November 16, 2011, the Company entered into a Development Agreement with Materion Brush Inc. (“Materion”) to evaluate, analyze and develop amorphous alloy feedstock to be supplied in commercial quantities. Further, on June 17, 2012, the Company entered into a Sales Representation Agreement with Materion whereby Materion shall promote the sale of the Company’s products for certain commissions. This agreement is for a two year initial term with annual, automatic renewals. To date, there have been no commission payments related to this agreement.

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

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

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

#### **4. Liquidity and Going Concern Issues**

The Company’s cash used in operations was \$4,977 for the year ended December 31, 2013, while cash used in operations was \$5,173 for the year ended December 31, 2012. The Company’s cash used in investing activities was \$197 for the year ended December 31, 2013 primarily from purchase of property and equipment. The Company’s cash provided by financing activities was \$74 for the year ended December 31, 2013 primarily from proceeds from stock option exercises. As of December 31, 2013, the Company’s cash balance was \$2,062.

On July 2, 2012, the Company entered into definitive agreements relating to a private placement of \$12,000 in principal amount of Senior Convertible Notes due on September 1, 2013 and Warrants to the purchasers of such Convertible Notes giving such purchasers the right to purchase up to an aggregate of 18,750,000 shares of the Company’s common stock at an exercise price of \$0.384 per share. As of July 17, 2013, the notes under the July 2012 Private Placement were paid off in full through issuance of common stock (see note 11).



## **LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES**

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**(in thousands, except share and per share data)**

On November 8, 2013, the Company entered into the 2013 Stock Purchase Agreement that will allow it to raise up to \$20 million through periodic issuances of common stock over a three year period. On February 11, 2014 an initial registration statement, covering 96,555,893 shares to be issued under the Stock Purchase agreement, was declared effective by the SEC.

The Company anticipates that its current capital resources, when considering expected losses from operations, will be sufficient to fund the Company's operations through the end of March 2014. The Company has a relatively limited history of producing bulk amorphous alloy components and products on a mass-production scale. Furthermore, Visser's ability to produce the Company's products in desired quantities and at commercially reasonable prices is uncertain and is dependent on a variety of factors that are outside of the Company's control, including the nature and design of the component, the customer's specifications, and required delivery timelines. Such factors will likely require that the Company draw down on the 2013 Stock Purchase Agreement or raise additional funds by other means to support its operations beyond the first quarter of 2014. There is no assurance that the Company will be able to draw down on the 2013 Stock Purchase Agreement or raise additional funds by other means on acceptable terms, if at all. If the Company were to draw down on the 2013 Stock Purchase Agreement or raise additional funds through other means by issuing securities, existing stockholders may be diluted. If funding is insufficient at any time in the future, the Company may be required to alter or reduce the scope of its operations or to cease operations entirely. Uncertainty as to the outcome of these factors raises substantial doubt about the Company's ability to continue as a going concern.

No draw downs were made under the 2013 Stock Purchase Agreement during 2013. During 2014, as of the filing date of this report, the Company has received an aggregate of \$3,000 under the 2013 Stock Purchase Agreement through the issuance of 13,292,020 shares of its common stock.

#### **5. Trade accounts receivable**

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

	<b>December 31, 2013 2012</b>	
Trade accounts receivable	\$215	\$75
Less: Allowance for doubtful accounts	-	(11)
Trade accounts receivable, net	\$215	\$64

## 6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets totaled \$412 and \$689 as of December 31, 2013 and December 31, 2012, respectively and primarily consists of prepaid invoices and insurance premiums that will be reclassified to expense as shipments are made to customers or services are provided. Deferred debt issuance costs are also included in prepaid expenses and other current assets and were \$0 and \$399 as of December 31, 2013 and 2012, respectively. The balance attributed to deferred financing costs was reduced to zero during 2013 as a result of \$360 of amortization expense and \$39 written off as a result of the extinguishment of the senior convertible notes (see note 11).

## 7. Property and Equipment

Property and equipment consist of the following:

	<b>December 31, 2013 2012</b>	
Machinery and equipment	\$1,107	\$1,098
Computer equipment	203	118
Office equipment, furnishings, and improvements	277	190
Total	1,587	1,406
Accumulated depreciation	(1,338)	(1,245)
Total property and equipment, net	\$249	\$161

Depreciation expense for the years ended December 31, 2013 and 2012 were \$96 and \$52, respectively and is included in selling, marketing and general and administrative expense in the consolidated statements of operations and comprehensive loss.

**LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Years Ended December 31, 2013 and 2012****(in thousands, except share and per share data)****8. Patents and trademarks, net**

Patents and trademarks consist of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Purchased and licensed patent rights	\$566	\$566
Internally developed patents	1,664	1,664
Trademarks	139	126
Total	2,369	2,356
Accumulated amortization	\$(1,605)	\$(1,487)
Total intangible assets, net	\$764	\$869

Amortization expense was \$118 and \$137 for the years ended December 31, 2013 and 2012, respectively. The estimated aggregate amortization expense for each of the five succeeding years is as follows:

	Aggregate
December 31,	Amortization
	Expense
2014	103
2015	97
2016	95
2017	84
2018	83
Thereafter	302

Accumulated amortization for the years ended December 31, 2013 and 2012 is as follows:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Purchased and licensed patent rights	\$(483 )	\$(457 )
Internally developed patents	(1,022)	(937 )
Trademarks	(100 )	(93 )
Total	\$(1,605)	\$(1,487)

The weighted average amortization periods for the years ended December 31, 2013 and 2012 are as follows:

	<b>December</b>	
	<b>31,</b>	
	<b>2013</b>	<b>2012</b>
Purchased and licensed patent rights	17	17
Internally developed patents	17	17
Trademarks	10	10

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

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

## **LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2013 and 2012**

**(in thousands, except share and per share data)**

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

Other Long-term Liabilities balance of \$856 and \$856 as of December 31, 2013 and 2012, respectively, consists of long term, aged payables to vendors, individuals, and other third parties that have been outstanding for more than 5 years. The Company is in the process of researching and resolving the balances for settlement and/or write-off in accordance with applicable accounting rules.

#### **10. Short-term debt**

On August 6, 2010, SAGA, SpA in Padova, Italy (“SAGA”), a specialist parts manufacturer, filed a litigation case against the Company claiming damages of \$3,200 for payment on an alleged loan and for alleged breach of contract in connection with the formation of joint venture called Liquidmetal SAGA Italy, Srl (“LSI”). On April 6, 2011 (the “Effective Date”), the Company entered into a Settlement and Equity Interest Purchase Agreement with SAGA pursuant to which (i) the joint venture between the Company and SAGA was terminated, (ii) the Company and SAGA both agreed to cause certain pending legal action against each other to be dismissed with prejudice, (iii) the Company paid SAGA \$2,800 in the form of 4,496,429 restricted shares (“Shares”) of the Company’s common stock in exchange for SAGA’s equity interest in LSI, and (iv) the Liquidmetal technology license to LSI was terminated.

The number of Shares issued to SAGA on the Effective Date was based on the 30 day trailing, volume weighted average price of the Company’s stock as of the Effective Date. An additional provision of the SAGA Settlement and Equity Interest Purchase Agreement was the obligation of the Company to issue a promissory note to compensate for a decrease in the market price of the Company’s common stock over a six month period from the Effective Date of the settlement. On October 10, 2011, the Company issued to SAGA a promissory note in the principal amount of \$1,712 due October 10, 2012, bearing interest of 8% per annum, to account for the decrease in the market price of the Company’s common stock. The \$1,712 principal amount of the note was included in Short Term Debt in the Company’s consolidated balance sheet as of December 31, 2011.

On July 11, 2012, the Company paid \$1,743 to SAGA and paid off all amounts owed under the SAGA promissory note. Interest expense related to the promissory note for the year ended December 31, 2012 was \$68. No expense was recorded under this obligation during 2013.

On January 17, 2012, February 27, 2012, March 28, 2012 and April 25, 2012, the Company issued 8% unsecured, bridge promissory notes to Visser that were due upon demand in the amount of \$200, \$200, \$350 and \$300, respectively. The aggregate principal amount of \$1,050 and accrued interest under the bridge promissory notes were all paid off on June 1, 2012 by utilizing a portion of the proceeds received under the financing component of the Visser MTA Agreement (see note 3). Interest expense on the bridge promissory notes was \$18 for the year ended December 31, 2012. No expense was recorded under these obligations during 2013.

### **11. Convertible Notes, Embedded Conversion Feature Liability, and Gain on Extinguishment of Debt**

On July 2, 2012, the Company entered into the July 2012 Private Placement for \$12,000 in principal amount of senior convertible notes due on September 1, 2013 (see note 3). The notes will be convertible at any time at the option of the holders, into shares of the Company's common stock at a conversion price of \$0.352 per share. Pursuant to ASC 815-40, due to the anti-dilution provision of the convertible notes, the conversion feature of the convertible notes is not indexed to the Company's owned stock and should be bifurcated and recognized as a derivative liability in the consolidated balance sheets and measured at fair value. The notes bear interest at 8% per annum and are payable in twelve equal monthly installments of principal and interest beginning on October 1, 2012.

The embedded conversion feature liability and warrants issued in connection with the senior convertible notes were valued utilizing the Monte Carlo simulation and Black Sholes pricing model at \$8,865 and \$5,053, respectively, totaling \$13,918 as of July 2, 2012. \$12,000 of this total was recorded as debt discount and the excess of the face value of the embedded conversion feature liability and warrants of \$1,918 were booked to debt discount amortization on July 2, 2012.

Pursuant to the terms of the Senior Convertible Notes, the Company opted to pay the first eleven monthly installment payments due prior to June 30, 2013 with shares of the Company's common stock, with settlement of the final installment during July 2013. Upon final settlement, the Company had issued 163,641,547 shares of common stock, at a weighted average conversion price of \$0.0774, for the twelve installment payments due under the notes, consisting of \$12,000 principal and \$680 of interest.

**LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Years Ended December 31, 2013 and 2012****(in thousands, except share and per share data)**

Interest expense on the convertible notes was \$242 for the year ended December 31, 2013 and the Convertible Note (net of debt discount) was \$0 as of December 31, 2013 as follows:

	<b>Convertible Note</b>	<b>Debt Discount</b>	<b>Net Total</b>
Beginning Balance - December 31, 2012	\$ 7,000	\$ (4,635 )	\$2,365
Installment Payments in Shares	(7,000 )	-	(7,000)
Amortization	-	4,181	4,181
Write-off associated with convertible debt extinguishment	-	454	454
Ending Balance - December 31, 2013	\$ -	\$ -	\$-

On July 17, 2013, the Company and each of the holders of the Senior Convertible Notes due on September 1, 2013, in the original aggregate principal amount of \$12,000, agreed to cause all remaining principal and interest under the senior convertible notes to be converted into an aggregate of 18,679,584 shares of the Company's common stock in full satisfaction of the notes. As a result of this conversion, the senior convertible notes were paid off in full and are no longer outstanding as of the conversion date. As the final conversion occurred pursuant to terms that were not included in the original terms of the senior convertible notes, the Company recorded a gain on extinguishment of debt in the amount of \$91 which consisted of the write-off of unamortized debt discount, unamortized debt issuance costs, embedded conversion feature liabilities, and the difference between the reacquisition price of the shares issued and the contractual conversion price of the senior convertible notes.

**12. Warrant Liabilities**

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

During June 2012, the Company issued warrants to purchase a total of 15,000,000 shares of common stock to Visser under the Visser MTA Agreement (see note 3). These warrants had an original exercise price of \$0.22 per share and expire on June 1, 2017 and were originally valued at \$4,260. The foregoing warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As a result of paying down our convertible notes with common stock, which resulted in an anti-dilution impact, the exercise price of these warrants was reduced to \$0.21 as of December 31, 2012 and \$0.18 as of December 31, 2013. In addition, the number of shares to be issued under the warrants as a result of the anti-dilution provision increased to 15,776,632 and 18,562,825 as of December 31, 2012 and December 31, 2013, respectively. As of December 31, 2013, these warrants were valued at \$2,559 under the Black Scholes valuation model utilizing the following assumptions: (i) expected life of 3.42 years, (ii) volatility of 142%, (iii) risk-free interest rate of 1.75%, and (iv) dividend rate of 0. The change in warrant value for these warrants for the years ended December 31, 2013 and 2012 was a gain (loss) of \$(1,299) and \$3,000, respectively.

On July 2, 2012, the Company issued warrants to purchase a total of 18,750,000 shares of common stock related to the July 2012 Private Placement (see note 3). These warrants have an exercise price of \$0.384 per share and expire on July 2, 2017 and were originally valued at \$5,053. The foregoing warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under FASB ASC 815. As of December 31, 2013, these warrants were valued at \$2,362 under the Black Scholes valuation model utilizing the following assumptions: (i) expected life of 3.50 years, (ii) volatility of 143%, (iii) risk-free interest rate of 1.75%, and (iv) dividend rate of 0. The change in warrant value for these warrants for the years ended December 31, 2013 and 2012 was a gain (loss) of \$(856) and \$3,547, respectively.

The following table summarizes the change in the Company's warrant liability for the year ended December 31, 2013:

	<b>Visser MTA Agreement</b>	<b>July 2, 2012 Private Placement</b>	<b>Total</b>
Beginning Balance - December 31, 2012	\$ 1,260	\$ 1,506	2,766
Change in value of warrant liability, loss	1,299	856	2,155
Ending Balance - December 31, 2013	\$ 2,559	\$ 2,362	\$4,921

As of December 31, 2013 and 2012, the Company had 67,092,382 and 63,529,557 warrants outstanding. As of December 31, 2013 and 2012, the Company valued the 37,312,825 and 33,750,000 warrants using the Black-Scholes model and recorded \$4,921 and \$2,766, respectively, in warrant liabilities. The change in fair value of warrants resulted in a total non-cash gain (loss) of \$(2,155) and \$6,547 for the years ended December 31, 2013 and 2012, respectively.





**LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Years Ended December 31, 2013 and 2012****(in thousands, except share and per share data)**

The fair value of warrants outstanding for the following periods was computed using the Black-Scholes model under the following assumptions:

	<b>December 31,</b>			<b>2012</b>			
	<b>2013</b>						
Expected life in years	3.42	-	3.50		4.42	-	4.50
Volatility	142%	-	143	%	151%	-	152
Risk-free interest rate			1.75	%			0.72
Dividend rate			0	%			0

As of December 31, 2013, outstanding warrants to acquire shares of the Company's common stock are as follows:

<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiration Date</b>
208,334	\$ 0.480	July 15, 2015
29,571,223	\$ 0.490	July 15, 2015
18,562,825	\$ 0.178	June 1, 2017
18,750,000	\$ 0.384	July 2, 2017
67,092,382		

**13. Shareholders' Deficit**Common stock

In June 2012, the Company issued 30,000,000 shares of common stock to Visser in connection with the Visser MTA Agreement (see note 3).

Pursuant to the terms of the Company's Senior Convertible Notes issued in the July 2012 Private Placement, the Company opted to pay the twelve monthly installment payments prior to the September 1, 2013 maturity date with shares of the Company's common stock. Upon final settlement, the Company had issued 163,641,547 shares of common stock at a weighted average conversion price of \$0.0774, for the twelve installment payments due under the notes, consisting of \$12,000 principal and \$680 of interest (see notes 3 and 11).

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

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

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

In connection with the execution of the November 8, 2013 Common Stock Purchase Agreement, the Company issued to each of the investors a pro rata portion of 2,666,667 shares of the Company's common stock.

#### Preferred stock

On May 1, 2009, pursuant to a Securities Purchase and Exchange Agreement, the Company issued 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of \$5.00 per share and 2,625,000 shares of Series A-2 Preferred Stock with an original issue price of \$5.00 per share as part of a financing transaction. In October 2009, the Company entered into an agreement with various investors to issue 180,000 shares of Series A-1 Preferred Stock with identical terms as the Series A-1 Preferred Stock issued on May 1, 2009. In connection with this issuance, the Company issued warrants to purchase up to 4,500,000 shares of common stock with an exercise price of \$0.50 per share, which was subsequently adjusted to \$0.49 per share due to an anti-dilution calculation. These warrants expired on January 3, 2012.



## **LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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The Series A Preferred Stock and any accrued and unpaid dividends thereon was convertible, at the option of the holders of the Series A Preferred Stock, into common stock of the Company at a conversion price of \$0.10 per share in the case of the Series A-1 Preferred Stock and a conversion price of \$0.22 per share in the case of the Series A-2 Preferred Stock (in both cases subject to adjustments for any stock dividends, splits, combinations and similar events).

In connection with the Series A Preferred Stock issuance, the Company issued warrants to purchase 42,329,407 shares of the Company's common stock at an exercise price of \$0.50 per share, which was subsequently adjusted to \$0.49 per share due to an anti-dilution calculation. The warrants also expired on January 3, 2012.

During the year ended December 31, 2012, the holders of the Company's Series A Preferred Stock converted 792,215 shares of preferred stock into 25,669,752 shares of the Company's common stock. As of December 31, 2012, the Company had 506,936 shares of Series A Preferred Stock outstanding, consisting of 105,231 and 401,705 shares of Series A-1 and Series A-2 Preferred Stock, respectively. Preferred stock as of December 31, 2012 was \$0 due to an insignificant balance, and accrued dividends on the Series A Preferred Stock as of December 31, 2012 were \$222.

During the year ended December 31, 2013, all of the holders of the Company's Series A Preferred Stock converted all of the outstanding shares of preferred stock and accrued dividends into 16,896,070 shares of the Company's common stock. Therefore, as of December 31, 2013, the Company no longer had any outstanding Preferred Stock and the related \$222 accrued dividends were reclassified to additional paid-in capital as of December 31, 2013.

#### Warrants

In connection with the Series A Preferred Stock issuances, warrants to purchase 29,779,557 shares of the Company's common stock were outstanding as of December 31, 2012 and December 31, 2013. These warrants do not contain anti-dilution provisions and are reflected as equity as they do not meet the criteria under FASB ASC 815 for liability treatment. Warrants classified as equity were recorded at \$18,179 as of December 31, 2012 and December 31, 2013. Such warrants have an exercise price ranging between \$0.48 and \$0.49 and expire on July 15, 2015.

#### 14. Stock Compensation Plan

On April 4, 2002, our shareholders and Board of Directors adopted the 2002 Equity Incentive Plan (“2002 Plan”). The 2002 Plan provides for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. A total of 10,000,000 shares of our common stock may be granted under the 2002 Plan. The 2002 Plan expired by its terms in April 2012, but it will remain in effect only with respect to the equity awards that have been granted prior to its expiration. As of December 31, 2013, there were 2,607,000 options outstanding under the 2002 Plan.

On June 28, 2012, the Company adopted the 2012 Equity Incentive Plan (“2012 Plan”), with the approval of the shareholders, which provided for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. The 2012 Plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees and consultants of non-statutory stock options. In addition, the Plan permits the granting of stock appreciation rights, or SARs, with or independently of options, as well as stock bonuses and rights to purchase restricted stock. A total of thirty million shares of our common stock may be granted under the 2012 Equity Incentive Plan, and all options granted under this plan had exercise prices that were equal to the fair market value on the date of grant. During 2013, the Company granted options to purchase 13,317,500 shares, with total options outstanding of 13,127,500 as of December 31, 2013.

FASB ASC 718, *Compensation – Stock Compensation*, requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under ASC 718, Company is required to measure the cost of employee services received in exchange for stock options and similar awards based on the grant-date fair value of the award and recognize this cost in the income statement over the period during which an employee is required to provide service in exchange for the award. The Company recorded \$525 and \$363 for the years ended December 31, 2013 and 2012, respectively, of non-cash charges for stock compensation related to amortization of the fair value of restricted stock and unvested stock options. The total compensation costs related to non-vested awards not yet recognized were \$487 and \$113 for the years ended December 31, 2013 and 2012, respectively.

On August 3, 2010, in conjunction with an employment agreement with Thomas Steipp, the Company’s Chief Executive Officer, the Company also granted an aggregate of 6,000,000 restricted shares of the Company’s common stock, which will ratably vest each year over five years. During the years December 31, 2013 and 2012, the Company recorded \$312 and \$310, respectively, of compensation expense related to Mr. Steipp’s restricted shares.

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The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the assumptions noted in the following table.

	<b>December 31,</b>		<b>2012</b>	
	<b>2013</b>			
Expected volatility	128.55%	- 168.09%	140.74%	- 143.23%
Expected dividends		-		-
Expected term (in years)	6.32	- 9.61		6.50
Risk-free rate	1.26%	- 2.49%	0.98%	1.04%

Expected volatilities are based on historical volatility expected over the expected life of the options. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. A forfeiture rate of 28.3% was used for options granted during both years ended December 31, 2013 and 2012. The risk free rate for period within the expected life of the options is based on U.S. Treasury rates in effect at the time of grant.

The following table summarizes the Company's stock option transactions for the years ended December 31, 2013 and 2012:

		<b>Weighted</b>	
	<b>Number of</b>	<b>Average</b>	<b>Aggregate</b>
	<b>Shares</b>	<b>Exercise</b>	<b>Intrinsic</b>
		<b>Price</b>	<b>Value</b>
			<b>Contractual</b>
			<b>Term</b>

				<b>(in thousands)</b>
Options outstanding at December 31, 2011	4,679,807	0.42		
Granted	330,000	0.28		
Exercised	(354,000 )	0.12		
Forfeited	(396,200 )	0.31		
Expired	(537,607 )	1.00		
Options outstanding at December 31, 2012	3,722,000	0.36		
Granted	13,317,500	0.08		
Exercised	(600,000 )	0.12		
Forfeited	(605,000 )	0.20		
Expired	(100,000 )	2.49		
Options outstanding at December 31, 2013	15,734,500	\$ 0.13	8.4	\$ 1,155
Options exercisable at December 31, 2013	1,677,000	\$ 0.45	3.6	\$ 38
Options unvested at December 31, 2013	14,057,500	\$ 0.09	8.9	\$ 1,117
Options vested or expected to vest at December 31, 2013	10,174,928	\$ 0.15	8.0	\$ 714



## LIQUIDMETAL TECHNOLOGIES, INC AND SUBSIDIARIES

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The following table summarizes the Company's stock options outstanding and exercisable by ranges of option prices as of December 31, 2013:

Options Outstanding		Options Exercisable				
		Weighted	Weighted	Weighted		
Range of Exercise Prices	Numbers of options Outstanding	Average Remaining Contractual Life (Years)	Average Exercise Price	Number of Options Exercisable	Average Remaining Contractual Life (Years)	Average Exercise Price
\$0.00 - 0.10	12,717,500	9.04	\$ 0.08	200,000	4.92	\$ 0.09
0.11 - 2.33	3,017,000	5.60	0.32	1,477,000	3.44	0.50
Total	15,734,500			1,677,000		

The Company's non-vested options at the beginning and ending of fiscal year 2013 had weighted-average grant-date fair values of \$0.11 and \$0.08 per option, respectively.

## 15. Income Taxes

Significant components of deferred tax assets are as follows:

	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Loss carry forwards	\$50,165	\$60,426
Debt Discount	891	(1,523 )
NQSO	628	422
Tax Credits	431	432
Other	259	120
<b>Total deferred tax asset</b>	<b>52,374</b>	<b>59,877</b>
Valuation allowance	(52,374)	(59,877)
<b>Total deferred tax asset, net</b>	<b>-</b>	<b>-</b>

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

	<b>Years Ended</b>			
	<b>December 31,</b>			
	<b>2013</b>	<b>2012</b>		
Expected federal tax benefit	-34.0%	-34.0%		
Permanent items	0.1 %	0.1 %		
Net operating loss utilized or expired	0.0 %	5.5 %		
Increase in valuation allowance and others	33.9 %	28.4 %		
<b>Total deferred tax asset</b>	<b>0 %</b>	<b>0 %</b>		

As of December 31, 2013, the Company had approximately \$126.6M of net operating loss (“NOL”) carryforwards for U.S. federal income tax and state tax purposes expiring in 2018 through 2033, and 2014 through 2033, respectively. The Company and Liquidmetal Golf, Inc. filed on a separate company basis for federal income tax purposes. Accordingly, the federal NOL carryforwards of one legal entity are not available to offset federal taxable income of the other. Liquidmetal Golf, Inc. had approximately \$35.9 in federal NOL carryforwards, expiring in 2018 through 2028.

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As of December 31, 2013, the Company had approximately \$189 of Research & Development (“R&D”) credit carryforwards for U.S. federal income tax purposes expiring in 2021 through 2030. In addition, the Company has California R&D credit carryforwards of approximately \$243, which do not expire under current California law.

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

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

The Company adopted the provisions of FASB ASC Topic 470 – Income Taxes. At the adoption date and as of December 31, 2013, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense which were \$0 for the year ended December 31, 2013 and 2012.

As of December 31, 2013, the tax years 2011 through 2012, and 2008 through 2012 are subject to examination by the federal and California taxing authorities, respectively.

#### **16. 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 15,734,500 shares of common stock at prices ranging from \$0.08 to \$2.33 per share were outstanding at December 31, 2013, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss. Options to purchase 3,722,000 shares of common stock at prices ranging from \$0.09 to \$5.00 per share were outstanding at December 31, 2012, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss.

Warrants to purchase 67,092,382 shares of common stock, with prices ranging from \$0.18 to \$0.49 per share, outstanding at December 31, 2013 were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss. Warrants to purchase 63,529,557 shares of common stock, with prices ranging from \$0.22 to \$0.49 per share, outstanding at December 31, 2012 were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss.

16,896,073 shares of common stock issuable upon conversion of the company's preferred stocks with conversion process between \$0.10 and \$0.22 per share outstanding at December 31, 2012 were not included in the computation of diluted EPS for the period as the inclusion would have been antidilutive, given the Company's net loss. No shares of preferred stock were outstanding as of December 31, 2013.

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**17. Commitments and Contingencies**

*Operating Lease Commitments*

The Company leases its offices and warehouse facilities under various lease agreements, certain of which are subject to escalations based upon increases in specified operating expenses or increases in the Consumer Price Index. As of December 31, 2013 and 2012, the Company has recorded \$39 and \$28, respectively, of deferred rent expenses. Future minimum lease payments under non-cancelable operating leases during subsequent years are as follows:

<b>December 31,</b>	<b>Minimum Payments</b>
<b>2014</b>	210
<b>2015</b>	217
<b>2016</b>	73
<b>Total</b>	<b>500</b>

Rent expense was \$200 and \$214 for the years ended December 31, 2013 and 2012, respectively.

*Contingencies*

In November 2013, Visser and the Company entered into arbitration proceedings with the Judicial Arbitrator Group in Denver, CO. Both parties have filed claims alleging breaches of various obligations under the Visser MTA Agreement entered into on June 1, 2012.

In general, the Company has filed claims for damages against Visser for fraudulently inducing them into entering the Visser MTA Agreement and harm inflicted on them for Visser's failure to perform under the manufacturing component of the Visser MTA Agreement. In addition, the Company is seeking reformation and/or termination of parts of the Visser MTA Agreement in order to free them from the exclusive manufacturing arrangement with Visser and allow them to seek other manufacturing partners. Visser has also filed claims for damages against the Company alleging several violations of the Visser MTA Agreement including fraudulent contract inducement and securities fraud through alleged misrepresentations regarding the Company's future capitalization, breach of several components of the Visser MTA Agreement through alleged inappropriate sharing of intellectual property with other business partners, as well as the lack of a qualified sales force in marketing of the Company's technology and related production efforts of Visser. Visser also requests equitable relief in the form of orders increasing its stock ownership and requiring the Company to honor its asserted rights of first refusal with respect to Liquidmetal technology. The Company cannot predict the outcome of these matters or estimate the impact on its results of operations, financial position or cash flows. As a result, the Company has not recorded a liability for these matters. If the Company is unable to reach a settlement agreement with Visser, the arbitration hearing is expected to commence on June 16, 2014, and will last up to ten days.

#### **18. 401(k) Savings Plan**

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

#### **19. Related Party Transactions**

On October 14, 2010, the Company signed an agreement with Innovative Materials Group, LLC ("IMG"), a California limited liability company, which is majority owned by Mr. Kang. Under the agreement, the Company received a deposit of \$520 from IMG to purchase on behalf of IMG, machinery and equipment located in China. The transaction was based on the potential negotiation and completion of a non-exclusive license agreement with IMG under which the machinery and equipment would be transferred to IMG either directly or through the transfer of ownership of the Company's Chinese subsidiary, Advanced Metals Materials ("AMM"), that owns the equipment.

On August 5, 2011, the Company signed a Stock Purchase Agreement (the "Stock Purchase Agreement") with IMG to sell all of the stock of AMM for \$720 (the "Purchase Price"). IMG applied the payment of the Purchase Price the \$520 deposit previously paid to the Company and the \$200 balance of the Purchase Price was paid in the form of a Promissory Note due August 5, 2012, bearing an interest rate of 8% per annum. In conjunction with the Stock Purchase Agreement, the Company also entered into a License Agreement (the "IMG License Agreement") with IMG to

license certain patents and technical information for the limited purpose of manufacturing certain licensed products with the Company's existing first generation, die cast machines, as defined by the IMG License Agreement (the "Licensed Products"). The IMG License Agreement grants a non-exclusive license to certain product categories, as well as an exclusive license to specific types of consumer eyewear products and obligates IMG to pay the Company a running royalty based on its sales of Licensed Products. The license will expire on August 5, 2021. The Company recognized \$8 and \$26 in royalty revenues from IMG during the years ended December 31, 2013 and 2012, respectively.

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On December 31, 2012, IMG and the Company signed an amendment to the IMG License Agreement whereby the \$200 Promissory Note from IMG along with the accrued interest of \$21 was forgiven in exchange for the return of the eyewear license to the Company. The Company accounted for this transaction as an exchange of non-monetary assets and re-classed the \$221 thousand to eyewear license fee. While the company continues to maintain an active interest in leveraging the eyewear license for prospective opportunities in the eyewear industry from both a products and licensing perspective, the Company determined that there was insufficient historical market data on the potential license applications presently available to provide a reasonable basis to fair value the license and its period of useful life. Therefore, the Company recognized a \$221 thousand impairment loss for accounting purposes as of December 31, 2012.

During the years ended December 31, 2013 and 2012, the Company incurred \$0 and \$2 in legal fees, respectively, to defend Mr. Kang, as the former Representative Director of our Korean subsidiary, against allegations relating to the Company's Korean subsidiary's involvement in customs reporting violations in South Korea that allegedly occurred in 2007 and 2008. The Company had agreed to reimburse Mr. Kang's legal fees incurred on this issue through December 31, 2012.

On February 1, 2012, Mr. Tony Chung, the Company's Chief Financial Officer, converted his 10,000 shares of Series A-1 Preferred Stock into a total of 565,344 shares of the Company's common stock, including dividends received in the form of common stock. On June 13, 2013, Mr. Chung purchased 1,324,999 shares of Company's common stock at an average share price of \$0.078.

In February 2013, Mr. Abdi Mahamedi, the Company's Chairman, converted his 58,600 shares of Series A-1 Preferred Stock and 260,710 shares of Series A-2 Preferred Stock into a total of 10,387,883 shares of the Company's common stock, including dividends received in the form of common stock. Mr. Mahamedi is a greater-than-5% beneficial owner of the Company.

Mr. Thomas Steipp, the Company's Chief Executive Officer, sold an aggregate of 400,000 shares of the common stock of the Company on August 5, 2013 pursuant to a trading plan that Mr. Steipp previously adopted under SEC Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Mr. Steipp adopted the trading plan on March 22, 2013 for the purpose of providing him with funds to satisfy certain tax liabilities as a result of the vesting on August 3,



2013 of 1,200,000 shares of Company restricted common stock held by Mr. Steipp. The restricted shares were granted to Mr. Steipp in 2010 under a previously disclosed Restricted Stock Award Agreement, dated August 3, 2010, between Mr. Steipp and the Company. The trading plan also provides for the future sale of 400,000 shares of Company common stock scheduled for August 4, 2014.

In September 2013, the Company entered into Change of Control Agreements with Ricardo A. Salas, the Company's Executive Vice President, Tony Chung, the Company's Chief Financial Officer, and certain other executive officers who are not named executive officers of the Company for SEC reporting purposes. The Change of Control Agreements provide that if the executive officer's employment with the Company is terminated without cause during the one-year period after a change of control of the Company, then the terminated officer will receive lump sum severance compensation in an amount equal to twelve months of his then-current base salary. Under the agreements, each of the executive officers will also be entitled to the above-described severance compensation in the event he terminates his own employment within one year after a change of control because of a salary decrease or assignment to a lower-level position. In addition, upon termination, all unvested stock options related to these officers will automatically and immediately vest and shall thereafter be exercisable in accordance with the terms and provisions of the applicable award agreements.

The Company has an exclusive license agreement with LLPG, Inc. ("LLPG"), a corporation owned principally by Jack Chitayat, a former director of the Company. Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. The Company, in turn, will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. The exclusive license agreement with LLPG expires on December 31, 2021. There were no revenues recognized from product sales and licensing fees from LLPG during 2013 and 2012.

On February 27, 2013, Mr. Chitayat converted his 28,928 shares of Series A-1 Preferred Stock and 109,528 shares of Series A-2 Preferred Stock into a total of 4,626,840 shares of the Company's common stock, including dividends received in the form of common stock.

On June 1, 2012, the Company entered into a Master Transaction Agreement with Visser Precision Cast, LLC relating to a strategic transaction for manufacturing services and financing (see note 3). In November 2013, the Company and Visser entered into arbitration proceedings to resolve disputes associated with this agreement. As of December 31, 2013, Visser is a greater-than-5% beneficial owner of the Company.