

LIQUIDMETAL TECHNOLOGIES INC
Form 10-Q
August 19, 2009
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File No. 001-31332

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

30452 Esperanza

Rancho Santa Margarita, CA 92688

(address of principal executive office, zip code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

As of August 14, 2009, there were 46,731,693 shares of the registrant's common stock, \$0.001 par value, outstanding.

As of August 14, 2009, there were 46,731,693 shares of the registrant's common stock, \$0.001 par value, outstanding.

Table of Contents

**LIQUIDMETAL TECHNOLOGIES, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2009**

FORWARD-LOOKING INFORMATION

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

Table of Contents

TABLE OF CONTENTS

PART I - Financial Information

<u>Item 1 Financial Statements</u>	4
<u>Condensed Consolidated Balance Sheets (unaudited)</u>	
<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (unaudited)</u>	
<u>Condensed Consolidated Statements of Shareholders' Deficiency (unaudited)</u>	
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	

<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
---	----

<u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>	28
--	----

<u>Item 4T Controls and Procedures</u>	28
--	----

PART II Other Information

<u>Item 1 Legal Proceedings</u>	29
---------------------------------	----

<u>Item 1A Risk Factors</u>	29
-----------------------------	----

<u>Item 3 Defaults Upon Senior Securities</u>	29
---	----

<u>Item 4 - Submission of Matters to a Vote of Security Holders</u>	29
---	----

<u>Item 5 Other Information</u>	30
---------------------------------	----

<u>Item 6 Exhibits</u>	30
------------------------	----

<u>Signatures</u>	31
-------------------	----

Certifications	32
----------------	----

Table of Contents**PART I****FINANCIAL INFORMATION****Item 1 Financial Statements****LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	June 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 155	\$ 157
Trade accounts receivables, net of allowance for doubtful accounts of \$151 and \$121	2,560	2,237
Inventories	796	820
Prepaid expenses and other current assets	714	967
Total current assets	4,225	4,181
Property, plant and equipment, net	6,688	7,021
Other intangibles, net	1,255	1,069
Investment in joint venture	306	306
Other assets	727	663
Total assets	13,201	13,240
<u>LIABILITIES AND SHAREHOLDERS DEFICIENCY</u>		
Current liabilities:		
Accounts payable and accrued expenses	8,080	8,563
Deferred revenue	53	40
Short-term debt	888	1,176
Long-term debt, current portion, net of debt discounts of \$0 and \$7,128	1,436	14,172
Warrant liabilities	6,996	692
Conversion feature liabilities	1,269	147
Other liabilities, current portion	141	146
Total current liabilities	18,863	24,936
Long-term debt, net of current portion and debt discounts of \$4,118 and \$0	11,455	8,521
Other long-term liabilities, net of current portion	160	163
Total liabilities	30,478	33,620

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

Shareholders' deficiency:

Liquidmetal Technologies, Inc. shareholders' deficiency			
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 3,072,125 and 0 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively		3	
Common stock, \$0.001 par value; 100,000,000 shares authorized; 46,027,149 and 44,825,402 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	46		45
Additional paid-in capital	141,945		140,204
Accumulated deficit	(160,852)		(162,307)
Accumulated other comprehensive income	950		1,027
Total Liquidmetal Technologies, Inc. shareholders' deficiency	(17,908)		(21,031)
Noncontrolling interest	631		651
Total shareholders' deficiency	(17,277)		(20,380)
Total liabilities and shareholders' deficiency	\$	13,201	\$ 13,240

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

Table of Contents**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue	\$ 3,519	\$ 5,669	\$ 7,111	\$ 12,437
Cost of sales	1,895	4,633	4,036	9,534
Gross profit	1,624	1,036	3,075	2,903
Operating expenses				
Selling, general, and administrative	1,357	1,326	2,945	3,200
Research and development	301	278	548	536
Total operating expenses	1,658	1,604	3,493	3,736
Loss from operations	(34)	(568)	(418)	(833)
Loss from extinguishment of debt	(1,471)		(1,471)	
Change in value of warrants, gain	6,249	1,290	6,123	1,396
Change in value of conversion feature, gain	930	1,240	960	1,462
Other expense				(17)
Other income		247		247
Interest expense	(1,415)	(1,717)	(3,705)	(3,420)
Interest income		1		3
Net income (loss) before income taxes	4,259	493	1,489	(1,162)
Income taxes	(45)		(45)	
Net income (loss)	4,214	493	1,444	(1,162)
Net loss (income) attributable to noncontrolling interest	51	(65)	20	(226)
Net income (loss) attributable to Liquidmetal Technologies, Inc.	4,265	428	1,464	(1,388)
Other comprehensive income (loss):				
Foreign exchange translation gain (loss)	336	(353)	(77)	(813)
Comprehensive income (loss)	\$ 4,601	\$ 75	\$ 1,387	\$ (2,201)
Net income (loss) per share basic and diluted:				
Net income (loss) attributable to Liquidmetal Technologies, Inc.	\$ 0.09	\$ 0.01	\$ 0.03	\$ (0.03)
Number of weighted average shares - basic and diluted	45,408	44,726	45,117	44,726

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

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

Table of Contents

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS DEFICIENCY

For the Six Months Ended June 30, 2009

(in thousands, except per share data)

(unaudited)

Liquidmetal Technologies, Inc. Shareholders									
	Preferred Shares	Common Shares	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total
Balance, December 31, 2008		44,825,402	\$	\$ 45	\$ 140,204	\$ (162,307)	\$ 1,027	651	\$ (20,380)
Convertible preferred stocks issued	3,125,002		3		1,550				1,553
Conversion of preferred stocks	(52,877)	1,201,747		1	(1)				
Stock-based compensation					192				192
Foreign exchange translation loss							(77)		(77)
Cash distribution to preferred unit holders						(9)			(9)
Net income						1,464		(20)	1,444
Balance, June 30, 2009	3,072,125	46,027,149	3	\$ 46	\$ 141,945	\$ (160,852)	\$ 950	\$ 631	\$ (17,277)

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

Table of Contents

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except per share data)

(unaudited)

	For the Six Months Ended June 30,	
	2009	2008
Operating activities:		
Net income (loss) attributable to Liquidmetal Technologies, Inc.	\$ 1,464	\$ (1,388)
Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities:		
Gain on disposal of asset		(17)
(Loss) income attributable to noncontrolling interest of consolidated subsidiary	(20)	226
Depreciation and amortization	497	709
Loss on extinguishment of debt	1,471	
Amortization of debt discount	2,151	1,657
Stock-based compensation	192	324
Bad debt expense (recovery)	31	(139)
Warranty recovery	(91)	(22)
Gain from change in value of warrants	(6,123)	(1,396)
Gain from change in value of conversion feature	(960)	(1,463)
Changes in operating assets and liabilities:		
Trade accounts receivable	(354)	1,103
Inventories	23	954
Prepaid expenses and other current assets	(249)	234
Other assets	(304)	(7)
Accounts payable and accrued expenses	99	105
Deferred revenue	13	(29)
Other liabilities	(8)	(465)
Net cash (used in) provided by operating activities	(2,168)	386
Investing Activities:		
Purchases of property and equipment	(209)	(886)
Proceeds from the sale of property and equipment		(17)
Investment in patents and trademarks	(251)	(36)
Net cash used in investing activities	(460)	(939)
Financing Activities:		
Proceeds from borrowings	12,131	9,603
Repayment of borrowings	(24,853)	(11,803)
Proceeds from issuance of convertible preferred stocks	15,328	
Proceeds from issuance of preferred units of subsidiary		2,500
Redemption of preferred units of subsidiary		(175)
Cash distributions	(9)	(1,017)

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

Net cash provided by (used in) financing activities	2,597	(892)
Effect of foreign exchange translation	29	479
Net decrease in cash and cash equivalents	(2)	(966)
Cash and cash equivalents at beginning of period	157	1,180
Cash and cash equivalents at end of period	\$ 155	\$ 214
Supplemental cash flow information		
Interest paid	\$ 1,341	\$ 1,269
Taxes paid	\$	\$

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

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

1. Basis of Presentation / Description of Business

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All intercompany balances and transactions have been eliminated. Operating results for the six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2009. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's Form 10-K filed with the Securities and Exchange Commission on April 15, 2009.

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

The Company classifies operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys (see Note 9). Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipes used by the oil drilling industry and boiler tubes used by coal-burning power plants. Bulk Liquidmetal alloys include potential market opportunities to manufacture and sell products and components for electronic devices, medical devices, defense applications, and sporting goods. In addition, the bulk Liquidmetal alloys segment includes tooling and prototype sampling. Furthermore, such alloys are used to generate research and development services revenue for developing uses related primarily to defense and medical applications as well as potential license fees, royalties, and other compensation from strategic partnering transactions.

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

2. Basis of Presentation and Recent Accounting Pronouncements

Translation of Foreign Currency

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

The Company applies *FASB No. 52, Foreign Currency Translation*, for translating foreign currency into US dollars in our consolidation of the financial statements. Upon consolidation of the Company's foreign subsidiaries into the Company's consolidated financial statements, any balances with the subsidiaries denominated in the foreign currency are translated at the exchange rate at period-end. The financial statements of Liquidmetal Technologies Korea have been translated based upon Korean Won as the functional currency. Liquidmetal Technologies Korea's assets and liabilities were translated using the exchange rate at period end and income and expense items were translated at the average exchange rate for the reporting period. The resulting translation adjustment was included in other comprehensive income (loss).

Reclassifications

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

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of shareholders' equity separate from the parent's equity. In addition, SFAS 160 establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. The Company has adopted SFAS 160 as of January 1, 2009.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS 141(R) and other U.S. generally accepted accounting principles. FSP 142-3 applies to intangible assets that are acquired individually or with a group of other assets acquired in business combinations and asset acquisitions. FSP 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company has adopted FSP 142-3 as of January 1, 2009.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1) which clarifies that convertible debt instruments that may be settled in cash or other assets upon conversion are not addressed by APB No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. Additionally, FSP APB 14-1 requires an entity to separately account for the liability and equity components of a convertible instrument to reflect an entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 also expands the disclosure requirements regarding convertible debt instrument terms and how the instrument is reflected in an entity's financial statements. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company has adopted APB 14-1 as of January 1, 2009.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company has adopted SFAS 162 as of January 1, 2009.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock (EITF 07-05). EITF 07-5 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. The Company has adopted EITF 07-5 as of January 1, 2009.

In June 2008, FASB issued EITF Issue No. 08-4, Transition Guidance for Conforming Changes to Issue No. 98-5 (EITF 08-4). The objective of EITF 08-4 is to provide transition guidance for conforming changes made to EITF 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios , that result from EITF 00-27 Application of Issue No. 98-5 to Certain Convertible Instruments , and FAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. Early application is permitted. The Company has adopted EITF 08-4 as of January 1, 2009.

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

In April 2009, the FASB issued FASB Staff Position No. 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP 141(R)-1), which amends SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141(R)). FSP 141(R)-1 applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of SFAS No. 5, *Accounting for Contingencies*, if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in SFAS 141(R). The provisions of FSP 141(R)-1 that amend SFAS 141(R) are effective for the first annual reporting period beginning on or after December 15, 2008. The Company adopted FSP 141(R)-1 on January 1, 2009, and the impact of this guidance will depend upon the nature, terms, and size of the acquisitions we consummate.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2), which amends SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. This FSP amends the other-than-temporary guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The provisions of FSP FAS 115-2 and FAS 124-2 that amend SFAS 115 and SFAS 124 are effective for interim and annual reporting periods ending after June 15, 2009. The implementation of this FSP is not expected to affect the Company's consolidated results of operations or financial condition.

In June 2009, the FASB issued SFAS 166, *Accounting for Transfers of Financial Assets*, which will be effective for us on January 1, 2010. SFAS 166 removes the concept of a qualifying special-purpose entity (QSPE) from SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* and removes the exception from applying FASB Interpretation 46R, *Consolidation of Variable Interest Entities*. This statement also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements.

In June 2009, the FASB issued SFAS 167, *Amendments to FASB Interpretation No. 46R*, which will be effective for us on January 1, 2010. SFAS 167 requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. The Company does not expect a material effect from the adoption of this standard on our consolidated financial statements.

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

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

3. Liquidity

The Company has experienced losses from continuing operations during the last three fiscal years and has an accumulated deficit of \$160,852 as of June 30, 2009. Cash used in operations for the six months ended June 30, 2009 was \$2,168; and cash flow from operations will likely be negative throughout fiscal year 2009. As of June 30, 2009, the Company's principal sources of liquidity are \$155 of cash and \$2,560 of trade accounts receivable. Such conditions raise substantial doubt that the Company will be able to continue as a going concern. These operating results occurred while the Company was developing

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

and continues to develop, commercialize, and manufacture products from an entirely new and unique technology. These factors have placed a significant strain on the financial resources of the Company. The ability of the Company to overcome these challenges depends on its ability to correct its production inefficiencies, reduce its operating costs, generate higher revenue, achieve positive cash flow from continuing operations and continued sources of debt and equity financing. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

On May 1, 2009, the Company completed a financing transaction (the Transaction) whereby aggregate cash of \$2,500 and principal and accrued interest of \$20,625 due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the Prior Notes) were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of \$5.00 per share, 2,625,002 shares Series A-2 Preferred Stock with an original issue price of \$5.00 per share, and \$7,500 of new 8% Senior Secured Convertible Subordinated Notes due January 2011 (the Exchange Notes). Of the \$2,500 aggregate cash purchase price, approximately \$100 remains outstanding and is included prepaid expenses and other current assets as of June 30, 2009. The Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the Securities Purchase Agreement), among the exchanging note holders and investors (collectively, the Buyers). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of Series A-1 Preferred Stock at \$5.00 per share at any time prior to six months from the closing date (the Series A-1 Option). (See Note 6)

The Company anticipates that it will not have sufficient funds to pursue its current operating plan beyond the third quarter of 2009 and will therefore require additional funding. There is no assurance that the Series A-1 Option will be exercised to obtain any such funding. Because the Company cannot be certain that it will be able to obtain adequate funding from debt, equity, or other traditional financing sources, it is also actively pursuing several strategic financing options, including the intent to sell its manufacturing plant in South Korea (which would then be replaced with a smaller facility) and additional licensing and outsourcing of our manufacturing operations.

Additionally, we have approximately \$287 of principal and accrued interest outstanding as of June 30, 2009, under the 8% unsecured subordinated notes (the Bridge Notes), which were due August 17, 2007. We are working to repay the Bridge Notes with our noteholder.

We have \$361 of outstanding loan as of June 30, 2009 under a factoring, loan, and security agreement with a financing company. In June 2009, the Company received a formal notice of default from the financing company for repayment of the outstanding loan balance. The Company intends to fully repay the amounts due under the loan. However, as of the filing of this report, the Company did not repay the loan. The Company is currently working to resolve the matter with the financing company by seeking a forbearance until the Company is able to restructure or obtain funding to repay this loan.

Approximately \$189 of principal and accrued interest became due from our Korean subsidiary under a loan from Kookmin Bank of South Korea in August 2008. However, as of the filing of this report we did not repay the loan and we have received a formal notice of default. Kookmin Bank has initiated foreclosure proceedings on the loan collateral, which consists of our manufacturing plant facility and certain equipment in South Korea. However, we are currently working to resolve this matter with Kookmin Bank by seeking a forbearance until we are able to restructure or obtain funding to repay this loan.

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

We have outstanding liens and judgments on our assets by various creditors for past-due trade payables totaling \$1,218 which are held by creditors in South Korea, as of June 30, 2009. We are currently working to resolve the matter with each creditor by seeking forbearance until we are able to obtain funding to repay the amounts due, although there is no assurance that we will be able to obtain any such funding. If we cannot repay the amounts due or obtain forbearance, the creditors may seek to foreclose on the Company's assets. Such a foreclosure would have material adverse effect on our operations, financial condition, and results of operations.

4. Inventories

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

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

	June 30, 2009 (Unaudited)	December 31, 2008
Raw materials	\$ 261	\$ 426
Work in process	51	184
Finished goods	484	210
Total inventories	\$ 796	\$ 820

5. Product Warranty

Management estimates product warranties as a percentage of certain bulk alloy product sales earned during the period. As of June 30, 2009, the Company used 5% of bulk alloy product sales as an estimate of warranties to be claimed. The percentage is based on industry averages and historical information. Additionally, as of June 30, 2009 the Company used 1% of coatings applications sales as estimates of warranties to be claimed.

During the three and six months ended June 30, 2009, the Company recorded \$51 and \$91 of net gain on warranty, respectively. During the three and six months ended June 30, 2008, the Company recorded \$12 and \$22 of net gain on warranty, respectively. The warranty accrual balance is included in accounts payable and accrued expenses.

6. Notes Payable

Unsecured Subordinated Notes

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

During 2007 and 2008, the Company retired \$1,925 and \$1,650 of the August 2007 Subordinated Notes, respectively. During the three months ended June 30, 2009, the Company retired \$750 of the August 2007 Subordinated Notes.

As of June 30, 2009 and December 31, 2008, the Company's gross outstanding loan balance of the August 2007 Subordinated Notes totaled \$259 and \$1,009, respectively, and is included in current portion of long-term debt. As of June 30, 2009, the effective interest rate for the August 2007 Subordinated Notes was 8%.

Secured Convertible Subordinated Notes

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

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

The Company's gross outstanding loan balance of the January 2010 Notes totaled \$0 and \$19,113 as of June 30, 2009 and December 31, 2008, respectively. As of June 30, 2009 and December 31, 2008, un-amortized discounts for conversion feature, warrants, and cash discount totaled \$0 and \$7,128, respectively, and other asset debt issuance costs totaled \$0 and \$655, respectively. Interest expense for the amortization of debt issuance cost and discount on note was \$491 and \$1,816 for

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

the three and six months ended June 30, 2009, respectively. Interest expense for the amortization of debt issuance cost and discount on note was \$846 and \$1,557 for the three and six months ended June 30, 2008, respectively.

Pursuant to Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, the Company is required to report a value of the conversion liability as a fair value and record the fluctuation to the fair value of the conversion feature liability to current operations. The change in the fair value of the conversion feature liability resulted in losses of \$1,167 and \$1,137 for three and six months ended June 30, 2009, respectively. The change in the fair value of the conversion feature liability resulted in gains of \$1,240 and \$1,462 for three and six months ended June 30, 2008, respectively. The fair value of conversion feature outstanding at June 30, 2009 and December 31, 2008 was \$0 and \$147, respectively.

Senior Secured Convertible Notes

On May 1, 2009, the Company completed a financing transaction (the Transaction) whereby aggregate cash of \$2,500 and principal and accrued interest of \$20,625 due under the previously issued 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes) were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of \$5.00 per share, 2,625,002 shares Series A-2 Preferred Stock with an original issue price of \$5.00 per share, and \$7,500 of new 8% Senior Secured Convertible Notes due January 2011 (the January 2011 Notes). Of the \$2,500 aggregate cash purchase price, approximately \$100 remains outstanding and is included prepaid expenses and other current assets as of June 30, 2009. Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the Securities Purchase Agreement), among the exchanging note holders and investors (collectively, the Buyers). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of preferred stock at \$5.00 per share at any time prior to six months from the closing date. Additionally, 8,138,352 of previously issued warrants to purchase common shares held by holders of the January 2010 Notes have been cancelled in the Transaction.

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

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

In connection with the Transaction, the Company and the Buyers entered into a Registration Rights Agreement under which the Company is required, upon the written request of the holders of more than fifty percent (50%) of the securities underlying the January 2011 Notes, warrants, and preferred stocks, on or before 180 days after the closing of the Transaction, to file a registration statement with the SEC covering the resale

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

of the shares of Company's common stock issuable pursuant to the January 2011 Notes, the warrants and the preferred stocks and to use its best efforts to have the registration declared effective at the earliest date (but in no event later than 60 days after filing if there is no SEC review of the registration statement, or 120 days if there is an SEC review). The Company may be required to pay liquidated damages as set forth in the Registration Rights Agreement, if the registration statement is not filed or does not become effective on a timely basis.

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

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

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

The change in the fair value of the conversion feature liability resulted in gains of \$2,097 for the three and six months ended June 30, 2009. The fair value of conversion feature outstanding at June 30, 2009 was \$1,269. The fair value of conversion feature outstanding at June 30, 2009 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 1.51 years; (2) volatility of 183%, (3) risk free interest of 1.11% and dividend rate of 0%.

Pursuant to EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, the original fair values of the warrants of \$14,773 have been recorded as warrant liability, which was computed using the Black-Scholes pricing model under the following assumptions: (1) expected life of 2.67 years; (2) volatility of 176%; (3) risk free interest of 1.39% and (4) dividend rate of 0%.

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

The Company's gross outstanding loan balance of the January 2011 Notes totaled \$7,500 as of June 30, 2009. As of June 30, 2009, un-amortized discounts for conversion feature and warrants totaled \$4,118, and other asset debt issuance costs totaled \$135. Interest expense for the amortization of debt issuance cost and discount on note was \$255 for the three and six months ended June 30, 2009. The effective interest rate of the January 2011 Notes was 70% as of June 30, 2009.

Factoring Agreement

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

Payments on assigned receivables are received directly by the financing company, and applied to outstanding advances. All outstanding advances and uncollected assigned receivables are subject to fees and interest charges ranging from 0.55% to 1.5% plus prime rate as published by the Wall Street Journal, with a minimum annual fee of \$30. All receivables assigned and advances made are subject to return and recall by the financing company, respectively. As such, the advances have been classified as short-term secured borrowings in accordance with SFAS No. 140 Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities.

For the six months ended June 30, 2009, the Company borrowed \$20 and repaid \$238 under the Agreement. The total outstanding advance made under the agreement is \$361 and \$580 as of June 30, 2009 and December 31, 2008, respectively, which is presented as short-term debt. The weighted average rate of interest for borrowings made under the Agreement was 6.5% and 7.2% for the six months ended June 30, 2009 and 2008, respectively. In June 2009, the Company received a formal notice of default from the financing company for repayment of the outstanding loan balance. The Company intends to

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

fully repay the amounts due under the loan. However, as of the filing of this report the Company did not repay the loan. The Company is currently working to resolve the matter with the financing company by seeking a forbearance until the Company is able to restructure or obtain funding to repay this loan.

Kookmin Note

On February 4, 2003, the Company's Korean subsidiary received 6,500,000 in South Korean Won, or approximately \$5,488, under a loan from Kookmin Bank of South Korea. The loan bears interest at an annual rate of 7.1%. In the event of delayed repayment, the interest increases to a maximum of 21%, depending on the length of time the repayment is delayed. As of June 30, 2009, the interest rate was increased to 9.2% from delayed interest payments made. This loan is collateralized by the plant facilities and certain equipment in South Korea.

The Company is required to make equal monthly installments of principal and interest to repay the loan balance through August 2008. The outstanding loan balance totaled \$149 and \$151, as of June 30, 2009 and December 31, 2008, respectively, and are included in current portion of long-term debt. The Company intends to fully repay the amounts due under the loan. However, as of the filing of this report the Company did not repay the loan and the Company is in default under the loan. The Company has received a formal notice of default and Kookmin Bank has initiated foreclosure proceedings on the loan collateral, which consists of manufacturing plant facility and certain equipment in South Korea. However, the Company is currently working to resolve this matter with Kookmin Bank by seeking a forbearance until the Company is able to restructure or obtain funding to repay this loan.

Debt of Majority Owned Subsidiary

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

LMC was capitalized through a \$6,500 subordinated debt and equity investment by C3 Capital Partners (C3) and a \$5,000 senior credit facility with Bank Midwest, N.A. This debt and equity resulted in cash proceeds of \$11,102 after related debt issuance costs of \$398, which proceeds LMC used to purchase all of the assets and liabilities from the Company. The Company incurred an additional \$459 in issuance costs directly related to the debt issuance. As a result, \$857 was recorded as deferred debt issuance costs to be amortized over the life of the debt. Interest expense for the amortization of debt issuance cost was \$40 and \$80 for the three and six months ended June 30, 2009, respectively. Interest expense for the amortization of debt issuance cost was \$51 and \$101 for the three and six months ended June 30, 2008, respectively.

The Company retains a 69.25% ownership interest in LMC, C3 holds a 19% ownership interest, Larry Buffington, the Company's President and CEO, (who also serves as the President and CEO of LMC) holds a 10% ownership interest, and CRESO Capital Partners (CRESO), the Company's financial advisor in the Transaction, holds a 1.75% ownership interest. The equity interests acquired by C3 and issued to CRESO

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

were not considered a discount to debt, as the unconsolidated net assets of LMC were deemed to have an initial value of \$0 upon closing of the Transaction for financial accounting purposes. Further, LMC is fully responsible for the repayment of debt obligations.

Midwest Debt

In connection with the Transaction, LMC entered into a Loan Agreement, dated July 24, 2007 (the "Loan Agreement"), with Bank Midwest, N.A. ("Midwest"). The Loan Agreement provides for total loan availability of \$5,500, consisting of a \$4,000 term loan with an annual interest rate of 8.48% and a revolving loan of up to \$1,500 with a variable interest equal to prime rate as published in the Wall Street Journal. Interest payments are due monthly. The term loan has a maturity date of July 20, 2011. The revolving loan has a maturity date of July 20, 2008. Borrowing availability under the revolving loan is based in a percentage of LMC's eligible receivables and eligible inventory, and the initial advance under the revolving loan was \$1,000 on July 24, 2007.

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

On September 23, 2008, the Loan Agreement was amended to extend the revolving loan maturity to September 24, 2009, reduce the revolving loan limit to \$1,350, and provided for a minimum rate of interest of 6.5%. LMC's obligations under the Loan Agreement are secured by a blanket security interest in all of LMC's assets and the Company's equity interest in LMC, and pursuant to an intercreditor agreement between the C3 and Midwest. Midwest's security interest in the assets is senior to C3's security interest in the same assets.

LMC is required to make monthly principal payments under the term loan of: \$63 during months 1 through 12, \$83 during months 13 through 36, and \$104 during months 37 through 48. All remaining principal is due and payable on July 20, 2011. If the term loan is prepaid within the first twenty-four (24) months after July 24, 2007, LMC will pay a prepayment penalty of 1% of the outstanding principal balance, together with accrued interest. After the twenty-four month period has lapsed, LMC will have the right to prepay the term loan without penalty.

As of June 30, 2009 and December 31, 2008, the gross outstanding loan balance under the term loan totaled \$2,229 and \$2,729, respectively, and the gross outstanding loan balance under the revolving loan totaled \$527 and \$597, respectively. The loans are presented as long-term debt and short-term debt on the Company's consolidated balance sheet, respectively. Interest expense incurred under the term loan and revolving loan totaled \$60 and \$122 for the three and six months ended June 30, 2009, respectively. Interest expense incurred under the term loan and revolving loan totaled \$85 and \$179 for the three and six months ended June 30, 2008, respectively.

Additionally, LMC entered into Promissory Notes, dated August 29, 2007 and October 21, 2008 (the Capital Loan), with Midwest to provide for \$45 and \$105 to be used towards the purchase of a company truck and HVOF spray equipment with annual interest rates of 7.43% and 8.25%, respectively. The Capital Loan has maturity dates of September 1, 2012 and November 1, 2013. LMC is required to make monthly principal and interest payments of \$3 per month. As of June 30, 2009 and December 31, 2008, the gross outstanding loan balance under the Capital Loan totaled \$116 and \$129, respectively, which is presented as long-term debt on the Company's consolidated balance sheet. Interest expense incurred under the Capital Loan totaled \$2 and \$5 for the three and six months ended June 30, 2009, respectively. Interest expense incurred under the Capital Loan totaled \$1 and \$2 for the three and six months ended June 30, 2008, respectively.

C3 Debt

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

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

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

membership interest in LMC to secure the obligations under the notes and LMC pledged its membership interests in LMCS to secure its obligations under the notes. LMC and LMCS also granted to C3 a blanket security interest in all of their assets to secure their obligations under the Subordinated Notes.

The gross outstanding loan balance including accrued interest payable upon maturity of the Subordinated Note totaled \$6,757 and \$6,690 as of June 30, 2009 and December 31, 2008, respectively. Interest expense incurred under the Subordinated Notes totaled \$202 and \$403 for the three and six months ended June 30, 2009, respectively. Interest expense incurred under the Subordinated Notes totaled \$198 and \$395 for the three and six months ended June 30, 2008, respectively.

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

7. Stock Compensation Plan

During the six months ended June 30, 2009, under the Company's 2002 Non-employee Director Stock Option Plan which provides for the grant of stock options to non-employee directors, the Company granted options to purchase 70,000 of the Company's common shares for an average exercise price of \$0.23. Further, all options granted under this plan had exercise prices that were equal to the fair market value on the date of grant.

During the six months ended June 30, 2009, under the Company's 2002 Equity Incentive Plan which provides for the grant of stock options to officers, employees, consultants and directors of the Company its subsidiaries, the Company granted options to purchase 233,010 of the Company's common shares for an average exercise price of \$0.21. Further, all options granted under this plan had exercise prices that were equal to the fair market value on the date of grant.

The Company canceled 418,500 options during the six months ended June 30, 2009, for terminated employees and options expired.

8. Preferred Units of Subsidiary

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

As of June 30, 2009, LMC has redeemed \$236 of its preferred units and distributed \$290 in priority return to the preferred unit holders. The total preferred units outstanding are \$2,264 as of June 30, 2009.

9. Segment Reporting and Geographic Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, requires companies to provide certain information about their operating segments. In April 2002, the Company began classifying operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys. The Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants. Bulk Liquidmetal alloys include market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods, tooling, prototype sampling, defense applications and metal processing equipment. Primarily, the expenses incurred by the bulk Liquidmetal alloy segment are research and development costs and selling expenses associated with identifying and developing market opportunities. Bulk Liquidmetal alloys products can be distinguished from Liquidmetal alloy coatings in that the bulk Liquidmetal alloy can have significant thickness, up to approximately one inch, which allows for their use in a wider variety of applications other than a thin protective coating applied to machinery and equipment. Revenue and expenses associated with research and development services and product licensing arrangements are included in the bulk Liquidmetal alloy segment. The accounting policies of the reportable segments are the same as those described in Note 3 to the consolidated financial statements included in the Company's Form 10-K filed with the Securities and Exchange Commission on April 15, 2009.

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

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

	Coatings		Bulk Alloy		Segment Totals
Three months ended June 30, 2009					
Revenue to external customers	\$	1,706	\$	1,813	\$ 3,519
Gross profit		592		1,032	1,624
Total segment (loss) income		(168)		640	472
Total identifiable assets at end of period		2,224		8,500	10,724
Three months ended June 30, 2008					
Revenue to external customers	\$	2,683	\$	2,986	\$ 5,669
Gross profit		938		98	1,036
Total segment income (loss)		212		(1)	211
Total identifiable assets at end of period		3,114		12,155	15,269
Six months ended June 30, 2009					
Revenue to external customers	\$	4,193	\$	2,918	\$ 7,111
Gross profit		1,506		1,569	3,075
Total segment (loss) income		(147)		854	707
Total identifiable assets at end of period		2,224		8,500	10,724
Six months ended June 30, 2008					
Revenue to external customers	\$	6,298	\$	6,139	\$ 12,437
Gross profit		2,171		732	2,903
Total segment income (loss)		734		(6)	728
Total identifiable assets at end of period		3,114		12,155	15,269

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

	For the Three Months Ended June 30, 2009		For the Six Months Ended June 30, 2008			
Total segment income	\$	472	\$	211	\$ 707	\$ 728
General and administrative expenses, excluded		(826)		(854)	(1,763)	(2,010)

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

Consolidated loss before interest, income taxes, and noncontrolling interests	\$	(354)	\$	(643)	\$	(1,056)	\$	(1,282)
Loss from extinguishment of debt		(1,471)				(1,471)		
Change in value of warrants, gain		6,249		1,290		6,123		1,396
Change in value of conversion feature, gain		930		1,240		960		1,462
Interest expense		(1,095)		(1,395)		(3,067)		(2,741)
Interest income				1				3
Income taxes		(45)				(45)		
Loss (income) attributable to noncontrolling interest		51		(65)		20		(226)
Consolidated net loss attributable to Liquidmetal Technologies, Inc.	\$	4,265	\$	428		1,464	\$	(1,388)

Included in bulk alloy segment income for the three and six months ended June 30, 2008 is \$247 of other income and \$17 of other expense. Excluded general and administrative expenses are attributable to the Company's corporate headquarters.

Table of Contents**LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the Six Months Ended June 30, 2009 and 2008****(in thousands, except share data)****(unaudited)**

These expenses primarily include corporate salaries, consulting, professional fees and facility costs. Research and development expenses are included in the operating costs of the segment that performed the research and development.

Revenues from sales to companies in the United States were \$1,628 and \$2,913 during the three months ended June 30, 2009 and 2008, respectively. The revenue related to the United States of America was earned under defense-related research and development contracts, sales of coatings products, and sales of Liquidmetal bulk alloy products.

During the three months ended June 30, 2009, the Company had revenue from sales to companies outside of the United States of \$1,891 of which \$1,328 represented sales to companies located in South Korea. During the three months ended June 30, 2008, the Company had revenues from companies outside of the United States of \$2,756 of which \$55 represented sales to companies located in South Korea. The revenue related to sales to companies outside of the United States was from bulk alloy products.

Long-lived assets include net property, plant, and equipment, and net intangible assets. The Company had long-lived assets of \$1,985 and \$1,813 located in the United States at June 30, 2009 and December 31, 2008, respectively. The Company had long-lived assets of \$5,958 and \$6,277 located in South Korea at June 30, 2009 and December 31, 2008, respectively.

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

	June 30, 2009
Total segment assets	\$ 10,724
Cash and cash equivalents	23
Prepaid expenses and other current assets	337
Other property, plant and equipment	80
Intangibles, net	1,236
Other assets	801
Total consolidated assets	\$ 13,201

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

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

10. Income (Loss) Per Common Share

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

Options to purchase 7,860,292 shares of common stock at prices ranging from \$0.09 to \$15.00 per share were outstanding at June 30, 2009, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive. Warrants to purchase 55,428,242 shares of common stock with prices ranging from \$0.50 to \$1.55 per share outstanding at June 30, 2009, were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive. 12,500,000 shares of common stock issuable upon conversion of the Company's convertible notes with conversion prices of \$0.60 per share outstanding at June 30, 2009 were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive. Additionally, 83,457,386 shares of common stock issuable upon conversion of the Company's convertible preferred stocks with conversion prices ranging from \$0.10 and \$0.22 per share outstanding at June 30, 2009 were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive.

Pursuant to EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

value of the warrant liability to current operations. The change in the fair value of the warrants resulted in gains of \$6,249 and \$6,123 for the three and six months ended June 30, 2009, respectively, and gains of \$1,290 and \$1,396 for the three and six months ended June 30, 2008, respectively. The fair value of warrants outstanding at June 30, 2009 of \$6,996 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 0.95 to 3.50 years; (2) volatility of 183%, (3) risk free interest of 0.56% to 1.64%, and dividend rate of 0%. The fair value of warrants outstanding at December 31, 2008 of \$692 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 0.21 to 3.99 years; (2) volatility of 113%, (3) risk free interest of 0.11% to 1.55%, and dividend rate of 0%.

11. Commitments and Contingencies

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

On June 26, 2006, the Company entered into a joint venture agreement with SAGA, SpA in Padova, Italy, (SAGA) a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl (LSI). The Company also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, the Company has option to buy ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, the Company exercised the 19.9% interest in LSI and will have two years to purchase the additional interest at a nominal price. In January 2007 and June 2007, the Company contributed additional \$217 and \$86, respectively, into LSI as additional investment. The contribution did not change the Company's 19.9% interest in LSI. Under the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell to the Company certain business assets including manufacturing equipment acquired under the joint venture. During 2008, 2007 and 2006, the Company recognized revenues of \$0, \$103 and \$702, respectively, of Liquidmetal alloys sold to LSI for use in the joint venture. There were no alloys sold to LSI during the three and six months ended June 30, 2009.

We have outstanding liens and judgments on our assets by various creditors for past-due trade payables totaling \$1,218 which are held by creditors in South Korea, as of June 30, 2009. We are currently working to resolve the matter with each creditor by seeking forbearance until we are able to obtain funding to repay the amounts due, although there is no assurance that we will be able to obtain any such funding. If we cannot repay the amounts due or obtain forbearance, the creditors may seek to foreclose on the Company's assets. Such a foreclosure would have material adverse effect on our operations, financial condition, and results of operations.

12. Related Party Transactions

Soo Buchanan, the sister of John Kang, the Company's Chairman, provides services to the Company as a consultant. During the three and six months ended June 30, 2009, the Company incurred \$0 for her services as a consultant. During the three and six months ended June 30, 2008, the Company incurred \$30 and \$60, respectively, for her services as a consultant. Additionally, Otis Buchanan, the husband of Ms. Buchanan, was employed by the Company and was paid aggregate compensation of approximately \$28 and \$56 during each of the three and six months ended June 31, 2009 and 2008, respectively.

On December 23, 2008, John Kang advanced the Company \$200 to be used to repay the Company's outstanding borrowings made under the Factoring, Loan and Security Agreement (the Factoring Agreement), dated April 21, 2005, with a financing company. Further, Mr. Kang entered into a Continuing Guarantee Agreement, dated January 5, 2009, with the financing company to personally guarantee repayment of the outstanding borrowings made under the Factoring Agreement (see Note 6). In January 2009, the \$200 advance was offset with \$178 outstanding receivable from Mr. Kang arising from liabilities incurred from certain stock transactions in August 2002 and \$22 of the advance was paid to Mr. Kang.

Table of Contents

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2009 and 2008

(in thousands, except share data)

(unaudited)

In May 2009, the Company completed a transaction in which (i) the holders of our 8% Convertible Subordinated Notes exchanged such notes for a combination of new 8% Senior Secured Convertible Notes and shares of a new series of convertible preferred stock designated Series A-2 Preferred Stock, together with warrants thereon, and (ii) certain investors purchased, for an aggregate purchase price of \$2,500, shares of a new series of convertible preferred stock designated as Series A-1 Preferred Stock (see Note 6). The lead investors in this transaction were Carlyle Liquid, LLC and Carlyle Liquid Holdings, LLC (the Carlyle Entities), which are two investor entities organized by Abdi Mahemedi and Jack Chitayat. Mr. Mahemedi became a director and greater-than-5% beneficial owner of our company by reason of the May 2009 transaction, and Jack Chitayat is a former director of our company who became a greater-than-5% beneficial owner of our company by reason of the May 2009 transaction. Mr. Mahemedi and Mr. Chitayat have shared voting and investment control over the shares held by the Carlyle Entities due to the fact that other entities owned by them are the managing members of these two Carlyle entities. Additionally, Mr. Iraj Azarm, a director of our company, is a passive investor in the Carlyle Entities, and James Kang, a greater-than-5% beneficial owner of our company and the brother of our Chairman John Kang, is also an indirect passive investor in the Carlyle Entities.

The Company has an exclusive license agreement with LLPG, Inc. (LLPG), a corporation headed by Mr. Chitayat. Under the terms of the agreement, LLPG has the right to commercialize Liquidmetal alloys, particularly precious-metal based compositions, in jewelry and high-end luxury product markets. The Company, in turn, will receive royalty payments over the life of the contract on all Liquidmetal products produced and sold by LLPG. The Company recognized revenues from product sales and licensing fees of \$8 and \$203 from LLPG during the three and six months ended June 30, 2009 and \$137 and \$172 of revenues during the three and six months ended June 30, 2008, respectively. Approximately, \$72 and \$30 is included in accounts receivables as of June 30, 2009 and December 31, 2008, respectively, for outstanding trade receivables due from LLPG.

As of June 30, 2009 and December 31, 2008, Ricardo Salas, the Company's Executive Vice President, held \$0 and \$381 of the convertible unsecured subordinated notes, respectively, \$259 of the unsecured subordinated notes for both periods. Mr. Salas also held a total of 1,307,884 and 377,691 of exercisable warrants as of June 30, 2009 and December 31, 2008.

On June 1, 2007, the Company entered into a transaction with Grace Metal (currently Liquidmetal Korea Co., Ltd. LMK), under which (i) LMK agreed to purchase various equipments (including die casting machines and vacuum induction melters) used in the Company's bulk amorphous alloy business segment and (ii) the Company granted LMK a 10-year exclusive license to manufacture products made from bulk Liquidmetal alloys for customers whose principal headquarters or whose major operations are located in South Korea. LMK was formed by an investor group that includes the former director and officer of the Company, James Kang, who is also the brother of John Kang, Chairman of our company. Under an equipment purchase agreement between the Company and LMK, LMK agreed to buy the purchased equipment for a total purchase price of \$2,000, of which \$759 were received as of June 30, 2009. The equipment purchase agreement provides that delivery of the equipment can be delayed to accommodate the Company's continuing manufacturing needs, and it also provides that the Company will retain a security interest in the purchased equipment until full payment of the purchase price.

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

The Company purchased production supplies and outsourced production of certain bulk alloy production with LMK. In June 2008, the Company began sharing the use of its manufacturing facility and production equipment in Pyongtaek, South Korea, with LMK as the Company began significant outsourcing of its bulk alloy parts production. The Company incurred expenses for purchase of production supplies and outsourcing fees of \$256 and \$436 during the three and six months ended June 30, 2009, respectively, and \$308 and \$383 during the three and six months ended June 30, 2008, respectively. Approximately, \$510 and \$0 is included in accounts payable and accrued expenses as of June 31, 2009 and December 31, 2008, respectively, for outstanding trade payables due to LMK. The Company recognized revenue from sales of raw materials and royalties for a total of \$1,563 and \$2,123 during the three and six months ended June 30, 2009, respectively, and \$703 and \$1,332 during the three and six months ended June 30, 2008, respectively. Approximately, \$1,584 and \$212 is included in accounts receivables as of June 30, 2009 and December 31, 2008, respectively, for outstanding trade receivables due from LMK.

Table of Contents

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

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

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

This management's discussion and analysis, as well as other sections of this report on Form 10-Q, may contain forward-looking statements that involve risks and uncertainties, including statements regarding our plans, future events, objectives, expectations, forecasts, or assumptions. Any statement that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as believe, estimate, project, expect, intend, may, anticipate, plans, seeks, and similar expressions identify forward-looking statements. These statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results, and undue reliance should not be placed on these statements. These risks and uncertainties include, but are not limited to, the matters discussed under the caption Factors Affecting Future Results in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and other risks and uncertainties discussed in filings made with the Securities and Exchange Commission (including risks described in subsequent reports on Form 10-Q, Form 10-K, Form 8-K, and other filings). Liquidmetal Technologies disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

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

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

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

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

Table of Contents

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

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

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

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

Critical Accounting Policies and Estimates

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

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

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

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

Our Annual Report on Form 10-K for the year ended December 31, 2008, contains further discussions on our critical accounting policies and estimates.

Results of Operations

Comparison of the three months ended June 30, 2009 and 2008

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

Revenue. Revenue decreased \$2.2 million to \$3.5 million for the three months ended June 30, 2009 from \$5.7 million for the three months ended June 30, 2008. The decrease consisted of \$0.9 million decrease in sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of decrease in demand in electronic casings applications, a decrease of \$1.0 million from the sales of our coating products as a result decrease in demand in oil drilling applications, and a decrease of \$0.3 million from our research and development contracts.

Cost of Sales. Cost of sales decreased to \$1.9 million, or 54% of revenue, for the three months ended June 30, 2009 from \$4.6 million, or 82% of revenue, for the three months ended June 30, 2008. The decrease was a result of a continued change

Table of Contents

in revenue mix during the three months ended June 30, 2009. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased to \$1.4 million, or 39% of revenue, for the three months ended June 30, 2009 from \$1.3 million, or 23% of revenue, for the three months ended June 30, 2008. The increase was primarily a result of an increase in bad debt expense of \$0.2 million, offset by a decrease in salaries and related benefits expenses of \$0.1 million.

Research and Development Expenses. Research and development expenses were \$0.3 million, or 9% of revenue, for the three months ended June 30, 2009 and \$0.3 million, or 5% of revenue, for the three months ended June 30, 2008. We continue to perform research and development of new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants to advance the development of Liquidmetal alloys.

Loss from Extinguishment of Debt. Loss from extinguishment of debt increased to \$1.5 million, or 42% of revenue, for the three months ended June 30, 2009 from \$0 for the three months ended June 30, 2008. The \$1.5 million loss was recognized from extinguishment of certain of our convertible and subordinated notes.

Change in Value of Warrants. Change in value of warrants increased to a gain of \$6.2 million, or 178% of revenue, for the three months ended June 30, 2009 from a gain of \$1.3 million, or 23% of revenue, for the three months ended June 30, 2008. The change in value of warrants consisted of warrants issued from convertible and subordinated notes and convertible preferred stocks issued between 2004 and 2009 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of conversion feature liability from our convertible notes resulted in a gain of \$0.9 million, or 26% of revenue, during the three months ended June 30, 2009 from a gain of \$1.2 million, or 22% of revenue, for the three months ended June 30, 2008, primarily as a result of fluctuations in our stock price.

Other Income. Other income was \$0.2 million, or 4% of revenue, for the three months ended June 30, 2008 from write off of accounts payables. There was no other income for the three months ended June 30, 2009.

Interest Expense. Interest expense was \$1.4 million, or 40% of revenue, for the three months ended June 30, 2009 and was \$1.7 million, or 30% of revenue, for the three months ended June 30, 2008. Interest expense consists primarily of debt discount amortization and interest accrued on outstanding convertible and subordinated notes, borrowings under a factoring, loan, and security agreement, a revolving loan agreement, and the Kookmin loan. The decrease was due to certain of our convertible and subordinated notes retired during the three months ended June 30, 2009.

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

Interest Income. Interest income was \$1 thousand for the three months ended June 30, 2008 from interest earned on cash deposits. There was no interest income for the three months ended June 30, 2009.

Comparison of the six months ended June 30, 2009 and 2008

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

Revenue. Revenue decreased \$5.3 million to \$7.1 million for the six months ended June 30, 2009 from \$12.4 million for the six months ended June 30, 2008. The decrease consisted of \$2.7 million decrease in sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of decrease in demand in electronic casings applications, a decrease of \$2.1 million from the sales of our coating products as a result decrease in demand in oil drilling applications, and a decrease of \$0.5 million from our research and development contracts.

Cost of Sales. Cost of sales decreased to \$4.0 million, or 57% of revenue, for the six months ended June 30, 2009 from \$9.5 million, or 77% of revenue, for the six months ended June 30, 2008. The decrease was a result of a continued change in revenue mix during the six months ended June 30, 2009. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Table of Contents

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased to \$2.9 million, or 41% of revenue, for the six months ended June 30, 2009 from \$3.2 million, or 26% of revenue, for the six months ended June 30, 2008. The decrease was primarily a result of decreases in salaries and related benefits expenses of \$0.2 million and travel expenses of \$0.1 million.

Research and Development Expenses. Research and development expenses were \$0.5 million, or 8% of revenue, for the six months ended June, 2009 and \$0.5 million, or 4% of revenue for the six months ended June 30, 2008. We continue to perform research and development of new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants to advance the development of Liquidmetal alloys.

Loss from Extinguishment of Debt. Loss from extinguishment of debt increased to \$1.5 million, or 21% of revenue, for the six months ended June 30, 2009 from \$0 for the six months ended June 30, 2008. The \$1.5 million loss was recognized from extinguishment of certain of our convertible and subordinated notes.

Change in Value of Warrants. Change in value of warrants increased to a gain of \$6.1 million, or 86% of revenue, for the six months ended June 30, 2009 from a gain of \$1.4 million, or 11% of revenue, for the six months ended June 30, 2008. The change in value of warrants consisted of warrants issued from convertible and subordinated notes and convertible preferred stocks issued between 2004 and 2009 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of conversion feature liability from our convertible notes resulted in a gain of \$1.0 million, or 14% of revenue, during the six months ended June 30, 2009 from a gain of \$1.5 million, or 12% of revenue, for the six months ended June 30, 2008, primarily as a result of fluctuations in our stock price.

Other Expense. Other expense was \$17 thousand for the six months ended June 30, 2008 from costs of issuing shares of preferred units of our subsidiary. There was no other expense for the six months ended June 30, 2009.

Other Income. Other income was \$0.2 million, or 2% of revenue, for the six months ended June 30, 2008 from write off of accounts payables. There was no other income for the six months ended June 30, 2009.

Interest Expense. Interest expense was \$3.7 million, or 52% of revenue, for the six months ended June 30, 2009 and was \$3.4 million, or 27% of revenue, for the six months ended June 30, 2008. Interest expense consists primarily of debt discount amortization and interest accrued on outstanding convertible and subordinated notes, borrowings under a factoring, loan, and security agreement, a revolving loan agreement, and the Kookmin loan. The increase was due to higher interest rates on convertible notes during the first quarter of 2009.

Interest Income. Interest income was \$3 thousand for the six months ended June 30, 2008 from interest earned on cash deposits. There was no interest income for the six months ended June 30, 2009.

Liquidity and Capital Resources

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

Our cash used in operating activities was \$2.2 million for the six months ended June 30, 2009 and our cash provided by operating activities was \$0.4 million for the six months ended June 30, 2008. Our working capital deficit decreased from \$20.8 million at December 31, 2008 to \$14.6 million at June 30, 2009. The working capital deficit decrease of \$6.2 million was primarily attributable to an increase of accounts receivables of \$0.3 million, decrease of accounts payable and accrued expenses of \$0.5 million, decrease of short-term debt of \$0.3 million, decrease of long-term debt, current portion, net of discounts of \$12.7 million, offset by decrease of prepaid expenses and other current assets of \$0.3 million, increase of warrant liabilities of \$6.3 million, and increase of conversion feature liabilities of \$1.1 million.

Our cash used in investing activities was \$0.5 million for the six months ended June 30, 2009 for the acquisition of property and equipment and investments in patents and trademarks.

Our cash provided by financing activities was \$2.6 million for the six months ended June 30, 2009. We paid net \$12.7 million in borrowings from a factoring agreement executed in April 2005, a revolving loan agreement executed in July 2007, convertible and subordinated notes, which were offset by \$15.3 million proceeds from issuance of convertible preferred stocks.

On May 1, 2009, the Company completed a financing transaction (the Transaction) whereby aggregate cash of \$2.5 million and principal and accrued interest of \$20.6 million due under the previously issued 8% Convertible Subordinated Notes due

Table of Contents

January 2010 (the *Prior Notes*) were exchanged for 500,000 shares of convertible Series A-1 Preferred Stock with an original issue price of \$5.00 per share, 2,625,002 shares Series A-2 Preferred Stock with an original issue price of \$5.00 per share, and \$7.5 million of new 8% Senior Secured Convertible Subordinated Notes due January 2011 (the *Exchange Notes*). Of the \$2.5 million aggregate cash purchase price, approximately \$0.1 million remains outstanding and is included prepaid expenses and other current assets in the condensed consolidated balance sheet as of June 30, 2009. The Transaction was consummated pursuant to a Securities Purchase and Exchange Agreement, dated May 1, 2009 (the *Securities Purchase Agreement*), among the exchanging note holders and investors (collectively, the *Buyers*). The Securities Purchase Agreement gives the Buyers option to subscribe for an additional 1,000,000 shares of Series A-1 Preferred Stock at \$5.00 per share at any time prior to six months from the closing date (the *Series A-1 Option*).

The Exchange Notes are due January 3, 2011 and bear annual interest rate of 8% with interest payable in October and April in cash or, at the Company's option, in the form of additional notes (in which case the interest rate will be 10%). The preferred stocks accrue cumulative dividends at an annual rate of 8%, which is payable semi-annually. Beginning on the second anniversary of the initial issuance, the dividend will increase to 10%. The dividends are payable in cash or in kind by the issuance of the Company of additional preferred stock, only when and as declared by the Company's Board of Directors.

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

We anticipate that we will not have sufficient funds to pursue our current operating plan beyond the third quarter of 2009 and we will therefore require additional funding. There is no assurance that the Series A-1 Option will be exercised to obtain any such funding. Because we cannot be certain that we will be able to obtain adequate funding from debt, equity, or other traditional financing sources, we are also actively exploring several strategic financing options, including the possible sale of our manufacturing plant in South Korea (which would then be replaced with a smaller facility) and additional licensing and outsourcing of our manufacturing operations.

Additionally, we have approximately \$0.3 million of principal and accrued interest outstanding as of June 30, 2009, under the 8% unsecured subordinated notes (the *Bridge Notes*), which were due August 17, 2007. We are working to repay the Bridge Notes with our noteholder.

We have \$0.4 million of outstanding loan as of June 30, 2009 under a factoring, loan, and security agreement with a financing company. In June 2009, we received a formal notice of default from the financing company for repayment of the outstanding loan balance. We intend to fully repay the amounts due under the loan. However, as of the filing of this report, we did not repay the loan. We are currently working to resolve the matter with the financing company by seeking a forbearance until we are able to restructure or obtain funding to repay this loan.

Approximately \$0.2 million of principal and accrued interest became due from our Korean subsidiary under a loan from Kookmin Bank of South Korea in August 2008. However, as of the filing of this report we did not repay the loan and we have received a formal notice of default. Kookmin Bank has initiated foreclosure proceedings on the loan collateral, which consists of our manufacturing plant facility and certain equipment in South Korea. However, we are currently working to resolve this matter with Kookmin Bank by seeking a forbearance until we are able to restructure or obtain funding to repay this loan.

We have outstanding liens and judgments on our assets by various creditors for past-due trade payables totaling \$1.2 million, which are held by creditors in South Korea, as of June 30, 2009. We are currently working to resolve the matter with each creditor by seeking forbearance until we are able to obtain funding to repay the amounts due, although there is no assurance that we will be able to obtain any such funding. If we cannot repay the amounts due or obtain forbearance, the creditors may seek to foreclose on the Company's assets. Such a foreclosure would have material adverse effect on our operations, financial condition, and results of operations.

Table of Contents**Contractual Obligations**

The following table summarizes the Company's obligations and commitments as of June 30, 2009:

Contractual Cash Obligations	Total	Payments Due by Period (in thousands)			
		Less Than 1 Year	1-3 Years	3-5 Years	Thereafter
Long-term debt (2)	\$ 7,907	\$ 407	\$ 7,500	\$	\$
Long-term debt of consolidated subsidiary (2)	9,102	1,029	1,291	6,782	
Short-term debt (3)	361	361			
Short-term debt of consolidated subsidiary	527	527			
Interest payments (4)	4,010	1,749	2,211	50	
Operating leases and rents	906	292	605	9	
Consulting services payable	48	48			
Foster Wheeler	126	126			
Dongyang	9	9			
Nichimen	315	315			
Totals (1)	\$ 23,311	\$ 4,863	\$ 11,607	\$ 6,841	\$

- (1) Contractual cash obligations include Long-term debt comprised of \$258 of Unsecured Subordinated Notes issued in 2006, \$7,500 of Convertible Notes issued in 2009, and \$149 of Kookmin Bank Loan; Long-term debt of consolidated subsidiary comprised of \$2,229 of Bank Midwest Term Loan, \$6,757 of C3 Capital Partners Subordinated Notes, and \$116 of Bank Midwest Promissory Notes; Short-term debt comprised of \$361 outstanding advances received under factoring, loan, and security agreement; Short-term debt of consolidated subsidiary comprised of \$527 of Bank Midwest revolving loan; future minimum lease payments under capital and operating leases; purchase commitments from consultants; payments due from assets purchased from Foster Wheeler thermal spray coatings business; payments due from our discontinued equipment manufacturing business; and minimum payments due under a distribution agreement.
- (2) Does not include accrued and scheduled interest payments of \$4,010; and un-amortized discounts for conversion feature and warrants of \$4,118 of our convertible notes.
- (3) Does not include minimum interest and fee payments of \$30.
- (4) Interest payments include accrued and scheduled payments due on long-term debt and long-term debt of consolidated subsidiary with annual interest rates between 8% to 12%. Interest payments also include estimated interest on short-term debt and short-term debt of majority owned subsidiary with annual interest rates between 8.48% to 11.5% with expected maturity of approximately 1 year.

Off Balance Sheet Arrangements

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

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form 10-Q

On June 26, 2006, we entered into a joint venture agreement with SAGA, SpA in Padova, Italy, (SAGA) a specialist precision parts manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl (LSI). We also entered into an exclusive manufacturing license agreement for the eyewear industry with LSI. Under the joint venture agreement, we have the option to buy an ownership interest in LSI, initially, of 19.9% to up to 50%. In December 2006, we purchased 19.9% interest in the joint venture. Under the licensing agreement, at any time following 18 months after the effective date of the agreement, LSI may exercise its option to sell us certain business assets including manufacturing equipment acquired under the joint venture. During the year ended December 31, 2007, we recognized revenues of \$0.7 million of Liquidmetal alloys sold to SAGA for use in the joint venture. During 2008, 2007 and 2006, the Company recognized revenues of \$0, \$0.1 million and \$0.7 million, respectively, of Liquidmetal alloys sold to LSI for use in the joint venture. There were no alloys sold to LSI during the six months ended June 30, 2009.

Table of Contents

Item 3 Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rates. We are exposed to market risks relating to changes in interest rates as our borrowings are subject to the volatility of interest rate risk. Although we do not currently have any borrowings with variable interest rates, fluctuations in interest rates may have a negative impact to any future borrowings.

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

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

Item 4T Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2009, the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective.

Changes in Internal Controls. During the quarter ended June 30, 2009, there was no change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

Item 1 Legal Proceedings

None.

Item 1A Risk Factors

None.

Item 3 - Defaults Upon Senior Securities

We have \$0.4 million of outstanding loan as of June 30, 2009 under a factoring, loan, and security agreement with a financing company. In June 2009, we received a formal notice of default from the financing company for repayment of the outstanding loan balance. We intend to fully repay the amounts due under the loan. However, as of the filing of this report, we did not repay the loan. We are currently working to resolve the matter with the financing company by seeking a forbearance until we are able to restructure or obtain funding to repay this loan.

Approximately \$0.2 million of principal and accrued interest became due from our Korean subsidiary under a loan from Kookmin Bank of South Korea in August 2008. However, as of the filing of this report we did not repay the loan and we have received a formal notice of default. Kookmin Bank has initiated foreclosure proceedings on the loan collateral, which consists of our manufacturing plant facility and certain equipment in South Korea. However, we are currently working to resolve this matter with Kookmin Bank by seeking a forbearance until we are able to obtain funding to restructure or repay this loan.

Item 4 Submission of Matters to a Vote of Security Holders

The Annual Meeting of our stockholders was held July 31, 2009. The following are the results of stockholder voting on proposals that were presented and adopted:

1. The election of the following directors for a term of one (1) year expiring at the Annual Meeting of Stockholders to be held in 2010.

	For	Withheld
Robert Biehl	35,039,450	2,288,840
John Kang	33,347,778	3,980,512
Abdi Mahamedi	35,048,286	2,280,004
William Scott, Jr. Ph.D	35,564,174	1,764,116
Iraj Azarm	35,049,182	2,279,108

2. Approve amending the Company's Certificate of Incorporation to increase the number of authorized shares of the Company's common stock, par value \$0.01 per share to 300,000,000.

	For	Against	Abstain
Increase authorized shares of the Company's common stock	34,815,844	2,502,345	10,099

Table of Contents

3. Approve amending the Company's Certificate of Incorporation (the Charter Amendment) to provide for the establishment of a five-member Board of Directors, the election of Directors by a Class Vote and the voting of the Class A Preferred on an as-converted basis together with the Company's common stock as a single class.

	For	Against	Abstain
Establish five-member Board of Directors, the election by a class vote, and voting of Class A Preferred Stock on an as-converted basis together with the common stock as a single class	34,842,466	2,444,092	41,730

Item 5 Other Information

None.

Item 6 Exhibits

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

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

Table of Contents

SIGNATURES

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

LIQUIDMETAL TECHNOLOGIES, INC.
(Registrant)

Date: August 19, 2009

/s/ Larry Buffington
Larry Buffington
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 19, 2009

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