LIQUIDMETAL TECHNOLOGIES INC
Form S-1/A
July 20, 2006

As filed with the Securities and Exchange Commission on July 20, 2006

Registration No. 333-130251

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2 to

FORM S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

Liquidmetal Technologies, Inc.

25800 Commercentre Drive, Suite 100

Lake Forest, California 92630

(949) 206-8000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Ricardo A. Salas

President and Chief Executive Officer

Liquidmetal Technologies, Inc.

25800 Commercentre Drive, Suite 100

Lake Forest, California 92630

Phone: (949) 206-8000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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with a copy to:

Curt P. Creely

Foley & Lardner LLP

100 North Tampa Street, Suite 2700

Tampa, Florida 33602

Phone: (813) 229-2300/Fax: (813) 221-4210

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(5)	Amount of Registration Fee
Common Stock issuable upon conversion of 6% Senior Secured Notes Due July 2007	2,356,002 shares	$ 1.18(1)	$ 2,780,083	$ 298
Common Stock issuable upon conversion of 7% Senior Secured Convertible Notes Due August 2007	4,938,936 shares	$ 2.00(2)	$ 9,877,872	$ 1,057
Common Stock issuable upon exercise of warrants	3,943,039 shares	$ 2.00(3)	$ 7,886,078	$ 844
Common Stock issuable upon exercise of non-qualified stock options	376,345 shares	$ 1.18(1)	$ 444,088	$ 48
TOTAL	11,614,322 shares (4)		$ 20,988,121	$ 2,247(6)

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(1) The price is estimated, solely for the purpose of calculating the registration fee, in accordance with Rules 457(g) and 457(c) under the Securities Act, based on the average of the high and low prices of the Registrant s Common Stock as of December 6, 2005 on the OTC Bulletin Board.

(2) The price is estimated in accordance with Rule 457(g) under the Securities Act, solely for the purpose of calculating the registration fee and is $2.00, the conversion price of the 7% Senior Secured Convertible Notes Due August 2007.

(3) The price is estimated in accordance with Rule 457(g) under the Securities Act, solely for the purpose of calculating the registration fee and is $2.00, the exercise price of the warrants issued in June 2005 and August 2005.

(4) Pursuant to Rule 416 under the Securities Act, this registration statement also covers such number of additional shares of common stock to prevent dilution resulting from stock splits, stock dividends, or similar transactions.

(5) Estimated solely for calculating the registration fee pursuant to Rule 457(a).

(6) Previously paid.

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

PROSPECTUS

LIQUIDMETAL TECHNOLOGIES, INC.

11,614,322 Shares

Common Stock

This prospectus covers a total aggregate of up to 11,614,322 shares of our common stock, par value $.001 per share, that may be offered from time to time by the selling stockholders identified on pages 22-27 of this prospectus. The shares being offered by this prospectus consist of:

up to 2,356,002 shares issuable upon the conversion of principal and accrued but unpaid interest under our 6% Senior Secured Notes Due July 2007;

up to 4,938,936 shares issuable upon the conversion of principal and accrued but unpaid interest under our 7% Senior Secured Convertible Notes Due August 2007;

up to 3,943,039 shares issuable upon the exercise of common stock purchase warrants issued by us in connection with previous private placements; and

up to 376,345 shares issuable upon the exercise of a non-qualified stock option agreement granted to one individual.

This prospectus also covers such number of additional shares of common stock to prevent dilution resulting from stock splits, stock dividends, or similar transactions.

We are registering these shares of our common stock for resale by the selling stockholders named in this prospectus, or their transferees, pledgees, donees or successors. We will not receive any proceeds from the sale of these shares by the selling stockholders. These shares are being registered to permit the selling stockholders to sell shares from time to time in the public market, in amounts, at prices and on terms determined at the time of offering. The selling stockholders may sell this common stock through ordinary brokerage transactions, directly to market makers of our shares or through any other means described in the section entitled Plan of Distribution beginning on page 85.

Before purchasing any of the shares covered by this prospectus, carefully read and consider the risk factors in the section entitled Risk Factors beginning on page 7.

Our common stock is quoted on the OTC Bulletin Board under the symbol LQMT.OB. On July 13, 2006, the last reported sales price of our common stock was $1.90 per share.

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

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

The date of this prospectus is July 20, 2006.

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

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

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

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

PROSPECTUS SUMMARY

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

Liquidmetal Technologies, Inc.

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

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

Our Strategy

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

Identifying and developing new applications for our Liquidmetal alloy technology;

Focusing our marketing and internal manufacturing activities on select products with expected higher gross margins;

Further developing our manufacturing processes, capabilities, and efficiencies for bulk Liquidmetal alloy;

Pursuing strategic partnerships in order to more rapidly develop and commercialize products; and

Advancing and further developing the Liquidmetal® brand to increase awareness of our company and technology.

Applications for Liquidmetal Alloys

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

Components for electronic products. We produce components for electronic devices using our bulk Liquidmetal alloys and believe that our alloys offer enhanced performance and design benefits for these components in certain applications. Specifically, we currently produce internal hinge housings for certain Samsung cellular phone models and casings for certain SanDisk flash memory drives.

Sporting goods and leisure products. We are developing a variety of applications for Liquidmetal alloys in the sporting goods and leisure products area. In 2003, Rawlings Sporting Goods Company launched a new line of baseball and softball bats that utilize a Liquidmetal alloy coating, and HEAD NV Sport launched a new line of HEAD® Liquidmetal® tennis racquets that incorporates Liquidmetal alloy in composite form in their racquet design. In 2005, we also launched goods that utilize Liquidmetal alloy including skis. Other potential applications for our alloys in this industry include golf clubs, eyewear, fishing, hunting, and other sport products.

Medical devices. We are engaged in product development efforts relating to various medical devices that could be made from Liquidmetal alloys. We believe that the unique properties of bulk Liquidmetal alloys provide a combination of performance and cost benefits that could make them a desirable replacement to incumbent materials, such as stainless steel and titanium, currently used in various medical device applications.

Industrial coatings and powders. We continue to market and sell amorphous alloy industrial coatings and powders under the Liquidmetal® Armacor™ coatings brand name. Liquidmetal alloy coatings are used primarily as a protective coating for industrial machinery and equipment.

Defense applications. We are working with the U.S. Department of Defense, as well as a variety of defense-related research and development agencies and large defense contractors, to develop various defense-related applications for Liquidmetal alloys. For example, we are currently developing prototype kinetic energy penetrator rods for use in armor-piercing ammunition systems.

Risk Factors / Going Concern

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

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2005 and 2004 was $7.1 million and $14.9 million, respectively, and $6.0 million and $3.3 million for the three months ended March 31, 2006 and 2005, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2005 and 2004, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. Accordingly, we anticipate that we will need additional funding during the next 12 months, and we plan to seek to raise such funds through public or private equity financing, bank debt financing, or from other sources. Specifically, we anticipate that we could need $1 million to $5 million over the next twelve months to pursue our current operating plan, although this amount may be lower depending on the orders we receive for our products. The amount of funding that we plan to seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products, particularly components for cellular phones and flash memory drive casings, and our ability to continue to improve our manufacturing processes. However, adequate funds may not be available when needed, and if we raise additional funds by issuing equity securities, existing stockholders may be diluted. If we don t receive sufficient funding to operate under our current plan, we intend to reduce operations and expenses and shift our focus to the pursuit of licensing transactions and other strategic transactions that are less capital intensive.

Corporate Information

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

The Offering

Common stock offered	Up to 11,614,322 shares are being offered by the selling stockholders. Of these shares: up to 2,356,002 shares are issuable to various selling stockholders upon the conversion of principal and accrued but unpaid interest under our 6% Senior Secured Notes Due July 2007 (the July 2007 Notes), which notes were issued by us to such selling stockholders on July 29, 2004; up to 4,938,936 shares are issuable to various selling stockholders upon the conversion of principal and accrued but unpaid interest under our 7% Senior Secured Convertible Notes Due August 2007 (the August 2007 Notes), which notes were issued by us to such selling stockholders on August 2, 2005; up to 165,324 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on March 1, 2004 and having an adjusted exercise price of $2.72 per share; up to 893,750 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on June 13, 2005 and having an exercise price of $2.00 per share; up to 2,883,965 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on August 2, 2005 and having an exercise price of $2.00 per share; and up to 376,345 shares are issuable to one individual upon the exercise of an outstanding non-qualified stock option agreement issued by us on January 1, 2001 and having an exercise price of $1.16 per share.
Shares outstanding after the offering	55,699,340 shares
Use of proceeds	We will not receive any proceeds from the sale of the shares offered by the selling stockholders. Any proceeds we receive from the selling stockholders upon their exercise of the warrants or option to purchase the shares included in the shares that are being offered by them hereunder will be used for general working capital.
Risk factors	See RISK FACTORS and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the shares.
OTC Bulletin Board symbol	LQMT.OB

The number of shares of common stock that will be outstanding immediately after this offering is based on 44,085,018 shares outstanding as of July 3, 2006 and assumes the full conversion of the convertible promissory notes and the full exercise of the warrants and option identified above. There is no guarantee that all or any of such notes, warrants, or option will be converted or exercised. The number of shares of common stock to be outstanding after this offering does not include 8,483,223 shares issuable pursuant to common stock options outstanding as of July 3, 2006 under our equity incentive plans, of which options to purchase 6,238,040 shares were exercisable as of such date at a weighted-average exercise price of $4.94 per share, and 7,995,550 additional shares of common stock reserved for future grants under our equity compensation

plans.

The convertible notes identified above are convertible into such number of shares of our common stock as is determined by dividing the outstanding principal balance of such notes plus any accrued but unpaid interest by the conversion price then in effect. As of July 3, 2006, approximately $2.3 million in aggregate principal amount of July 2007 Notes were outstanding at a conversion price of $1.00 per share, and approximately $9.9 million in aggregate principal amount of August 2007 Notes were outstanding at a conversion price of $2.00 per share. The warrants and option identified above are exercisable at the price per share indicated above. However, the above-described notes and warrants contain anti-dilution provisions that may result in a reduction of these conversion and exercise prices if we issue shares in the future for consideration below the existing conversion or exercise prices. Such anti-dilution provisions may cause a decrease in the voting power and value of your investment in our shares. See DESCRIPTION OF CAPITAL STOCK Anti-Dilution Provisions in Notes and Warrants.

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

Summary Consolidated Financial Data

The following summary consolidated financial data as of and for our years ended December 31, 2005, 2004, 2003, 2002 and 2001 have been derived from our audited consolidated financial statements. The following summary consolidated financial data as of and for the three months ended March 31, 2006 and 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Such unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2006. In the opinion of management, all adjustments (consisting of only of normal recurring accruals) considered necessary for a fair presentation have been included. The following information should be read together with MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of future results. The summary consolidated financial data should be read in conjunction with restatement footnote 2 in the notes to the fiscal year 2005 consolidated financial statements included in the INDEX TO THE FINANCIAL STATEMENTS of this prospectus and in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

	Three Months Ended March 31,		Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(Restated) (Unaudited)		(Restated)	(Restated)		(Restated)	(Restated)
	(In thousands, except per share data)						
Consolidated Statements Of Operation Data:							
Revenue	$ 6,555	$ 2,843	$ 16,365	$ 17,429	$ 13,658	$ 9,138	$ 3,882
Cost of sales	5,324	2,835	15,129	12,168	18,162	5,656	1,924
Gross profit	1,231	8	1,236	5,261	(4,504)	3,482	1,958
Operating expenses:							
Selling, general, and administrative expenses	2,705	2,590	8,534	11,591	17,729	13,099	5,239
Research and development expenses	203	397	1,120	1,467	8,780	11,825	1,726
Impairment of Goodwill					184		
Impairment of long lived assets			4,487		2,684		
Total operating expenses	2,908	2,987	14,141	13,058	29,377	24,924	6,965
Loss before interest, other income, income taxes, minority interest and discontinued operations	(1,677)	(2,979)	(12,905)	(7,797)	(33,881)	(21,442)	(5,007)
Loss from extinguishments of debt			(1,247)	(2,941)			
Change in value of warrants, (loss) gain	(1,289)	133	3,985	747			
Change in value of conversion feature, (loss) gain	(1,783)	1,115	9,118	2,093			
Other income	480			302			
Interest expense	(1,782)	(1,537)	(6,021)	(6,577)	(390)	(1,109)	(1,103)
Interest income	2	6	17	37	304	506	8
Gain on sale of marketable securities held for sale					1,178	832	
Loss before minority interest and discontinued operations	(6,049)	(3,262)	(7,053)	(14,136)	(32,789)	(21,213)	(6,102)
Minority interest in loss of consolidated subsidiary					21	118	
Loss from continuing operations	(6,049)	(3,262)	(7,053)	(14,136)	(32,768)	(21,095)	(6,102)
Discontinued Operations:							
Income (loss) from discontinued operations, net				(749)	(964)	83	(5,973)
Gain (loss) from disposal of discontinued operations, net					127	1,556	(11,949)
Net loss	$ (6,049)	$ (3,262)	$ (7,053)	$ (14,885)	$ (33,605)	$ (19,456)	$ (24,024)
Loss per share from continuing operations	$ (0.14)	$ (0.08)	$ (0.17)	$ (0.34)	$ (0.79)	$ (0.54)	$ (0.18)
Gain (Loss) per share from discontinued operations	$	$	$	$ (0.02)	$ (0.02)	$ 0.04	$ (0.54)
Net loss per share	$ (0.14)	$ (0.08)	$ (0.17)	$ (0.36)	$ (0.81)	$ (0.50)	$ (0.72)
Weighted average shares - basic and diluted	42,817	41,610	41,833	41,610	41,505	38,714	33,323

As of March 31, 2006
(Restated)

		(Unaudited) (In thousands)
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$	1,263
Working deficit		(11,986)
Total assets		22,336
Long-term obligations, including current portion, net of discount of $7,004		7,750
Stockholders deficit		(3,494)

RISK FACTORS

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

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

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2005, 2004, and 2003 was $7.1 million, $14.9 million and $33.6 million, respectively, and our net loss for the three months ended March 31, 2006 and 2005 was $6.0 million and $3.3 million, respectively. We had an accumulated deficit of approximately $140.6 million at March 31, 2006. Of this accumulated deficit, $44.5 million was attributable to losses generated by our discontinued equipment manufacturing and retail golf businesses through March 31, 2006. We anticipate that we may continue to incur operating losses for the foreseeable future. Consequently, it is possible that we may never achieve positive earnings and, if we do achieve positive earnings, we may not be able to achieve them on a sustainable basis.

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

Our future capital requirements will depend on the amount of cash generated by our operations. Our projections of cash flows from operations and, consequently, future cash needs are subject to substantial uncertainty. In addition, in our audit report on our financial statements for our fiscal years ended December 31, 2005 and 2004, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. Accordingly, we anticipate that we will need additional funding during the next 12 months, and we plan to seek to raise such funds through public or private equity financing, bank debt financing, or from other sources. Specifically, we anticipate that we could need $1 million to $5 million over the next twelve months to pursue our current operating plan, although this amount may be lower depending on the orders we receive for our products. The amount of funding that we plan to seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products, particularly components for cellular phones and flash memory drive casings, and our ability to continue to improve our manufacturing processes. However, adequate funds may not be available when needed, and if we raise additional funds by issuing equity securities, existing stockholders may be diluted. In addition, if shares of our common stock or securities convertible into or exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than the conversion and exercise prices of our currently outstanding convertible notes and warrants, then anti-dilution provisions in such convertible notes and warrants would be triggered, thus possibly causing even greater dilution to our then-existing stockholders if the notes are converted or the warrants are exercised. See RISK FACTORS Our convertible notes and warrants contain anti-dilution provisions that, if triggered, could cause substantial dilution to our then-existing stockholders.

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

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

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

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

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

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

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

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

- identify a potential customer and introduce the customer to Liquidmetal alloys;
- work with the customer to select and design the parts to be fabricated from Liquidmetal alloys;
- make the molds and tooling to be used to produce the selected part;
- make prototypes and samples for customer testing;
- work with our customers to test and analyze prototypes and samples; and

with respect to some types of products, such as medical devices, to obtain regulatory approval.

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

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

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

can take a significant amount of time, with an additional period of time before a customer commences volume production of products incorporating our components and products, if ever. Moreover, because of this lengthy development cycle, we may experience a delay between the time we accrue expenses for research and development and sales and marketing efforts and the time when we generate revenue, if any. We may incur substantial costs in an attempt to transition a customer from initial testing to prototype and from prototype to final product. If we are unable to minimize these transition costs, or to recover the costs of these transitions from our customers, our operating results will be adversely affected.

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

For the near future, we expect that a significant portion of our revenue will be concentrated in a limited number of customers. For example, for the three moths ended March 31, 2006, revenues from one customer Samsung, represented approximately 13% of total revenues from operations, and for the year ended December 31, 2005, revenues from one customer, Samsung, represented approximately 10% of total revenue from continuing operations, and for the year ended December 31, 2004, revenue from two customers represented approximately 62% of total revenue from continuing operations, and for the year ended December 31, 2003, revenue from two customers represented approximately 26% of total revenue from continuing operations. Revenues from direct suppliers to Samsung represented approximately 14% and 62% of total revenues from continuing operations for the year ended December 31, 2005 and 2004, respectively. Revenues from direct suppliers to Samsung for the three months ended March 31, 2006 was less than 10% of total revenues. Also, revenues from defense related contracts with the United States of America represented 10%, and Growell Metal represented 12%, of revenue from continuing operations for the year ended 2004. A reduction, delay, or cancellation of orders from one or more of these customers or the loss of one or more customer relationships could significantly reduce our revenue. Unless we establish long-term sales arrangements with these customers, they will have the ability to reduce or discontinue their purchases of our products on short notice.

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

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

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

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

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

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

In addition, in each of our targeted markets, our success will depend in part on the ability of our customers to compete successfully in their respective markets. Thus, even if we are successful in replacing an incumbent material in a finished product, we will remain subject to the risk that our customer will not compete successfully in its own market.

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

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

Future advances in materials science could render Liquidmetal alloys obsolete.

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

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

Our business is based upon the commercialization of a new and unique materials technology. Our future growth and success will depend in part on our ability to retain key members of our management and scientific staff, who are familiar with this technology and the potential applications and markets for it. For example, as a result of their experience and knowledge of our alloy technology, we believe that our future growth and success will depend in large part on the efforts of John Kang, our Chairman of the board of directors, and Dr. Atakan Peker, our Vice President of Technology. We do not have key man or similar insurance on any of these individuals. If we lose their services or the services of other key personnel, our financial results or business prospects may be harmed. Additionally, our future growth and success will depend in part on our ability to attract, train, and retain scientific engineering, manufacturing, sales, marketing, and management personnel. We cannot be certain that we will be able to attract and retain the personnel necessary to manage our operations effectively. Competition for experienced executives and scientists from numerous companies and academic and other research institutions may limit our ability to hire or retain personnel on acceptable terms. In addition, many of the companies with which we compete for experienced personnel have greater financial and other resources than we do. Moreover, the employment of non-citizens may be restricted by applicable immigration laws.

On December 15, 2005, an indictment naming as defendants ten former officers and directors of Medical Manager Corporation, including our Chairman, John Kang, was filed in the United States District Court for the District of South Carolina (Beaufort Division). Medical Manager Corporation was a publicly traded company in which Mr. Kang was formerly the President and Chief Executive Officer. Mr. Kang was charged in counts for conspiracy to commit securities fraud, conspiracy to commit mail fraud and conspiracy to launder money instruments relating to a series of acquisitions that were made by Medical Manager during the years 1996 through 2003, the accounting practices of Medical Manager during that time frame, and the filing of various financial statements during that time frame. Although the indictment is unrelated to Mr. Kang s service as a director and officer of our company, Mr. Kang resigned as our President and Chief Executive Officer on December 30, 2005;

however, he continues to serve as Chairman of the Board of our company and continues to work for the company on a full-time basis. Mr. Kang has pled not guilty to the indictment and plans to contest the charges vigorously. At this time, however, we cannot estimate the potential impact on our company, if any, that might result from these charges.

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

As a part of our business strategy, we intend to pursue strategic partnering transactions that provide access to new technologies, products, markets, and manufacturing capabilities. These transactions could include licensing

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

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

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

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

We expect that we will continue to manufacture a substantial portion of our initial bulk Liquidmetal alloy products in our South Korean facility and derive a material portion of our revenues from customers in South Korea. For our fiscal years ended December 31, 2005, 2004, and 2003, approximately 31%, 54%, and 34% of our revenues came from customers located in South Korea, respectively. For the three months ended March 31, 2006 and 2005, approximately 47% and 33% of our revenues came from customers located in South Korea, respectively. As a result, our manufacturing operations and financial results are subject to risks of political instability, including the risk of conflict between North Korea and South Korea and tensions between the United States and North Korea. In addition, we anticipate that the trend of foreign customers accounting for a significant portion of our total revenues may continue. Specifically, we expect to continue to derive a significant amount of revenue from sales to customers located in Asia. A downturn in the economies of Asian countries where our products will be sold, particularly South Korea s economy, could materially harm our business.

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

staffing and managing our manufacturing facility located in South Korea and post-processing facility located in China;

product or material transportation delays or disruption, including the availability and costs of air and other transportation between our South Korean and Chinese facilities and the United States;

political and economic instability, including instability involving China and North Korea that may disrupt our operations in China and South Korea;

potentially adverse tax consequences, which may reduce the profitability of products manufactured overseas or sold to overseas customers;

burden of complying with complex foreign laws and treaties, which could limit our ability to conduct our business as contemplated in South Korea and China; and

trade protection laws, policies, and measures and other regulatory requirements affecting trade and investment that could adversely affect the profitability of our South Korean and Chinese Operations, including loss or modification of exemptions for taxes and tariffs.

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

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

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

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

We expect to conduct business in various foreign currencies and will be exposed to market risk from changes in foreign currency exchange rates and interest rates. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on our business, results of operations, and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on our operations cannot be accurately predicted. To the extent that the percentage of our non-U.S. dollar revenue derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates will increase further. Moreover, as a result of operating a manufacturing facility in South Korea, a substantial portion of our costs are and will continue to be denominated in the South Korean won. Adverse changes in the exchange rates of the South Korean won to the U.S. dollar will affect our costs of goods sold and operating margins and could result in exchange losses. The average foreign exchange rates for the years ended December 31, 2005, 2004, and 2003 were 1,028, 1,151, and 1,195 South Korean Won to the U.S. dollar, respectively. The average foreign exchange rates for the three months ended March 31, 2006 and 2005 were 993 and 1,027 South Korean Won to the U.S. dollar, respectively. The fluctuations in the exchange rates resulted in foreign currency translation gains of $0.3 million, $1.7 million, and $0.2 million for the years ended December 31, 2005, 2004, and 2003, respectively, and $0.1 million and $0.3 million for the three months ended March 31, 2006 and 2005, respectively.

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

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

protect and enforce our license agreement with Caltech and our own patents and intellectual property;

exploit our license of the patented technology under our license agreement with Caltech as well as our own patents; and

operate our business without infringing on the intellectual property rights of third parties.

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

rights to the same extent as the laws of the United States, and we may encounter significant problems and costs in protecting our proprietary rights in these foreign countries.

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

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

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

stop or delay using our technology;

stop or delay our customers from selling, manufacturing or using products that incorporate the challenged intellectual property;

pay damages; or

enter into licensing or royalty agreements that may be unavailable on acceptable terms.

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

As of March 31, 2006, our long-term debt was $14.8 million, including the current portion of such debt. Our long-term debt (including the current portion) includes the following:

$2.6 million in principal outstanding under our Korean subsidiary s loan from Kookmin Bank of South Korea;

$2.3 million in principal outstanding under convertible notes issued in our August 19, 2004 private exchange; and

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

Under our loan from Kookmin Bank, we are obligated to make equal monthly payments of principal and interest of $0.11 million each through the period ending in September 2007. Under our 6% Senior Secured Notes due July 2007 and 7% Senior Secured Notes due August 2007, we are required to make cash interest payments to the noteholders of $0.22 million per quarter until such notes are converted or paid. Unless such notes are converted, the $2.3 million in aggregate principal amount under our 6% Senior Secured Notes due July 2007 will become due in July 2007, provided that the holders of such notes may demand payment thereunder in July 2006. The $9.9 million in aggregate principal amount under our 7% Senior Secured Notes due August 2007 will become due in August 2007.

As of March 31, 2006, our short-term debt was $2.3 million. Our short-term debt includes the following:

$1.3 million in outstanding advances received under a factoring, loan, and security agreement executed in April 2005 with a financing company; and

$1.0 million in principal outstanding under unsecured subordinated promissory notes issued in a March 17, 2006 private placement.

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

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

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

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

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

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

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

As of July 3, 2006, we had approximately $12.2 million in principal amount of convertible notes outstanding. Approximately $2.3 million in principal amount of convertible notes will become due in July 2007, with the balance becoming due in August 2007. Interest on our convertible notes is payable quarterly in cash. These notes are secured by substantially all of the assets of our company. We will be deemed to be in default under these notes if we fail to pay any principal or interest when it becomes due, and we will also be deemed to be in default if we breach any other material provision of our other agreements with the noteholders and we fail to cure such breach within thirty days of notice of default. Upon a default under these notes, the noteholders have the right to accelerate the maturity date of the notes and demand that they be immediately repaid by us. If we fail to pay such notes, either at maturity or upon acceleration, then the noteholders may elect to foreclose upon the assets securing the notes.

On May 12, 2006, we received a letter from one holder holding $0.5 million of the August 2007 Notes demanding immediate payment of late filing fees and late registration fees for the period following October 31, 2005 through May 3, 2006. As a result of the late fee provisions of the restated registration rights agreement, we are obligated to pay late filing and late registration fees accrued through July 3, 2006 of up to $1.4 million to all of the noteholders. In addition, the letter purported to constitute a notice of default under the August 2007 Notes and July 2007 Notes (Notes) as a result of our failure to pay the late filing and late registration fees. Under the terms of Notes, if a default is not cured by us within thirty (30) days of notice thereof, the holder has the right to accelerate all principal and interest due under the Notes. As of July 3, 2006, $9.9 million in aggregate principal amount of August 2007 Notes was still outstanding with accrued but unpaid interest in the amount of approximately $175 thousand. In addition, $2.3 million in aggregate principal amount of July 2007 Notes was also outstanding with accrued but unpaid interest in the amount of approximately $35 thousand. As of July 14, 2006, we have not paid any amounts under the demand letter and we are currently in negotiations with the holder regarding the matters set forth in the letter with the goal of preventing any acceleration of amounts due under the Notes.

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

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

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

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

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

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

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

the OTC Bulletin Board.

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

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

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

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

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

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

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

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

In addition to the foregoing, after a review of our operating results for the fiscal year ended December 31, 2004 and for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005, and pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), our Chief Executive Officer and our Chief Financial Officer have determined that, as of each such date, our disclosure controls and procedures were not effective to provide reasonable assurance that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Management s conclusion regarding our effectiveness of our disclosure control procedures as of December 31, 2004 was based on the above described material weaknesses. Management s conclusion regarding our effectiveness of our disclosure control procedures as of December 31, 2005 was based on the Company s determination that it had previously failed to properly account for the senior convertible notes issued by the Company. In particular, the Company had previously failed to identify and properly account for the derivative feature of such convertible notes in accordance with applicable accounting standards.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. We have in the past discovered, as described above, and

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

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

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

We previously determined that our consolidated financial statements for the years ended December 31, 2003 and 2002, as described in more detail in Note 2 to our consolidated financial statements included in the form 10-K for

the year ended December 31, 2003, filed on November 10, 2004, should be restated. As a result of this restatement, we have become subject to a number of additional risks and uncertainties, including the following.

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

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

The restatement resulted in a series of stockholder class action and derivative lawsuits against us (although we have reached agreements in principal for the settlement of these transactions).

We have received a demand for the payment of late fees under a registration rights agreement with our noteholders.

On May 12, 2006, we received a letter from one holder holding $0.5 million of the August 2007 Notes demanding immediate payment of late filing fees and late registration fees for the period following October 31, 2005 through May 3, 2006. As a result of the late fee provisions of the amended and restated registration rights agreement between us and our noteholders, we may be obligated to pay late filing and late registration fees accrued through July 3, 2006 of up to $1.4 million to all of the noteholders. In addition, the May 12 letter purported to constitute a notice of default under the August 2007 Notes and July 2007 Notes as a result of our failure to pay the late filing and late registration fees. Under the terms of such notes, if a default is not cured by us within thirty (30) days of notice thereof, the holder has the right to accelerate all principal and interest due under the notes. As of July 3, 2006, $9.9 million in aggregate principal amount of August 2007 Notes was still outstanding with accrued but unpaid interest in the amount of approximately $175 thousand. In addition, $2.3 million in aggregate principal amount of July 2007 Notes was also outstanding with accrued but unpaid interest in the amount of approximately $35 thousand. As of July 14, 2006, we have not paid any amounts under the demand letter and we are currently in negotiations with the holder regarding the matters set forth in the May 12 letter with the goal of preventing any acceleration of amounts due under the notes. However, we cannot predict the outcome of the negotiations, and the resolution of this issue may harm our business and have a material adverse impact on our financial condition.

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

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

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

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

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

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

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

To the extent that our products have the potential for dual use, such as military and non-military applications, they may be subject to import and export restrictions of the U.S. government, as well as other countries. The

process of obtaining any required U.S. or foreign licenses or approvals could be time-consuming, costly, and uncertain. Failure to comply with import and export regulatory requirements can lead to substantial fines, civil and criminal penalties, and the loss of government contracting and export privileges.

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

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

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

During the first six months in 2006, the highest bid price for our common stock was $2.34 per share, while the lowest bid price during that period was $0.87 per share. The trading price of our common stock could continue to fluctuate widely due to:

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

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

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

As of July 3, 2006, we had outstanding approximately $2.3 million in aggregate principal amount of July 2007 Notes with a conversion price of $1.00 per share and $9.9 million in aggregate principal amount of August 2007 Notes with a conversion price of $2.00 per share. We also had outstanding warrants to purchase 3,777,715 shares at an exercise price of $2.00 per share and 165,324 shares at an adjusted exercise price of $2.72 per share issued to holders of the convertible notes. Additionally, we had outstanding warrants to purchase 125,000 shares at an exercise price of $2.00 per share issued to holders of our 10% unsecured subordinated promissory notes in March 2006 and 773,741 shares at an exercise price of $2.58 per share issued to holders of our 8% unsecured subordinated notes in May 2006. Each of these notes and warrants contain weighted-average anti-dilution provisions whereby, if we issue shares in the future for consideration below such conversion or exercise prices, then (with certain exceptions, including the issuance of stock options) the conversion price for our convertible notes would automatically be reduced (allowing the holders of the notes to receive additional shares of common stock upon conversion) and the exercise price of the warrants would automatically be

reduced. If our available funds and cash generated from operations are insufficient to satisfy our liquidity requirements in the future, then we may need to raise substantial additional funds in the future to support our working capital requirements and for other purposes. If shares of our common stock or securities convertible into or exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than the conversion and exercise prices of our convertible notes and warrants, then these anti-dilution provisions would be triggered, thus possibly causing substantial dilution to our then-existing stockholders if the notes are converted or the warrants are exercised. Further, subsequent sales of the shares in the public market could depress the market price of our stock by creating an excess in supply of shares for sale. To illustrate the potential impact of these anti-dilution provisions, the degree of which would be determined by the amount of future funding as well as its conversion price, if we were to raise funds of $1.0 million by issuing convertible notes with a conversion price of $1.50, we estimate that our current noteholders could potentially receive approximately 1.0 million additional shares upon the conversion or exercise of their notes and warrants held as of July 3, 2006. Further, if we were to raise funds of $5.0 million of convertible debt with a conversion price of $1.00, we estimate that our current noteholders could potentially receive approximately 1.4 million shares upon the conversion or exercise of their notes and warrants held as of July 3, 2006.

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

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

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

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

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

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

provide for a classified board of directors; and

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

SELLING STOCKHOLDERS

On behalf of the selling stockholders named in the table below (including their donees, pledgees, transferees or other successors-in-interest who receive any of the shares covered by this prospectus), we are registering, pursuant to the registration statement of which this prospectus is a part, all 11,614,322 shares of our common stock which will become issuable upon:

the conversion of 6% Senior Secured Notes Due July 2007 (the July 2007 Notes), which notes were issued by us to such selling stockholders on July 29, 2004;

the conversion of 7% Senior Secured Convertible Notes Due August 2007 (the August 2007 Notes), which notes were issued by us to such selling stockholders on August 2, 2005;

the exercise of outstanding common stock purchase warrants issued by us on March 1, 2004 and having an adjusted exercise price of $2.72 per share;

the exercise of outstanding common stock purchase warrants issued by us on June 13, 2005 and having an exercise price of $2.00 per share;

the exercise of outstanding common stock purchase warrants issued by us on August 2, 2005 and having an exercise price of $2.00 per share; and

the exercise of an outstanding non-qualified stock option issued by us to one individual, Paul Azinger, on January 1, 2001 and having an exercise price of $1.16 per share.

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

The table below lists the selling stockholders and information regarding their ownership of common stock as of July 3, 2006:

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
			NUMBER	PERCENTAGE(4)

Jess S. Morgan & Co., Inc. (7)	2,832,535(1)	2,261,960	570,575	1%
Prana, LLC. (8)	211,000(1)	211,000	0	*
Rodd Friedman	212,156(1)	212,156	0	*
Bear Stearns f/b/o Rosen Capital LP M/P/P Plan and Bruce Rosen TTEE(6)(9)	49,500(1)	49,500	0	*
Caydal, LLC(10)	93,000(1)	50,000	43,000	*
Marlin Fund, LP (11)	290,251(1)	290,251	0	*

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
			NUMBER	PERCENTAGE(4)
Marlin Fund II, LP(11)	54,000(1)	54,000	0	*
Marlin Fund Offshore, Ltd. c/o Hemisphere Management (B.V.I.) Limited(12)	330,751(1)	330,751	0	*
Larry Bouts	25,000(1)	25,000	0	*
Really Cool Group Ltd.(13)	135,000(1)	100,000	35,000	*
Myron Neugeboren	90,000(1)	42,000	48,000	*
Jonas Brachfeld	12,000(1)	12,000	0	*
Greg Osborn(6)	91,008(1)	91,008	0	*
Richard Molinsky	30,000(1)	30,000	0	*
Richard and Joanne Kane	20,000(1)	20,000	0	*
Ricardo Salas	1,200,978(1)	263,876	937,102	2%
Wry Ltd.(14)	30,000(1)	30,000	0	*
Keith Barksdale(6)	104,113(1)	104,113	0	*
CK Cho	712,853(1)	527,751	185,102	*
Eric Brachfeld(6)	85,808(1)	85,808	0	*
Edward Neugeboren(6)(15)	106,634(1)	100,834	5,800	*
Dolphin Direct Equity Partners, L.P.(16)	62,500(1)	62,500	0	*
Dolphin Offshore Partners, L.P.(16)	375,000(1)	375,000	0	*
Harvard Developments Inc.(17)	481,826(1)	481,826	0	*
Echo Capital Growth Corporation(18)	300,000(1)	300,000	0	*
Terrence L. Mealy	265,913(1)	265,913	0	*
Shinnston Enterprises Ltd.(19)	100,000(1)	100,000	0	*
Shea Diversified Investments, Inc.(20)	1,125,000(1)	1,125,000	0	*
Commonwealth Associates, L.P.(5)(21)	150,000(1)	150,000	0	*
Neal I. Goldman	225,000(1)	225,000	0	*
LBJ Holdings, LLC(22)	112,500(1)	112,500	0	*

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
			NUMBER	PERCENTAGE(4)
John Stout(23)	466,142(1)	75,000	391,142	*
MicroCapital Fund Ltd.(24)	375,000(1)	375,000	0	*
MicroCapital Fund L.P.(24)	750,000(1)	750,000	0	*
Journeys End Partners, LLC(25)	225,000(1)	225,000	0	*
Wynnefield Partners Small Cap Value LP(26)	537,330(1)	315,000	222,330	*
Wynnefield Partners Small Cap Value LP I(26)	727,420(1)	412,500	314,920	*
Wynnefield Small Cap Value Offshore Fund, Ltd.(26)	709,420(1)	397,500	311,920	*
Min Capital Corp Retirement Trust(27)	112,500(1)	112,500	0	*
Indigo Securities, LLC(5)(28)	34,500(1)	34,500	0	*
Michael Falk	100,694	100,694	0	*
Robert O Sullivan(6)	100,694	100,694	0	*
Shea Ventures, LLC(29)	31,826	31,826	0	*
Ed Shea	4,551	4,551	0	*
Billy Walters	16,136	16,136	0	*
Amos Investments, LLC(30)	15,913	15,913	0	*
Keith Rosenbloom	7,468	7,468	0	*
Carl Kleidman	22,468	22,468	0	*
Joseph Pallotta	16,019	16,019	0	*
Inder Tallur	2,886	2,886	0	*
Daniel Parker Living Trust(31)	1,994	1,994	0	*
Douglas Levine	976	976	0	*
Greg Manocherian	106	106	0	*
Jeffrey Frank	46,125	46,125	0	*
Valiant Enterprises, LLC(32)	36,900	36,900	0	*
Bonnie Giusto	1,500	1,500	0	*

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SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(3)	SHARES OWNED AFTER OFFERING(3)	
			NUMBER	PERCENTAGE(4)
Scott Lee	2,500	2,500	0	*
Tom Hodges	250	250	0	*
Vicki Johannes	1,000	1,000	0	*
Cecilio Rodriguez	3,500	3,500	0	*
Philip E. McMorrow IRA (33)	21,362	18,862	2,500	*
John P. McMorrow IRA (34)	18,862	18,862	0	*
Paul Azinger	376,345(2)	376,345	0	*

* Less than 1.0%.

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

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

(3) Assumes that the stockholders dispose of all the shares of common stock covered by this prospectus and do not acquire or dispose of any additional shares of common stock. The selling stockholders are not representing, however, that any of the shares covered by this prospectus will be offered for sale, and the selling stockholders reserve the right to accept or reject, in whole or in part, any proposed sale of shares. On August 2, 2005, we entered into an amended and restated registration rights agreement with the selling stockholders listed above (other than Mr. Azinger). See the section of this prospectus entitled DESCRIPTION OF CAPITAL STOCK Registration Rights . Under the amended and restated registration rights agreement, we are required to file a resale registration statement for the shares underlying all of our outstanding convertible notes and warrants to enable the resale of such shares by the selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act.

(4) The percentage of common stock beneficially owned is based on 44,085,018 shares of common stock outstanding on July 3, 2006.

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

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

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

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

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

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

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

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

(13) **Includes 35,000 shares held in a trust for which Really Cool Group Ltd. has voting and investment power. Really Cool Group Ltd. disclaims beneficial ownership of these shares. Mr. Jonathan Segal, director of Really Cool Group Ltd., exercises sole voting and investment power over such shares.**

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

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

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

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

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

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

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

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

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

(22) Voting and investment power over the shares is held by: Brian Potiker (Vice President of HSP

Group, Inc. (Sheila Potiker, owner of 100% of the stock of HSP Group, Inc.).

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

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

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

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

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

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

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

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

(30) Mr. James K. Murray, Jr., Managing Member of Amos Investments, LLC, exercises sole voting

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

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

(33) **Philip E. McMorrow exercises sole voting and investment power over such shares.**

(34) **John P. McMorrow exercises sole voting and investment power over such shares.**

USE OF PROCEEDS

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

DIVIDEND POLICY

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

MARKET FOR AND PRICE RANGE OF THE COMMON STOCK

Our common stock is currently quoted on the Nasdaq OTC Bulletin Board under the symbol LQMT.OB. From the period July 16, 2004 through June 14, 2005, we were delisted from the Nasdaq Stock Market and our common stock was quoted on the pink sheets . We were admitted for quotation on the Nasdaq s OTC Bulletin Board on June 15, 2005. On July 13, 2006, the last reported sales price of our common stock was $1.90 per share. As of July 13, 2006, we had 257 record holders of our common stock.

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

2006		**High**		**Low**
Second Quarter	$	2.34	$	1.31
First Quarter	$	1.75	$	0.87

2005		**High**		**Low**
Fourth Quarter	$	1.76	$	0.64
Third Quarter	$	2.15	$	1.52
Second Quarter	$	2.25	$	1.28
First Quarter	$	2.85	$	1.10

2004		**High**		**Low**
Fourth Quarter	$	4.00	$	1.75
Third Quarter	$	2.33	$	0.71
Second Quarter	$	3.68	$	0.55
First Quarter	$	4.52	$	2.50

SELECTED FINANCIAL DATA

The following table shows our selected consolidated financial data as of and for the years ended December 31, 2001 through 2005. The selected consolidated financial data as of and for the years ended December 31, 2003 2004, and 2005 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data as of and for the three months ended March 31, 2006 and 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Such unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2006. In the opinion of management, all adjustments (consisting of only of normal recurring accruals) considered necessary for a fair presentation have been included. The following information should be read with MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus.

These statements should be read in conjunction with restatement footnote 2 in the notes to the fiscal year 2005 consolidated financial statements included in the INDEX TO THE FINANCIAL STATEMENTS of this prospectus and in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

	Three Months Ended March 31,		Years Ended December 31,				
	2006	2005 (Restated) (Unaudited)	2005 (Restated)	2004 (Restated)	2003	2002 (Restated)	2001 (Restated)
	(In thousands, except per share data)						
Consolidated Statements Of Operation Data:							
Revenue .	$ 6,555	$ 2,843	$ 16,365	$ 17,429	$ 13,658	$ 9,138	$ 3,882
Cost of sales	5,324	2,835	15,129	12,168	18,162	5,656	1,924
Gross profit	1,231	8	1,236	5,261	(4,504)	3,482	1,958
Operating expenses:							
Selling, general, and administrative expenses	2,705	2,590	8,534	11,591	17,729	13,099	5,239
Research and development expenses	203	397	1,120	1,467	8,780	11,825	1,726
Impairment of Goodwill					184		
Impairment of long lived assets			4,487		2,684		
Total operating expenses	2,908	2,987	14,141	13,058	29,377	24,924	6,965
Loss before interest, other income, income taxes, minority interest and discontinued operations	(1,677)	(2,979)	(12,905)	(7,797)	(33,881)	(21,442)	(5,007)
Loss from extinguishments of debt			(1,247)	(2,941)			
Change in value of warrants, (loss) gain	(1,289)	133	3,985	747			
Change in value of conversion feature, (loss) gain	(1,783)	1,115	9,118	2,093			
Other income	480			302			
Interest expense	(1,782)	(1,537)	(6,021)	(6,577)	(390)	(1,109)	(1,103)
Interest income	2	6	17	37	304	506	8
Gain on sale of marketable securities held for sale					1,178	832	
Loss before minority interest and discontinued operations	(6,049)	(3,262)	(7,053)	(14,136)	(32,789)	(21,213)	(6,102)
Minority interest in loss of consolidated subsidiary					21	118	
Loss from continuing operations	(6,049)	(3,262)	(7,053)	(14,136)	(32,768)	(21,095)	(6,102)
Discontinued Operations:							
Income (loss) from discontinued operations, net				(749)	(964)	83	(5,973)
Gain (loss) from disposal of discontinued operations, net					127	1,556	(11,949)
Net loss	$ (6,049)	$ (3,262)	$ (7,053)	$ (14,885)	$ (33,605)	$ (19,456)	$ (24,024)
Loss per share from continuing operations	$ (0.14)	$ (0.08)	$ (0.17)	$ (0.34)	$ (0.79)	$ (0.54)	$ (0.18)
Gain (Loss) per share from discontinued operations	$	$	$	$ (0.02)	$ (0.02)	$ 0.04	$ (0.54)
Net loss per share	$ (0.14)	$ (0.08)	$ (0.17)	$ (0.36)	$ (0.81)	$ (0.50)	$ (0.72)
Weighted average shares - basic and diluted	42,817	41,610	41,833	41,610	41,505	38,714	33,323

	As of March 31, 2006 (Restated) (Unaudited)	As of December 31, 2005 (Restated)	2004 (Restated)	2003	2002 (Restated)	2001 (Restated)
				(In thousands)		
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 1,263	$ 1,392	$ 742	$ 3,127	$ 25,058	$ 2,230
Working capital (deficit)	(11,986)	(10,993)	(14,910)	(698)	25,812	(9,573)
Total assets	22,336	21,563	28,508	30,852	24,845	6,680
Long-term debt, including current portion, net of discount	7,750	6,776	6,628	4,047		2,988
Shareholders equity (deficiency)	(3,494)	(1,320)	4,191	16,163	50,599	(7,504)

SUPPLEMENTARY FINANCIAL INFORMATION

The following information presents our unaudited quarterly operating results for 2006, 2005 and 2004. The data has been prepared by Liquidmetal Technologies, Inc. on a basis consistent with the Consolidated Financial Statements included elsewhere in this registration statement, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof. These operating results are not necessarily indicative of our future performance.

We have restated our quarterly results for the 2004 and 2005 fiscal years and for the first quarter of 2006 to properly account for the conversion feature of our senior convertible notes. The restatement adjustments resulted in a cumulative net reduction of shareholders equity by $4.7 million and $0.1 million for the fiscal years ended 2004 and 2005, respectively, and an increase in previously reported net loss by $2.2 million and a decrease in net loss by $4.2 million for the fiscal years ended 2004 and 2005, respectively. For the first quarter of 2006, the restatement adjustments resulted in a cumulative net reduction of shareholders equity by $0.9 million and an increase in previously reported net loss by $1.0 million.

During the first quarter of 2006, we had an increase in revenues of $3.7 million compared to the first quarter of 2005 due to increase in orders from our consumer electronics casings used in cellular phone components and other consumer electronics casings and increases in demand for Liquidmetal coatings products from the oil drilling industry. The increases were a result of our continued expanded sales and marketing efforts into various electronic components including sliding hinges, brackets and antenna. The Company experienced an increase gross profit of $1.2 million for the first quarter of 2006 from the first quarter due to increase in mix of higher margin products compared to the first quarter of 2005 from increases in mix of higher margin products. Significant portion of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher margin products in the future will cause the gross profit to improve over time.

During the fourth quarter of 2005, although annual revenues decreased relative to 2004, we had an increase in revenue of $1.1 million compared to the third quarter due to increases in orders from our consumer electronics casings customers for Liquidmetal bulk alloy parts for cellular phone components and other consumer electronics casings, and increases in demand for Liquidmetal coatings products from the oil drilling industry. The increases in were a result of expanded sales and marketing efforts into various electronic components including sliding hinges, brackets and antenna. The Company experienced an increase gross profit of $0.3 million for the fourth quarter of 2005 from the third quarter due to increase in mix of higher margin products. Significant portion of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher margin products in the future will cause the gross profit to improve over time. In addition, the company wrote-down $0.3 million of primarily raw material inventory considered to be long term as the carrying value of the inventory held as an impairment charge. While we may use the excess raw materials beyond one year to fulfill future demand, we did not foresee use of this inventory in the foreseeable future.

In the third quarter of 2005, the company wrote-down $0.8 million of primarily raw material inventory considered to be long term as the carrying value of the inventory held as an impairment charge. While we may use the excess raw materials beyond one year to fulfill future demand, we did not foresee use of this inventory in the foreseeable future.

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

During the fourth quarter of 2004, although our revenues were comparable to prior year, we had a decrease in revenue of $2.1 million compared to the third quarter due to an unanticipated and temporary decrease in orders from one of our customers, Samsung. In addition, included in our fourth quarter cost of sales is a $0.4 million charge related to certain hinge finished goods used in Samsung s cell phone models which were nearing its end of life. The

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Company experienced a gross loss of $0.4 million for the fourth quarter due to the one time charge of cost of sales and also due to the fact that our cost of sales from our Liquidmetal bulk alloy segment includes primarily fixed costs from our labor and equipment expenses.

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

Consolidated Statements of Operations Data:

		For the Three Months Ended 3/31/06 (Restated) (In thousands, except per share data) (Unaudited)
Revenue	$	6,555
Cost of sales		5,324
Gross profit		1,231
Operating expenses		
Selling, general, and administrative		2,705
Research and development		203
Total operating expenses		2,908
Loss from operations		(1,677)
Change in value of warrants, (loss)		(1,289)
Change in value of conversion feature, (loss)		(1,783)
Other income		480
Interest expense, net		(1,780)
Loss from operation before income taxes		(6,049)
Income taxes		
Net Loss	$	(6,049)
Loss per share from operations - basic and diluted		(0.14)
Weighted average common shares used to compute loss per share from operations - basic and diluted		42,817

Consolidated Statements of Operations Data:

	For the Three Months Ended			
	12/31/05 (Restated)	9/30/05 (Restated)	6/30/05 (Restated)	3/31/05 (Restated)
	(In thousands, except per share data) (Unaudited)			
Revenue	$ 5,453	$ 4,342	$ 3,727	$ 2,843
Cost of sales	4,576	3,756	3,962	2,835
Gross (loss) profit	877	586	(235)	8
Operating expenses				
Selling, general, and administrative	2,013	2,364	1,567	2,590
Research and development	314	196	213	397
Impairment of long lived assets	260	833	3,394	
Total operating expenses	2,587	3,393	5,174	2,987
Loss from operations	(1,710)	(2,807)	(5,409)	(2,979)
Loss from exinguishments of debt		(1,247)		
Change in value of warrants, gain (loss)	2,840	1,112	(100)	133
Change in value of conversion feature, gain	4,621	2,215	1,167	1,115
Interest expense, net	(1,641)	(1,652)	(1,180)	(1,531)
Income (loss) from operation before income taxes and discontinued operations	4,110	(2,379)	(5,522)	(3,262)
Income taxes				
Net income (loss)	$ 4,110	$ (2,379)	$ (5,522)	$ (3,262)
Income (loss) per share from continuing operations - basic and diluted	$ 0.10	$ (0.06)	$ (0.13)	$ (0.08)
Weighted average common shares used to compute income (loss) per share from continuing operations - basic and diluted	42,180	41,933	41,610	41,610

Consolidated Statements of Operations Data:

	For the Three Months Ended			
	12/31/04 (Restated)	9/30/04 (Restated)	6/30/04 (Restated)	3/31/04 (Restated)
	(In thousands, except per share data) (Unaudited)			
Revenue	$ 2,471	$ 4,615	$ 4,055	$ 6,288
Cost of sales	2,895	3,241	2,475	3,557
Gross profit (loss)	(424)	1,374	1,580	2,731
Operating expense:				
Selling, general, and administrative	2,413	3,569	2,544	3,065
Research and development	407	374	345	341
Total operating expenses	2,820	3,943	2,889	3,406
Loss from operations	(3,244)	(2,569)	(1,309)	(675)
Loss on extinguishments of debt		(2,941)		
Change in value of warrants, (loss) gain	(99)	(434)	694	586
Change in value of conversion feature, gain (loss)	(1,183)	(2,338)	3,904	1,710
Other income (expense), net		302		
Interest income (expense), net	(640)	(3,283)	(2,233)	(384)
Income (loss) from operation before income taxes and discontinued operations	(5,166)	(11,263)	1,056	1,237
Income taxes				
Income (loss) from continuing operations	(5,166)	(11,263)	1,056	1,237
Loss from discontinued operations, net of tax			(356)	(393)
Net income (loss)	$ (5,166)	$ (11,263)	$ 700	$ 844
Income (loss) per share from continuing operations basic and diluted	$ (0.12)	$ (0.27)	$ 0.03	$ 0.03
Weighted average common shares used to compute income (loss) per share from continuing operations basic and diluted	41,610	41,610	41,610	41,610

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

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

Overview

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

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

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

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

We maintain certain of our raw material inventories in amounts in excess of our operating cycle of one year due to the nature of our manufacturing process, production lead time, and the recyclability of our raw material. These inventories were classified as long-term inventory as of December 31, 2004. We have determined that its current and projected raw material requirements are not sufficient enough to warrant the use of such raw materials in the foreseeable future. As a result, we determined that the carrying value of raw materials held by its subsidiary, Liquidmetal Korea, exceeded its fair value in the amount of $2.7 million during the fiscal year 2005.

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

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

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

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

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

We have restated our previously issued financial statements for the fiscal years ended December 31, 2004 and 2005, and for the quarter ended March 31, 2006 due to an error related to our accounting for the embedded convertible feature of the senior convertible notes issued in March 2004, which were exchanged in August 2004, in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS 133).

The correction of the error to properly state the fair value of the embedded conversion feature of the senior convertible notes in accordance with SFAS 133 resulted in recognition of $7.6 million as a conversion feature liability as of the issuance of the senior convertible notes in March 2004 as the convertible notes are considered a non-conventional convertible debt instrument. The correction resulted in recognition of the change in fair value of the embedded convertible feature in our earnings as a gain (loss) of $2.1 million, $5.3 million, and ($0.8 million) for the years ended December 31, 2004 and 2005, and the quarter ended March 31, 2006, respectively, as well as adjustments to amortization of debt discount as interest expense of $3.0 million, $1.1 million, and $0.2 million for the years ended December 31, 2004 and 2005, and the quarter ended March 31, 2006, respectively, and an additional loss on extinguishment of debt of $1.3 million for the year ended December 31, 2004. Additionally, we recognized $0.9 million, $0.5 million, and $27 thousand in additional paid in capital from redemption and conversion of convertible notes as of December 31, 2004, December 31, 2005, and March 31, 2006, respectively.

Change in Value of Warrants consists of changes to the fair value of warrants outstanding at each period. The warrants have been accounted for as a liability in accordance with Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, with the change in fair values reported in earnings. The fair values are determined using a Black-Scholes pricing model and fluctuations in our stock price have had the greatest impact on the valuation of outstanding warrants.

Change in Value of Conversion Feature consists of changes to the fair value of the embedded conversion feature of our senior convertible notes. The embedded conversion feature has been accounted for as a separate derivative instrument in accordance with SFAS 133. The change in fair values are determined using a Black-Scholes pricing model and fluctuations in our stock price have had the greatest impact on the valuation of

the conversion features.

On May 21, 2003, we completed a reincorporation by transitioning from a California corporation to a Delaware corporation. The reincorporation was effected through the merger of the former California entity into a newly

created wholly owned Delaware subsidiary. The reincorporation changed the legal domicile of our company but did not result in any change to our business, management, employees, fiscal year, assets or liabilities, or location of facilities. As part of the reincorporation, each share of the California corporation was automatically converted into one share of the Delaware corporation. In addition, total authorized shares decreased from 200,000,000 shares to 100,000,000 shares.

Results of Operations

Comparison of the three months ended March 31, 2006 and 2005

Revenue. Revenue increased $3.8 million to $6.6 million for the three months ended March 31, 2006 from $2.8 million for the three months ended March 31, 2005. The increase consisted of an increase of $2.2 million from the sales and prototyping of parts manufactured from bulk Liquidmetal alloys to consumer electronics customers as a result of increased demand from electronic casings applications, an increase of $0.3 million from our research and development contracts, and an increase of $1.3 million from sales of our coatings products as a result of increase in demand from oil drilling applications.

Cost of Sales. Cost of sales increased to $5.3 million, or 81% of revenue, for the three months ended March 31, 2006 from $2.8 million, or 100% of revenue, for the three months ended March 31, 2005. The decrease in cost of sales as a percentage of revenue was a result of continued maturing of our manufacturing process, which represents the Company s efforts to manage costs and focus on our core business, and an increase in revenues generated from our higher margin coatings products. Significant portions of our manufacturing costs continue to remain fixed. We believe that higher manufacturing volumes and greater mix of higher-margin products in the future will cause the gross profit to improve over time. The cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the unique design of each product. However, the cost of sales for the products sold by the coatings business segment is generally consistent because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased to $2.7 million, or 41% of revenue, for the three months ended March 31, 2006 from $2.6 million, or 91% of revenue, for the three months ended March 31, 2005. This increase was primarily a result of increase wages and compensation of $0.7 million primarily from recognition of stock based compensation expense during the quarter and increases in employees, advertising and promotions costs of $0.1 million primarily from higher commissions costs, travel expenses of $0.1 million, offset by decreases in professional services by $0.2 million, decrease in insurance costs of $0.4 million, and decrease in depreciation expenses of $0.1 million.

Research and Development Expenses. Research and development expenses decreased to $0.2 million, or 3% of revenue, for the three months ended March 31, 2006 from $0.4 million, or 14% of revenue, for the three months ended March 31, 2005. The Company continues 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. The decrease was primarily due to decreases in salaries, wages and related costs of $0.2 million

Change in Value of Warrants. Change in value of warrants decreased to a net loss of $1.3 million, or 20% of revenue, for the three months ended March 31, 2006 from a net gain of $0.1 million, or 5% of revenue, for the three months ended March 31, 2005. The change in value of warrant consisted of warrants issued from the senior convertible notes issued in March 2004 and exchanged in August 2004, convertible debt funded in June 2005, senior convertible debt funded in August 2005, and subordinated promissory note funded in March 2006 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability from our senior convertible notes issued in March 2004 and exchanged in August 2004 and August 2005 resulted in a change in value of conversion feature net loss of $1.8 million, or 27% of revenue, during the three months ended March 31, 2006 and a gain of $1.1 million, or 39% of revenue, for the three months ended March 31, 2005, primarily due to fluctuations in our stock price.

Other Income. Other income was $480, or 7% of revenue, for the three months ended March 31, 2006 from net gain recognized from termination of a distribution agreement with a Japanese sporting goods distributor originally entered into in March 1996. There were no amounts recognized as other income during the three months ended March 31, 2005.

Interest Expense. Interest expense was $1.8 million, or 27% of revenue, for the three months ended March 31, 2006 and was $1.5 million, or 54% of revenue, for the three months ended March 31, 2005. Interest expense consists primarily of interest accrued on the Kookmin Bank loan funded in February 2003, senior convertible debt funded in March 2004 and exchanged in August 2004, senior convertible debt funded in August 2005, subordinated promissory note funded in March 2006, fees charged from short-term borrowings under the April 2005 factoring, loan, and security agreement, as well as amortization of debt issuance costs and discount on the convertible debt. The increase was primarily due to additional amortization of debt issuance costs and discount on debt funded in June 2005 and August 2005 as well as fees from borrowings made under the April 2005 factoring, loan, and security agreement.

Interest Income. Interest income was $2 thousand for the three months ended March 31, 2006 and was $6 thousand for the three months ended March 31, 2005 from interest earned on cash deposits.

Comparison of the years ended December 31, 2005 and 2004

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

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

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased to $8.5 million, or 52% of revenue, in the twelve months ended December 31, 2005 from $11.6 million, or 67% of revenue, in the twelve months ended December 31, 2004. This decrease was primarily a result of decrease in professional and contracted services of $1.8 million, decrease in advertising and promotions expense of $0.2 million, decrease in bad debt expenses of $0.1 million, decrease in product warranty expense of $0.2 million, decrease in insurance costs of $0.6 million, and decrease in amortization and depreciation costs of $0.2 million. These and other decreases in selling,

general and administrative expenses represent the Company s efforts to manage costs and focus on our core business while continuing to build our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

Research and Development Expenses. Research and development expenses decreased to $1.1 million, or 7% of revenue, in the twelve months ended December 31, 2005 from $1.5 million, or 8% of revenue, in the twelve months ended December 31, 2004. The decrease was primarily a result of decreases in salaries, wages and related expenses by $0.3 million and decrease in laboratory and prototyping expenses by $0.1 million. The decreases were a result of the Company focusing primarily on our core business associated with our bulk Liquidmetal alloy business while managing our costs. The Company continues to perform research and development efforts on new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants and provide research grants to various institutions to advance the development of Liquidmetal alloys.

Impairment of Long Lived Assets. Impairment of long lived assets increased to $4.5 million, or 27% of revenue, for the twelve months ended December 31, 2005 from $0 for the twelve months ended December 31, 2004.

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

Loss from Extinguishments of Debt. Loss from extinguishments of debt decreased to $1.2 million, or 8% of revenue, for the twelve months ended December 31, 2005 from $2.9 million, or 17% of revenue, for the twelve months ended December 31, 2004. The $1.2 million loss from extinguishments of debt was recognized from the exchange of our 6% Convertible Notes due 2006 in August 2005. The $1.7 million loss from extinguishments of debt was recognized from exchange of our 6% Senior Convertible Notes due March 2007 in August 2004.

Change in Value of Warrants. Change in value of warrants was a net gain of $4.0 million, or 24% of revenue, and $0.7 million, or 4.3% of revenue, during the twelve months ended December 31, 2005 and 2004, respectively from the change in value of warrants issued from the senior convertible notes issued in March 2004 and exchanged in August 2004, convertible debt funded in June 2005, and senior convertible debt funded in August 2005 primarily as a result of fluctuations in our stock price.

Change in Value of Conversion feature. Change in the value of our conversion feature liability from our senior convertible notes issued in March 2004 and exchanged in August 2004 and August 2005 resulted in a change in value of conversion feature gain of $9.1 million, or 56% of revenue, and a gain of $2.1 million, or 12% of revenue, for the twelve months ended December 31, 2005 and 2004, respectively, primarily due to fluctuations in our stock price.

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

Interest Expense. Interest expense was $6.0 million, or 37% of revenue, for the twelve months ended December 31, 2005 and was $6.6 million, or 38% of revenue, for the twelve months ended December 31, 2004. During each of the twelve months ended December 31, 2005 and 2004, the interest expense was primarily due to the interest accrued on the Kookmin Bank loan funded on February 4, 2003, senior convertible debt funded on March 3, 2004 and exchanged in August 2004, convertible debt funded on June 13, 2005, and senior convertible debt funded in August 9, 2005, as well as amortization of debt issuance costs and discount on the convertible debt. During 2005, $0.1 million of interest expense was accrued from default interest rates applied to the senior convertible notes effective April 1, 2005 from non-payment of quarterly scheduled interest payments and $1.0 million of late registration penalty fee of our senior convertible debt was accrued as interest expense. The default interest and late registration penalty were paid as of December 31, 2005.

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

Comparison of the years ended December 31, 2004 and 2003

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

Cost of Sales. Cost of sales decreased to $12.2 million, or 70% of revenue, during the twelve months ended December 31, 2004 from $18.2 million, or 133% of revenue, in the twelve months ended December 31, 2003. This

decrease was a result of the continued maturing of our manufacturing process and represents the Company s efforts to manage costs and focus on our core business while continuing to build production pipeline and manufacturing infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business. The cost of sales for the products sold by the coatings business segment is generally consistent from year to year because the Liquidmetal coatings products are produced by third parties and sold wholesale to various industries.

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

Research and Development Expenses. Research and development expenses decreased to $1.5 million, or 8% of revenue, in the twelve months ended December 31, 2004 from $8.8 million, or 64% of revenue, in the twelve months ended December 31, 2003. The decrease was primarily a result of decreases in salaries, wages and the related expenses by $3.0 million, decrease in laboratory and prototyping expenses by $2.0 million, decrease in depreciation expense by $0.7 million, decrease in professional fees, consultant fees, and contract services by $0.6 million, decrease in research grants by $0.3 million, and decrease in travel related expenses by $0.2 million. The decreases were a result of the Company focusing primarily on our core business associated with our bulk Liquidmetal alloy business while managing our costs. The Company continues to perform research and development efforts on new Liquidmetal alloys and related processing capabilities, develop new manufacturing techniques, and contract with consultants and provide research grants to various institutions to advance the development of Liquidmetal alloys.

Impairment of Goodwill. Impairment of goodwill was $0.2 million , or 1% of revenue, in the twelve months ended December 31, 2003. Impairment of goodwill represents the write-down of the goodwill balance of Dongyang Yudoro (Dongyang), our 51% owned subsidiary in South Korea. During 2003, Dongyang experienced net losses as a result of a continuing economic downturn in the market for its machinery products. These events along with Dongyang s operating, and cash flow losses, and uncertainty surrounding its future cash flows, led us to evaluate our investment for recoverability as of December 31, 2003. As a result, we determined that the carrying value of our investment in Dongyang exceeded its fair value as of December 31, 2003 in the amount of $0.2 million. In March 2004, we sold our 51% investment in Dongyang to the 49% minority shareholder (see Note 18 to the consolidated financial statements included in this prospectus). There was no impairment charge to goodwill in the twelve months ended December 31, 2004.

Impairment of Long Lived Assets. Impairment of long lived assets was $2.7 million, or 20% of revenue, in the twelve months ended December 31, 2003. Impairment expense represents a write-down of the building of our manufacturing facility in South Korea. Due to the decreased production and usage of our Pyongtaek manufacturing operation, we decided to obtain independent appraisals as to the fair value of this building. Accordingly, the fair value of the

building as determined by the average of the two independent appraisals was less than the carrying value of the building as of December 31, 2003. There was no impairment charge to long lived assets in the twelve months ended December 31, 2004.

Loss from Extinguishment of Debt. Loss from extinguishment of debt was $2.9 million, or 17% of revenue, during the twelve months ended December 31, 2004 due to the extinguishment of our March Notes as it relates to the exchange in August 2004. There was no such loss recorded during twelve months ended December 31, 2003.

Change in Value of Warrants. Change in value of warrants was a net gain of $0.7 million, or 4% of revenue, during the twelve months ended December 31, 2004 from the change in valuation of warrant payable issued related to the senior convertible notes issued in March 2004, which was exchanged in August 2004 (see Note 15 to the consolidated financial statements included in this prospectus). There were no such amounts recorded for the twelve months ended December 31, 2003.

Change in Value of Conversion Feature. Change in the value of our conversion feature liability from our senior convertible notes issued in March 2004 and exchanged in August 2004 resulted in a change in value of conversion feature gain of $2.1 million, or 12% of revenue, during the twelve months ended December 31, 2004, primarily due to fluctuations in our stock price. There were no such amounts recorded for the twelve months ended December 31, 2003.

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

Interest Expense. Interest expense was $6.6 million, or 38% of revenue, in the twelve months ended December 31, 2004 and was $0.4 million, or 3% of revenue, in the twelve months ended December 31, 2003. During the twelve months ended December 31, 2004, the interest expense was primarily due to the interest accrued, amortization of debt discount and deferred issuance costs on new senior convertible debt originally sold on March 3, 2004 and exchanged in August 2004, and interest accrued on Kookmin Bank loan funded on February 4, 2003. During the twelve months ended December 31, 2003, interest expense was primarily due to interest accrued on the Kookmin Bank loan to our South Korean subsidiary made on February 4, 2003.

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

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

Liquidity and Capital Resources

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

Our cash used for operating activities was $1.2 million for the three months ended March 31, 2006 and $1.1 million for the three months ended March 31, 2005. Our working deficit increased from $11.0 million at December 31, 2005 to $12.0 million at March 31, 2006. The Company s working deficit increase of $1.0 million was primarily attributable to increase in accounts payable and accrued liability of $1.4 million, increase in short term debt of $1.7 million, increase in warrant liabilities of $1.4 million, increase in conversion feature liability of $1.8 million, offset by increase in trade accounts receivable of $1.1 million, decrease in settlement payable of $3.3 million, and decrease in deferred revenue of $0.9 million.

Our cash used in investing activities was $0.2 million for the three months ended March 31, 2006 for the acquisition of property and equipment and investments in patents and trademarks.

Our cash provided by financing activities was $1.4 million for the three months ended March 31, 2006, which consists of $1.0 million in proceeds from borrowings from our subordinated promissory note executed in March 2006 and $3.0 million in proceeds from factoring agreement executed in April 2005, offset by $2.6 million on repayment of borrowings. The proceeds from borrowings have been used to meet working capital requirements.

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

Our capital requirements during the next twelve months will depend on numerous factors, including the success of existing products either in manufacturing or development, the development of new applications for Liquidmetal

alloys, the resources we devote to develop and support our Liquidmetal alloy products, the success of pursuing strategic licensing and funded product development relationships with external partners.

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2005 and 2004 was $7.1 million and $14.9 million, respectively, and our net loss for the three months ended March 31, 2006 and 2005 was $6.0 million and $3.3 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2005 and 2004, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. Accordingly, we anticipate that we will need additional funding during the next 12 months, and we plan to seek to raise such funds through public or private equity financing, bank debt financing, or from other sources. Specifically, we anticipate that we could need $1 million to $5 million over the next twelve months to pursue our current operating plan, although this amount may be lower depending on the orders we receive for our products. The amount of funding that we plan to seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products, particularly components for cellular phones and flash memory drive casings, and our ability to continue to improve our manufacturing processes. We evaluate our working capital needs and operating plan assumptions on a monthly basis to determine whether any adjustment to our cash and liquidity outlook is warranted, and we also review potential sources of financing on an ongoing basis. However, adequate funds may not be available when needed, and if we raise additional funds by issuing equity securities, existing stockholders may be diluted. If we don t receive sufficient funding to operate under our current plan, we intend to reduce operations and expenses and shift our focus to the pursuit of licensing transactions and other strategic transactions that are less capital intensive.

On May 12, 2006, we received a letter from one holder holding $0.5 million of the August 2007 Notes demanding immediate payment of late filing fees and late registration fees for the period following October 31, 2005 through May 3, 2006. As a result of the late fee provisions of the restated registration rights agreement, we are obligated to pay late filing and late registration fees accrued through July 3, 2006 of up to $1.4 million to all of the noteholders. In addition, the letter purported to constitute a notice of default under the August 2007 Notes and July 2007 Notes (Notes) as a result of our failure to pay the late filing and late registration fees. Under the terms of Notes, if a default is not cured by us within thirty (30) days of notice thereof, the holder has the right to accelerate all principal and interest due under the Notes. As of July 3, 2006, $9.9 million in aggregate principal amount of August 2007 Notes was still outstanding with accrued but unpaid interest in the amount of approximately $175 thousand. In addition, $2.3 million in aggregate principal amount of July 2007 Notes was also outstanding with accrued but unpaid interest in the amount of approximately $35 thousand. As of July 14, 2006, we have not paid any amounts under the demand letter and we are currently in negotiations with the holder regarding the matters set forth in the letter with the goal of preventing any acceleration of amounts due under the Notes.

Initial Public Offering Proceeds

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

As of December 31, 2003, we used $70.7 million of net proceeds from the Offering. In 2002, we used approximately $7.8 million of the net proceeds from the Offering to repay all outstanding promissory notes and accrued interest, $11.1 million to fund the construction of our manufacturing facility in South Korea, $14.3 million to purchase equipment used to manufacture Liquidmetal parts, $0.4 million to purchase assets related to production and sale of equipment used in the production process of Liquidmetal alloy products, and $0.3 million to purchase the 51% interest in our majority owned Dongyang subsidiary. During the third quarter of 2002, we used $2.0 million to invest in the common

stock of Growell Metal, which supplied a portion of the Liquidmetal alloy ingots used in our manufacturing operations in Korea. We have since sold such stock, realizing a gain on the sale. We used the remaining proceeds of $32.7 million for working capital in 2002 and 2003, excluding $2.1 million paid to Paul Azinger in 2002 and 2003 for amounts due under the terms of his terminated endorsement agreement with our discontinued retail golf operations.

Private Placements of Convertible Notes

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

On August 19, 2004, we completed a private exchange offer for our March Notes. Under terms of the exchange offer, approximately $5.46 million in aggregate principal amount of the March Notes were exchanged for an aggregate of (i) $2.73 million of 6% Senior Secured Notes Due 2007 (the July 2007 Notes) and (ii) $2.73 million of 10% Senior Secured Notes Due 2005 (the July 2005 Notes), collectively referred to as Exchange Notes . In addition, we redeemed approximately $4.5 million of the March Notes in cash. The Exchange Notes were collateralized by certain patents owned by our company and a second priority mortgage interest in plant facilities and certain equipment at our plant in South Korea. The July 2005 Notes had a maturity date of July 29, 2005, and a conversion price of $2.00 per share (compared to a conversion price of $3.00 per share under the March Notes). The July 2007 Notes have a maturity date of July 29, 2007, and a conversion price of $1.00 per share. Further, the exchange notes are convertible into Common Stock, at the option of our company, if at any time after the issuance of the notes, the closing per share price of the Common Stock exceeded $4.00 (as adjusted for stock splits, reverse splits, stock dividends, and recapitalizations) for 30 consecutive trading days, and further provided that there has been effective registration during such period. Holders of the July 2007 Notes also have the right to call for repayment of the July 2007 Notes prior to maturity at any time after the second anniversary of the completion of the exchange offer. A total of 563,151 warrants to purchase our common stock at an exercise price of $3.00 per share all of which were previously issued in connection with the purchase of the March Notes were amended to provide for an extended expiration date of March 1, 2006. The warrants issued to placement agents are to expire the later of March 1, 2006 or 100 days after the effectiveness of registration of shares issuable under the warrants and senior convertible debt. The warrant exercise price is subject to price adjustment for anti-dilution purposes. As of March 31, 2006, there were 165,324 warrants outstanding and the exercise price of the warrants was $2.72 per share. The warrant exercise price is subject to price adjustment for anti-dilution purposes.

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

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

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

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

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

On May 12, 2006, we received a letter from one holder holding $0.5 million of the August 2007 Notes demanding immediate payment of late filing fees and late registration fees for the period following October 31, 2005 through May 3, 2006. As a result of the late fee provisions of the restated registration rights agreement, we are obligated to pay late filing and late registration fees accrued through July 3, 2006 of up to $1.4 million to all of the noteholders. In addition, the letter purported to constitute a notice of default under the August 2007 Notes and July 2007 Notes (Notes) as a result of our failure to pay the late filing and late registration fees. Under the terms of Notes, if a default is not cured by us within thirty (30) days of notice thereof, the holder has the right to accelerate all principal and interest due under the Notes. As of July 3, 2006, $9.9 million in aggregate principal amount of August 2007 Notes was still outstanding with accrued but unpaid interest in the amount of approximately $175 thousand. In addition, $2.3 million in aggregate principal amount of July 2007 Notes was also outstanding with accrued but unpaid interest in the amount of approximately $35 thousand. As of July 14, 2006, we have not paid any amounts under the demand letter and we are currently in negotiations with the holder regarding the matters set forth in the letter with the goal of preventing any acceleration of amounts due under the Notes.

Debt Financing

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

On May 17, 2006, we completed a private placement (the Private Placement) of 8% Unsecured Subordinated Notes in the aggregate principal amount of $3.625 million (the Notes), together with warrants to purchase up to an aggregate of 705,233 shares of the Company s common stock (the Warrants). Indigo Securities, LLC, served as placement agent in the transaction. The Private Placement, which was made solely to accredited investors including Ricardo A. Salas, President and CEO, pursuant to the exemption under Rule 506 under the Securities Act of 1933, resulted in gross proceeds of $3.625 million before placement agent fees and expenses associated with the transaction. Mr. Salas holds $0.1 million of the Notes.

The Notes issued in the Private Placement are unsecured and will become due on the earlier of August 17, 2007 or the consummation of a follow-on equity or debt offering pursuant to which the Company receives gross proceeds of at least $6.0 million to be used for working capital purposes and repayment of debt, but excluding financings for the purpose of purchasing capital assets (a Follow-On Financing). Interest on the unpaid principal balance of each Note accrues at the rate of 8% per annum from May 17, 2006 until the maturity date. The Notes can be prepaid by the Company at any time without penalty.

The Notes are subordinate in right of payment and in all other respects to the previously issued 6% Senior Secured Notes Due July 29, 2007 (the July 2007 Notes), the previously issued 7% Senior Secured Convertible Notes Due August 2007 (the August 2007 Notes), and any other notes that may be issued by the Company after May 17, 2006 in exchange for or in satisfaction of any July 2007 Notes or August 2007 Notes (collectively, the Senior Notes). Notwithstanding the maturity date of the Notes, the Company will not make any payments of principal, interest or otherwise under the Notes until all amounts due and payable under the Senior Notes have been satisfied in full (whether through cash payment or conversion).

The Notes also give the investors the opportunity to participate in a Follow-On Financing at a discounted rate. If a holder of a Note elects to participate in a Follow-On Financing, then the holder of the Note will be entitled to purchase the securities being offered in the Follow-On Financing at a discount of 7% of the gross per share purchase price

(in the case of an offering of common stock or preferred stock) or 7% of the face amount of the security being sold (in the case of an offering of debt securities).

As a part of the Private Placement, the Company issued Warrants to the purchasers of the Notes giving them the right to purchase up to an aggregate of 705,233 shares of the Company s common stock. In addition, Warrants to purchase 68,508 shares of the Company s common stock were issued to the placement agent in the transaction. The Warrants have an exercise price of $2.58 per share. The Warrants will expire on May 17, 2011.

The Company entered into a registration rights agreement with the holders of the Warrants (the Warrant Holders) relating to the resale of the shares of Company common stock issuable upon exercise of the Warrants (the Warrant Shares). Under the registration rights agreement, the Company must file a registration statement with the Securities and Exchange Commission covering the resale of the Warrant Shares, if, following the 180th day after the date of the registration rights agreement, the Company receives a written request to do so from the holders of fifty percent or more of the Warrant Shares then outstanding. The Warrant Holders also have piggyback registration rights under the registration rights agreement, which requires the Company to register, upon request by a Warrant Holder, the Warrant Shares held by that Warrant Holder in any registration statement filed in connection with the public offering of the Company s common stock.

Our Liquidmetal Korea Co., Ltd. subsidiary also has an outstanding loan from Kookmin Bank in the Republic of Korea. As of March 31, 2006, the outstanding balance under this loan was $2.6 million. The loan is payable in monthly installments of $0.11 million per month through September 2007.

Off Balance Sheet Arrangements

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

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

Contractual Obligations

The following table summarizes our company s obligations and commitments as of March 31, 2006:

Contractual Obligations (1)	Total	> 1 year	1-3 Years	3-5 Years	After 5 years
	Payments Due by Period (in thousands)				
Long-term debt (2)	$ 14,756	$ 1,391	$ 13,365	$	$
Short-term debt (3)	2,286	2,286			
Capital lease obligation (4)	42	42	7		
Operating leases and rents	1,009	492	516	1	
Consulting services payable	86	86			
Dongyang payable	11	11			
Nichimen	350	350			
	$ 18,540	$ 4,658	$ 13,881	$ 1	$

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(1) Contractual cash obligations include Long-Term Debt comprised of $2,310 of Senior Convertible Notes issued in 2004, $9,878 of Convertible Notes issued in 2005, and $2,568 of Kookmin Notes, Short-Term Debt comprised of $1,286 advances received under factoring, loan, and security agreement, $1,000 of unsecured subordinated promissory note issued in 2006, future minimum lease payments under capital and operating leases, purchase commitments from a consultant, payments due from our discontinued equipment manufacturing business (Dongyang), and minimum payments due under a distribution agreement (Nichimen).

(2) Does not include interest payments of $1,342, un-amortized discounts for conversion feature and warrants, deferred issuance costs of $7,004 of our convertible notes.

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

(4) Includes imputed interest of $1.

Critical Accounting Policies and Estimates

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

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

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

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

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

We value inventories at lower of cost or net realizable value. Management has determined net realizable value to be equal to the selling price of the products to be produced and sold less the cost of disposal. In the event, in future periods, the actual selling prices exceed the estimate for

selling prices less cost to sell, an adjustment would be made and income would increase in the period of such determination. Likewise, in the event, in future periods, actual selling prices are lower than the estimate for selling prices, an adjustment would be made and income would decrease in the period of such determination.

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

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

We account for the warrants and the embedded conversion feature of our senior convertible notes as derivatives in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, and Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock. Fair values of warrants and embedded conversion features are measured at each period end using Black-Scholes pricing models and changes in fair value during the period are reported in our earnings.

We adopted Statement of Financial Accounting Standards No. 123, Share-Based Payment (SFAS 123R), on January 1, 2006. This new standard requires companies to expense the fair value of employee stock options and similar awards. We adopted SFAS 123R using the modified prospective transition method. Therefore, stock based compensation expense measured in accordance with SFAS 123R was recorded during the first quarter of 2006, but the prior year consolidated statement of income was not restated. The adoption of SFAS 123R resulted in incremental expense in the first quarter of 2006 of $0.2 million.

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, (SFAS No. 155), Accounting for Certain Hybrid Instruments, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect the adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

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

the criteria. EITF 05-2 requires convertible instruments that may be settled in a combination of cash or shares, e.g., those referred to as Instrument C in EITF 90-19, and instruments that may be convertible into a variable number of shares are not conventional. As a result, nonconventional instruments would need to satisfy all requirements of EITF 00-19 to support a conclusion that the conversion feature does not require accounting separate from that for the debt contract. The adoption of this Issue resulted in recognition of the embedded conversion feature from the senior convertible notes issued in March 2004, which were exchanged in August 2004, and August 2005 as liabilities of $1.8 million and $6.7 million as of December 31, 2005 and 2004, respectively, and a gain of $9.1 million and $2.1 million from the change in fair value of conversion feature liabilities for the years ended December 31, 2005 and 2004, respectively.

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

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

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

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the

unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. We do not believe the adoption of SFAS No. 154 will have a material effect on its consolidated financial position, results of operations or cash flows.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the Staff s interpretation of SFAS 123(R). This interpretation expresses the views of the staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. In particular, this SAB provides guidance related to share-based payment transactions with no employees, the transition from nonpublic to public entity status, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123(R), the modification of employee share options prior to adoption of Statement 123(R) and disclosures in Management s Discussion and Analysis subsequent to adoption of SFAS 123(R). We have adopted SAB 107 in connection with its adoption of SFAS 123(R) effective January 1, 2006 using the modified prospective transition method, and recognized $0.2 million of stock based compensation expense for the three months ended March 31, 2006 from the adoption.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment , which replaces SFAS No. 123. SFAS No. 123R requires public companies to recognize an expense for share-based payment arrangements including stock options and employee stock purchase plans. The statement eliminates a company s ability to account for share-based compensation transactions using APB 25, and generally requires instead that such transactions be accounted for using a fair value based method. SFAS No. 123R requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of grant, and to recognize the cost over the period during which the employee is required to provide service in exchange for the award. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. SFAS No. 123R is effective for our company in the quarter ending March 31, 2006. Upon adoption of SFAS 123R, companies are allowed to select one of three alternative transition methods, each of which has different financial reporting implications. We have adopted SFAS No. 123R effective January 1, 2006 using the modified prospective method, and recognized $0.2 million of stock based compensation expense for the three months ended March 31, 2006 from the adoption.

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

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

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

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

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

Quantitative and Qualitative Disclosures About Market Risks

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

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

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

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

million for the years ended December 31, 2005, 2004, and 2003, respectively, and $0.1 million and $0.3 million for the three months ended March 31, 2006 and 2005, respectively.

BUSINESS

Overview

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

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

General Corporate Information

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

Subsidiaries and Other Locations

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

Our Technology

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

Unique Atomic Structure

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

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

Proprietary Material Composition

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

Advantages of Liquidmetal Alloys

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

Performance Advantages

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

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

Processing Advantages

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

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

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

Cost Advantages

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

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

Our Strategy

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

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

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

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

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

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

Applications for Liquidmetal Alloys

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

Components for Electronic Products

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

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

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

Sporting Goods and Leisure Products

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

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

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

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

In order to accelerate the commercialization of Liquidmetal alloys in the eyewear industry, in June of 2006, we entered into a joint venture with SAGA, SpA in Padova, Italy, a specialist precision part manufacturer. The joint venture is named Liquidmetal SAGA Italy, Srl (LSI), and it will have an exclusive manufacturing license for the eyewear industry. Its initial focus will be on the development and commercialization of eyewear with Safilo SpA, a worldwide leader in luxury eyewear, supplying frames and sunglasses for most of the luxury brands with operations in more than 120 countries worldwide

Medical Devices

We are engaged in product development efforts relating to various medical devices that could be made from Liquidmetal alloys. We believe that the unique properties of bulk Liquidmetal alloys provide a combination of performance and cost benefits that could make them a desirable replacement to incumbent materials, such as stainless steel and titanium, currently used in various medical device applications. Our ongoing emphasis in 2004, 2005 and 2006 has

been on surgical instrument applications for Liquidmetal alloys. These include, but are not limited to, specialized blades, orthopedic instruments utilized for implant surgery procedures, dental devices, and general surgery devices. The potential value offered by our alloys is high performance in some cases and cost reduction in others, the latter stemming from the ability of Liquidmetal alloys to be net shape cast into components, thus reducing costs of secondary processing. The status of most components in the prototyping phase is subject to non-disclosure agreements with our customers.

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

Industrial Coatings and Powders

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

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

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

Defense Applications

We are working with the U.S. Department of Defense, as well as a variety of defense-related research and development agencies and large defense contractors, to develop various defense-related applications for Liquidmetal alloys. For example, we are currently developing prototype kinetic energy penetrator rods for use in armor-piercing ammunition systems. Kinetic energy penetrators, or KEPs, are armor piercing munitions that are currently made primarily from depleted uranium or tungsten alloys. Initial ballistic tests under the Liquidmetal KEP program have

demonstrated that tungsten KEPs perform better whenever Liquidmetal alloy is combined with the tungsten to create a composite material. In August 2003, we signed a new $3.0 million research and development contract with the U.S. Army for the development of KEPs. Our strategy is to orient the KEP program toward future systems such as the Joint Strike Fighter program and the Army s Future Combat System.

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

Going Concern

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2005 and 2004 was $7.1 million and $14.9 million, respectively, and net loss for the three months ended March 31, 2006 and 2005 was $6.0 million and $3.3 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2005 and 2004, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. Accordingly, we anticipate that we will need additional funding during the next 12 months, and we plan to seek to raise such funds through public or private equity financing, bank debt financing, or from other sources. Specifically, we anticipate that we could need $1 million to $5 million over the next twelve months to pursue our current operating plan, although this amount may be lower depending on the orders we receive for our products. The amount of funding that we plan to seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products, particularly components for cellular phones and flash memory drive casings, and our ability to continue to improve our manufacturing processes. We evaluate our working capital needs and operating plan assumptions on a monthly basis to determine whether any adjustment to our cash and liquidity outlook is warranted, and we also review potential sources of financing on an ongoing basis. However, adequate funds may not be available when needed, and if we raise additional funds by issuing equity securities, existing stockholders may be diluted. If we don t receive sufficient funding to operate under our current plan, we intend to reduce operations and expenses and shift our focus to the pursuit of licensing transactions and other strategic transactions that are less capital intensive.

Liquidmetal Golf

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

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

Our Intellectual Property

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

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

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

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

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

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

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

Research and Development

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

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

Optimize Existing Alloys and Develop New Compositions. We believe that the primary technology driver of our business will continue to be our proprietary alloy compositions. We plan to continue research and development on new alloy compositions to generate a broader class of amorphous alloys with a wider range of specialized performance characteristics. During 2003 and continuing into 2006, we have successfully expanded our portfolio of bulk amorphous alloys to include additional zirconium-titanium alloys, as well as alloys based on other metals, such as iron, gold, and platinum. Although these various compositions are at different stages of development and only a few are currently suitable for commercial use, we believe that a larger alloy portfolio will enable us to increase the attractiveness of our alloys as an alternative to incumbent materials and, in certain cases, drive down product costs. We also believe that our ability to optimize our existing alloy compositions will enable us to better tailor our alloys to our customers specific application requirements.

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

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

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

We have entered into development relationships with other companies for the purpose of identifying new applications for our alloys and establishing customer relationships with such companies. Some of our product development programs are partially funded by our customers. We are also engaged in negotiations with other potential customers regarding possible product development relationships. Our research and development expenses for the years ended December 31, 2005, 2004, and 2003 were $1.1 million, $1.5 million, and $8.8 million, respectively, and $0.2 million and $0.4 million for the three months ended March 31, 2006 and 2005, respectively.

Manufacturing

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

Raw Materials

Liquidmetal alloy compositions are comprised of many elements, all of which are available commodity products. We believe that each of these raw materials is readily available in sufficient quantities from multiple sources on

commercially acceptable terms. However, any substantial increase in the price or interruption in the supply of these materials could have an adverse effect on our profitability.

Customers

During the three months ended March 31, 2006, one customer accounted for 13% of our total revenues. During 2005, one customer accounted for 10% or more of our revenue from continuing operations. Revenues from Samsung represented 10% of revenues from continuing operation for the year ended December 31, 2005. During 2004, four customers accounted for 10% or more of our revenue from continuing operations. Revenues from Charm Tech and Pntel, both of which are direct suppliers to Samsung, represented 62% of revenue from continuing operations for the year ended 2004. Also, revenues from defense related contracts with the United States of America represented 10% and Growell Metal represented 12% of revenue from continuing operations for the year ended December 31, 2004. We expect that a significant portion of our revenue may continue to be concentrated in a limited number of customers, even as our bulk Liquidmetal alloy business grows. During 2003, three customers accounted for 10% or more of our revenue from continuing operations. Revenue from Samsung represented 10% of revenue, revenue from LLPG, Inc. represented 12% and defense-related contracts with three departments of the United States of America represented 16% of revenue from continuing operations for the year ended December 31, 2003.

Competition

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

Our Liquidmetal alloy coatings face competition from industrial coatings currently manufactured or sold by other companies. At present, the primary competitors of our coatings business are Varco International, Inc. and Arnco Technology Trust, Limited. Although we believe, based on market data gathered by us, that our coatings compete favorably with these companies products and that we continue to maintain the dominant market share with respect to protective coatings for oil drill pipe and casings, these competitors are larger well-established businesses that have substantially greater financial, marketing, and other resources than we do.

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

Backlog

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

Sales and Marketing

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

Employees

As of July 3, 2006, we had 833 full-time and 150 part-time employees. As of that date, 90 of our Korean operation employees were represented by a labor union. We have not experienced any work stoppages and we consider our employee relations to be favorable.

Governmental Regulation

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

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

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

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

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

Environmental Law Compliance

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

Material Legal Proceedings

In April 2006, we reached agreements in principle to settle our previously-disclosed consolidated securities class action and shareholder derivative actions. In early July, we jointly filed a Stipulation and Agreement of Settlement in the securities class action, which has been preliminarily approved and for which a settlement fairness hearing is set for October 18, 2006. Our settlement stipulation in the derivative actions will be filed in early August.

The settlement covers a series of nine securities class action lawsuits that were filed against the company beginning in April 2004 on behalf of persons who purchased our common stock between May 21, 2002 and May 13, 2004, in connection with our initial public offering in May 2002. These actions, which were brought under the federal securities laws against the company and certain of our former and current directors and officers, were consolidated in the United States District Court for the Middle District of Florida, Tampa Division. These cases alleged that the Prospectus issued in connection with the initial public offering in May 2002 contained material misrepresentations and omissions regarding the company s historical financial condition and regarding a personal stock transaction by the company s former chief executive officer. They also alleged that our company and certain of its present and former officers and directors engaged in improper revenue recognition with respect to certain of the company s business transactions, failed to maintain adequate internal controls, and knowingly disclosed unrealistic but favorable information about market demand for and commercial viability of the company s products to artificially inflate the value of the company stock.

In addition to the securities class actions, in May 2004, two shareholder derivative actions were filed in the Superior Court of Orange County, California. Shortly thereafter, one additional shareholder derivative action was filed in the United States District Court for the Middle District of Florida, Tampa Division. These derivative actions were brought by certain shareholders against certain of our present and former officers and directors as well as our company (as a nominal defendant). The suits alleged that the defendants breached various fiduciary duties and otherwise violated state law based primarily upon the same underlying facts and circumstances as alleged in the federal securities class action. The settlement also covers these derivative actions.

If approved by the courts, the agreements would settle the consolidated class action litigation entitled *Primavera Investors v. Liquidmetal Technologies, Inc., et al.*, the consolidated shareholder derivative actions entitled *Brian Clair, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al*. and *Joseph Durgin, Derivatively on Behalf of Liquidmetal Technologies, Inc. v. John Kang, et al*., and the shareholder derivative action entitled *Robert Story v. John Kang, et al.,* pending in the United States District Court for the Middle District of Florida, Tampa Division, the Superior Court of Orange County, California, and the United States District Court for the Middle District of Florida, Tampa Division, respectively.

As part of the agreements, our directors and officers liability insurance carriers will contribute a total of $7.5 million to settle all of the actions: $7.025 million for the consolidated class action and $0.475 million for the two derivative actions. The funds paid to settle the consolidated class action will be principally paid into an escrow account within a specified period of time after the federal court grants preliminary approval of the settlement. The funds will be disbursed to certain purchasers of our securities according to a distribution plan to be devised and approved by the federal court. In addition, we will commit to maintaining or implementing various corporate governance measures in connection with the settlement of the derivative actions.

Taking into account the insurance contribution, the net cost of the settlement to us should be approximately $0.5 million, which is the insurance deductible we paid over several quarters ending in the third quarter of 2005, and which we previously recorded as a charge.

PROPERTIES

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

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

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

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

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

MANAGEMENT

Directors

Listed below are the names of each of our directors, together with certain additional information concerning each such director as of July 3, 2006.

Directors with Terms Expiring at 2007 Annual Meeting

Name	**Age**	**Business Experience During Last Five Years**	**Director Since**
James Kang	45	James Kang has served as a director since December 1994 and as executive Founder of our company since August 2003. From December 1994 to June 2001, he served variously as our Chief Executive Officer, President, and Chairman. Mr. Kang received a B.A. degree in Marketing from the University of Illinois in 1983, and an M.B.A. degree from the Kellogg School of Management at Northwestern University in 1985. Mr. Kang is the brother of John Kang, Chairman of the Board of Directors, who was also our Chief Executive Officer and President during 2004.	1994
Ricardo Salas	42	Ricardo Salas was elected as a director by the Board of Directors on December 30, 2005 to fill the vacancy created by Mr. Addonisio s resignation. Also on December 30, 2005, Mr. Salas was elected as President and Chief Executive Officer of the Company. Mr. Salas previously served as a Board member of the Company from April 1995 to May 2003. From January 2000 through June 2005, Mr. Salas served as Chief Executive Officer of iLIANT Corporation, an information technology and outsourcing service firm in the health care industry, and he continues to serve as Chairman of iLIANT. From 1987 through 2004, he was Vice President of J. Holdsworth Capital Ltd., a private investment firm. As an officer of J. Holdsworth Capital Ltd., Mr. Salas held positions in various investments including Medical Manager Corporation as a vice president between June 1999 and January 2000, National Medical Systems, Inc. as vice president between April 1994 and February 1997, and Uni Flange Corporation as vice president between June 1989 and June 1994. He currently serves as a director of VillageEDOCS, a provider of business information delivery services and products. Mr. Salas received a B.A. degree in Economics from Harvard College in 1986.	2005

Directors with Terms Expiring at 2006 Annual Meeting

Dean Tanella	45	Dean G. Tanella was elected as a director in February 2004. Mr. Tanella is a 20-year veteran of the institutional investment business and has worked for such leading firms as Raymond James & Associates, CS First Boston Corp., Adams Harkness & Hill, Drexel Burnham Lanbert, Inc., Kidder Peabody & Co. and the Vanguard Group. Since 1999, Mr. Tanella has served as President of Safe Harbor Capital, LLC and, since 2003, as President of HarborLight Capital, LLC, both of which are private investment firms. Mr. Tanella received his bachelors degree from Princeton University and his MBA from the Harvard Graduate School of Business Administration. In December 2004, Mr. Tanella was also named Executive Vice President Capital Markets Group and a member of the Board of Directors at GunnAllen Financial Inc., a leading independent brokerage firm headquartered in Tampa, Florida.	2004
CK Cho	51	CK Cho was elected as a director in January 2005. Mr. Cho has over 18 years of experience with Samsung Electronics and managed over $700 million annual procurement budget responsible for semi-conductor and telecommunication equipment and other electronic components. He also served as CEO and President of Winvest Venture Partners Inc. and is currently serving as President and CEO of ATIC, an IT Venture Capital Company based in Korea. Mr. Cho received his bachelors degree majoring in Business Administration and Material Sciences from the Korea University of Seoul.	2005

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

John Kang	43	John Kang has been a director of our Company since 1994. From December 1994 to June 2001, he served as Chairman of our Board of Directors in various capacities. From June 2001 until December 30, 2005, Mr. Kang had served variously as our Chief Executive Officer and President. From July 1996 to September 2000, Mr. Kang served variously as Chief Executive Officer, President, and a director of Medical Manager Corporation, a public company traded on the Nasdaq National Market until its sale in September 2000 to WebMD Corporation. From 1988 to 1995, he was Chairman of the board of directors of Clayton Group, Inc., a private company engaged in the distribution of waterworks equipment. Mr. Kang received a B.A. degree in Economics from Harvard College in 1985. Mr. Kang is the brother of James Kang, one of our directors. On December 15, 2005, an indictment naming as defendants ten former officers and directors of Medical Manager Corporation, including our Chairman, John Kang, was filed in the United States District Court for the District of South Carolina (Beaufort Division). Medical Manager Corporation was a publicly traded company in which Mr. Kang was formerly the President and Chief Executive Officer. Mr. Kang was charged in counts for conspiracy to commit securities fraud,	1994

		conspiracy to commit mail fraud and conspiracy to launder money instruments relating to a series of acquisitions that were made by Medical Manager during the years 1996 through 2003, the accounting practices of Medical Manager during that time frame, and the filing of various financial statements during that time frame. Although the indictment is unrelated to Mr. Kang s services as a director and officer of our company, Mr. Kang resigned as our President and Chief Executive Officer on December 30, 2005; however, he continues to serve as Chairman of the Board of our company continues to work for the company on a full-time basis. Mr. Kang has pled not guilty to the indictment and plans to contest the charges vigorously.	
William Johnson, Ph.D.	57	William Johnson, Ph.D., has served as a director since June 2000. From October 2001 to September 2003, he was employed as our executive Vice Chairman of Technology. Since 1988, Professor Johnson has been the Mettler Professor of Engineering and Applied Physics at Caltech. He held a Visiting Professor appointment at the Metal Physics Institute in Gottingen, Germany (1983) and received a Von Humbolt Distinguished Scientist Fellowship in Gottingen (1988). He is the 1995 recipient of the TMS/AIME Hume Rothery Award for his experimental work. He received a B.A. degree in Physics from Hamilton College and a Ph.D. degree in Applied Physics from Caltech. He spent two years at IBM s Research Center (1975-1977). At Caltech, Professor Johnson directed the research that led to the discovery of our bulk Liquidmetal alloy. Professor Johnson is currently a consultant to the Company.	2000
Robert Biehl	63	Robert Biehl has served as a director since January 2005. Mr. Biehl is an executive mentor. In 1976, he founded Masterplanning Group International. As President, he has personally consulted with over 400 clients ranging from start up to multi-billion dollar organizations. He has published 20 books in the area of personal and organizational development. He is a frequent key note speaker at various conferences. Prior to starting Masterplanning Group, Mr. Biehl was an executive staff of World Vision International where he designed and developed the Love Loaf Program, which has raised millions of dollars for hunger worldwide. Mr. Biehl received his B.A. degree in psychology and a Masters Degree in Counseling from Michigan State University.	2005

Term of Directors

Our board of directors is divided into three classes (designated CLASS I, CLASS II, and CLASS III), as nearly equal in number as possible, with each class serving three-year terms expiring at the third annual meeting of stockholders after their elections or until their respective successors have been elected and qualified. CLASS I currently consist of the following directors whose term is scheduled to expire at the 2005 annual meeting of stockholders or the first annual meeting thereafter: John Kang, William Johnson, and Robert Biehl. CLASS II currently consists of the following directors whose term is scheduled to expire at the 2006 annual meeting of stockholders: Dean Tanella and CK Cho.

CLASS III currently consists of the following directors whose term will expire at the 2007 annual meeting of stockholders: James Kang and Rick Salas.

Audit Committee

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

Compensation Committee

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

Corporate Governance and Nominating Committee

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

The Corporate Governance Committee s principal functions include:

developing and maintaining our corporate governance policy guidelines;

developing and maintaining our codes of conduct and ethics;

overseeing the interpretation and enforcement of our Code of Conduct and our Code of Ethics for Chief Executive Officer and Senior Financial and Accounting Officers; and

evaluating the performance of our board, its committees, and committee chairmen and our directors.

selecting and recommending a slate of director nominees for election at each of the Company s annual meeting of the stockholders and recommending to the Board director nominees to fill vacancies or new positions on the Board or its committees that may occur from time to time.

Code of Ethics

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

Director Compensation

Our non-employee directors receive an annual fee of $10,000 for their service to our board and are reimbursed for expenses incurred in attending board and committee meetings. Non-employee directors are also entitled to receive a $10,000 annual cash stipend for each standing board committee (excluding the Audit Committee) on which the director serves. For Audit Committee service, the Audit Committee chairman is entitled to a $35,000 annual stipend, and the other members of the