

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

OR

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

For the transition period from _____ to _____

Commission File No. 000-31332

LIQUIDMETAL TECHNOLOGIES

(Exact name of Registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

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

100 North Tampa St., Suite 3150
Tampa, Florida 33602
(address of principal executive office, zip code)

Registrant's telephone number, including area code: (813) 314-0280

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes No

As of August 9, 2002, there were 40,993,245 shares of the registrant's common stock, no par value, outstanding.

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PART I
FINANCIAL INFORMATION

Item 1 – Financial Statements and Independent Accountants’ Report

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)
(unaudited)

	June 30, 2002	December 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 58,200	\$ 2,230
Trade receivables (net of allowance for doubtful accounts of \$70 in 2002 and \$30 in 2001)	2,148	911
Inventories	885	503
Prepaid expenses and other current assets	866	967
	<u>62,099</u>	<u>4,611</u>
PROPERTY, PLANT AND EQUIPMENT, NET	3,457	1,163
INTANGIBLE ASSETS, NET	935	723
OTHER ASSETS	156	183
	<u>66,647</u>	<u>6,680</u>
LIABILITIES AND SHAREHOLDERS’ EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 3,484	\$ 2,706
Net liabilities of discontinued operations	3,263	7,492
Deferred revenue	902	830
Other liabilities	94	167
Current portion of notes payable to shareholders	—	2,988
	<u>7,743</u>	<u>14,183</u>
OTHER LONG-TERM LIABILITIES	84	—
	<u>7,827</u>	<u>14,183</u>
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	154	—
SHAREHOLDERS’ EQUITY (DEFICIENCY):		
Preferred stock, no par value; 10,000,000 shares authorized and none outstanding at June 30, 2002 and 456,857 outstanding at December 31, 2001	—	5,577
Common stock, no par value; 200,000,000 shares authorized and 40,993,245 issued and outstanding at June 30, 2002 and 35,023,515 issued and outstanding at December 31, 2001	106,519	29,752
Paid in capital	20,857	22,401
Unamortized stock-based compensation	(1,975)	(6,717)
Accumulated deficit	(66,844)	(58,588)
Accumulated foreign exchange translation gain	109	72
	<u>58,666</u>	<u>(7,503)</u>
Total liabilities and shareholders’ equity (deficiency)	<u>\$ 66,647</u>	<u>\$ 6,680</u>

See notes to condensed consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
REVENUE	\$ 2,144	\$ 1,022	\$ 3,607	\$ 1,896
COST OF SALES	1,187	531	1,869	973
Gross Profit	957	491	1,738	923
OPERATING EXPENSES:				
Selling, general and administrative	2,860	634	5,129	1,049
Research and development	1,660	270	4,356	522
Total expenses	4,520	904	9,485	1,571
LOSS BEFORE INTEREST EXPENSE AND INCOME, MINORITY INTEREST AND DISCONTINUED OPERATIONS	(3,563)	(413)	(7,747)	(648)
Interest expense	(791)	(299)	(1,103)	(487)
Interest income	96	—	96	—
LOSS BEFORE MINORITY INTEREST AND DISCONTINUED OPERATIONS	(4,258)	(712)	(8,754)	(1,135)
Minority interest in income of consolidated subsidiary	(10)	—	(10)	—
LOSS FROM CONTINUING OPERATIONS	(4,268)	(712)	(8,764)	(1,135)
DISCONTINUED OPERATIONS:				
Loss from operations of discontinued retail golf segment, net	—	(2,251)	—	(4,138)
Gain from disposal of discontinued retail golf segment, net	1,038	—	508	—
NET LOSS	(3,230)	(2,963)	(8,256)	(5,273)
Foreign exchange translation gain (loss)	161	(2)	37	(1)
COMPREHENSIVE LOSS	\$ (3,069)	\$ (2,965)	\$ (8,219)	\$ (5,274)
PER COMMON SHARE BASIC AND DILUTED:				
Loss from continuing operations	\$ (0.11)	\$ (0.02)	\$ (0.24)	\$ (0.04)
Income (loss) from discontinued operations	\$ 0.03	\$ (0.07)	\$ 0.01	\$ (0.13)
Net loss	\$ (0.09)	\$ (0.09)	\$ (0.23)	\$ (0.16)

See notes to condensed consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

For the Six Months Ended June 30, 2002

(in thousands, except per share data)

(unaudited)

	Preferred Shares	Preferred Stock	Common Shares	Common Stock	Paid in Capital	Unamortized Stock-option Based Compen- sation	Accumu- lated Deficit	Accumu- lated Foreign Exchange Translation Gain (Loss)	Total
Balance, December 31, 2001	456,857	\$ 5,577	35,023,515	\$ 29,752	\$22,401	\$ (6,717)	\$(58,588)	\$ 72	\$ (7,503)
Common stock issued	—	—	5,229,000	78,435	—	—	—	—	78,435
Transaction expenses of initial public offering including commissions	—	—	—	(7,705)	—	—	—	—	(7,705)
Stock options exercised	—	—	283,873	460	—	—	—	—	460
Conversion of preferred stock to common stock	(456,857)	(5,577)	456,857	5,577	—	—	—	—	—
Stock-based compensation	—	—	—	—	(1,544)	1,544	—	—	—
Unamortized stock option based compensation	—	—	—	—	—	3,198	—	—	3,198
Foreign exchange translation gain (loss)	—	—	—	—	—	—	—	37	37
Net loss	—	—	—	—	—	—	(8,256)	—	(8,256)
Balance, June 30, 2002	—	\$ —	40,993,245	\$106,519	\$20,857	\$ (1,975)	\$(66,844)	\$ 109	\$58,666

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2002	2001
OPERATING ACTIVITIES:		
Net loss	\$ (8,256)	\$(5,273)
Loss from operations and (gain) loss on disposition of discontinued operations	(508)	4,138
	<u>(8,764)</u>	<u>(1,135)</u>
Income (loss) from continuing operations	(8,764)	(1,135)
Adjustments to reconcile loss from continuing operations to net cash used by operating activities:		
Gain on sale of property and equipment	(19)	—
Minority interest in income of consolidated subsidiary	10	—
Depreciation and amortization	498	44
Amortization of debt discount	912	323
Stock-based compensation	1,585	—
Bad debt expense	70	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,236)	(106)
Inventories	(182)	(12)
Prepaid expenses and other current assets	229	(115)
Other assets	36	—
Accounts payable and accrued expenses	108	208
Unearned revenue	72	—
Other liabilities	(92)	(87)
	<u>(6,773)</u>	<u>(880)</u>
Net cash used by continuing operations	(6,773)	(880)
Net cash used by discontinued operations	(2,268)	(5,565)
	<u>(9,041)</u>	<u>(6,445)</u>
Net cash used by operating activities	(9,041)	(6,445)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,758)	(95)
Proceeds from sale of property and equipment	129	—
Purchase price of 51% investment in subsidiary, net of cash received of \$407	74	—
Investment in patents and trademarks	(78)	(17)
	<u>(2,633)</u>	<u>(112)</u>
Net cash used by investing activities	(2,633)	(112)
FINANCING ACTIVITIES:		
Proceeds from borrowings	3,500	3,000
Repayment of borrowings	(7,400)	—
Repayment of other liabilities	(4)	—
Proceeds from issuance of common stock (net of offering costs)	70,953	3,477
Stock options exercised	460	425
Repurchase of common stock by subsidiaries, net	—	(22)
	<u>67,509</u>	<u>6,880</u>
Net cash provided by financing activities	67,509	6,880
EFFECT OF FOREIGN EXCHANGE TRANSLATION	135	(1)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,970	(322)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,230	124
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$58,200</u>	<u>\$ 446</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 439	\$ 10

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

The Company has incurred \$223 of expenses related to the initial public offering that have not been paid as of June 30, 2002. In 2002, the Company entered into a lease agreement for \$107 of office furniture that was recorded as a capital lease obligation. In 2001, the Company received such office furniture and recorded it as an accrued liability.

In 2001, \$2,006 of notes payable and accrued interest was converted into the Company's common stock. In 2001, the Company recorded paid in capital of \$1,692 comprised of discounts on notes payable. In 2001, Liquidmetal Golf transferred and assigned to the Company two subordinated promissory notes in exchange for the Company's common stock in the amount of \$2,000.

In 2002 and 2001, respectively, the Company recorded a net addition to shareholders' equity of \$1,613 and \$577 comprised of stock-based compensation in the discontinued retail golf operations. Additionally, there was a \$98 foreign exchange loss effect in the discontinued retail golf operations.

See notes to condensed consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Three months and Six Months Ended June 30, 2002 and 2001 (In Thousands, Except Share Data)

1. Description of Business

Liquidmetal Technologies ("Liquidmetal Technologies") and its subsidiaries (collectively "the Company") are in the business of developing, manufacturing, and marketing products made from amorphous alloys. Liquidmetal Technologies markets and sells Liquidmetal® alloy industrial coatings and also makes products and components from bulk Liquidmetal alloys that can be incorporated into the finished goods of its customers across a variety of industries.

The Company classifies operations into two reportable segments: Liquidmetal alloy industrial coatings and products made from bulk Liquidmetal alloys. The Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal-burning power plants. Products made from bulk Liquidmetal alloys include potential market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods and defense applications. In the three months and six months ended June 30, 2001, the Company derived a majority of its revenue from the operation of its retail golf segment, now accounted for as a discontinued operation. The retail golf segment marketed golf clubs manufactured with the Company's bulk Liquidmetal alloy. The Company outsourced the manufacturing of the golf clubs.

2. Basis of Presentation and Recent Accounting Pronouncements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. In addition, certain reclassifications have been made for consistent presentation. Operating results for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2002. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's Registration Statement on Form S-1, as amended, filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002 (Registration No. 333-73716).

New Accounting Pronouncements. In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill should be amortized over their useful lives. Implementation of SFAS No. 141 and SFAS No. 142 is required for fiscal year 2002. The adoption of SFAS No. 141 and 142 did not have a material impact on the Company's financial statements.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which such liabilities are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs should be capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Adoption of SFAS No. 143 is not expected to have a material impact on the Company's financial statements.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Three months and Six Months Ended June 30, 2002 and 2001 (In Thousands, Except Share Data)

Issued in October 2001, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, replaces SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of Accounting Principles Board ("APB") Opinion No. 30, *Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business*, for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. In 2002, the Company adopted SFAS No. 144 which did not result in a material impact to the Company's financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds SFAS No. 4, *Reporting Gains and Losses from Extinguishment of Debt*, and an amendment of that Statement, SFAS No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements*. This Statement also rescinds SFAS No. 44, *Accounting for Intangible Assets of Motor Carriers*. SFAS No. 145 amends SFAS No. 13, *Accounting for Leases*, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement 4 are required to be applied in fiscal years beginning after May 15, 2002. The provisions in paragraphs 8 and 9(c) of this Statement related to Statement 13 are required to be applied to transactions occurring after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB No. 30 for classification as an extraordinary item is required to be reclassified. All other provisions of this Statement are effective for financial statements issued on or after May 15, 2002. The Company elected to early adopt SFAS No. 145 during the six month period ended June 30, 2002. The effect of adopting SFAS No. 145 was to increase interest expense by \$532, increase net loss from continuing operations by \$532, and to increase basic and diluted loss from continuing operations per share by \$0.01.

3. Inventories

At June 30, 2002, inventories from continuing operations were comprised of \$364 of coatings finished goods and \$521 of raw materials. At December 31, 2001, inventories from continuing operations were comprised of \$317 of coatings finished goods and \$186 of raw materials.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three months and Six Months Ended June 30, 2002 and 2001
(In Thousands, Except Share Data)

4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2002	December 31, 2001
Machinery and equipment	\$1,563	\$ 234
Computer equipment	299	126
Office equipment, furnishings and improvements	400	253
Construction in process of machinery and equipment and plant	1,667	808
	3,929	1,421
Accumulated depreciation	(472)	(258)
	\$3,457	\$ 1,163

Depreciation expense was approximately \$146 and \$17 for the three months ended June 30, 2002 and 2001; and \$450 and \$32 for the six months ended June 30, 2002 and 2001, respectively.

5. Intangible Assets

Intangible assets consisted of the following:

	June 30, 2002	December 31, 2001
Purchased and licensed patent rights	\$ 450	\$ 420
Internally developed patents	555	506
Trademarks	63	66
Goodwill	184	—
	1,252	992
Accumulated amortization	(317)	(269)
	\$ 935	\$ 723

Amortization expense was approximately \$29 and \$6 for the three months ended June 30, 2002 and 2001; and \$48 and \$12 for the six months ended June 30, 2002 and 2001, respectively.

On June 28, 2002, the Company acquired a 51% interest in Chusik Hoesa Dongyang Yudoro ("Dongyang"). The results of Dongyang's operations have been included in the consolidated financial statements since that date. The aggregate purchase price was \$333 and was purchased with cash.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three months and Six Months Ended June 30, 2002 and 2001
(In Thousands, Except Share Data)

The following table summarizes the estimated fair values of the net assets held by Dongyang as of June 28, 2002:

Cash	\$ 407
Accounts receivable	71
Inventories	200
Other current assets	126
Property, plant and equipment, net	34
Other long-term assets	9
	<u> </u>
Total assets	847
Total liabilities	(554)
	<u> </u>
Net assets acquired	\$ 293
	<u> </u>

The difference between the purchase price of \$333 and the Company's investment in 51% of the net assets of Dongyang was assigned to Goodwill in the amount of \$184.

6. Notes Payable to Shareholders

The notes payable activity for the six months ended June 30, 2002 is shown in the following table:

	December 31, 2001	Borrowings	Repayments	June 30, 2002
Kang/Salas 8.5%, principal \$1,500	\$ 1,400	\$ —	\$ (1,400)	\$ —
Tjoa 8.5%, principal \$1,500	1,500	—	(1,500)	—
Kang 8.0%, principal \$2,000	—	2,000	(2,000)	—
Tjoa 8.0%, principal \$1,000	1,000	—	(1,000)	—
Kang 8.0%, principal \$750	—	750	(750)	—
Tjoa 8.0%, principal \$750	—	750	(750)	—
	<u>3,900</u>	<u>3,500</u>	<u>(7,400)</u>	<u>—</u>
Less debt discount	(912)			
	<u>2,988</u>			
Less current portion	(2,988)			
Notes payable less current portion, net of discounts	<u>\$ —</u>			

Kang 8.0%, principal \$2,000 - On March 12, 2002, the Company borrowed \$2,000 on an unsecured basis from Mr. John Kang that was due on the earlier of May 1, 2003 or the closing of an initial public offering. The Company elected to repay the note upon the closing of the initial public offering.

Kang 8.0%, principal \$750 - On April 3, 2002, the Company borrowed \$750 on an unsecured basis from Mr. John Kang that was due on the earlier of July 1, 2003 or the closing of the initial public offering. The Company elected to repay the note upon the closing of an initial public offering.

Tjoa 8.0% - On April 3, 2002, the Company borrowed \$750 on an unsecured basis from Mr. Tjoa that was due on the earlier of July 1, 2003 or the closing of an initial public offering. The Company elected to repay the note upon the closing of the initial public offering.

Total interest expense, including the debt discount amortization on the notes payable to shareholders, was \$791 and \$299 for the three months ended June 30, 2002 and 2001, respectively; and \$1,103 and \$487 for the six months ended June 30, 2002 and 2001, respectively. Included in the total interest expense is \$532 of accelerated amortization of the remaining unamortized debt discount upon the early repayment of the Kang/Salas 8.5% and the Tjoa 8.5% promissory notes in May of 2002.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three months and Six Months Ended June 30, 2002 and 2001
(In Thousands, Except Share Data)

7. Discontinued Operations

On April 30, 2002, management terminated the operations of the retail golf segment by means of liquidating substantially all of the retail golf assets and liabilities. The disposition of the retail golf operations represents the disposal of a business segment. Accordingly, the accompanying condensed consolidated financial statements reflect the retail golf segment as a discontinued operation for all periods presented.

Subsequent to April 30, 2002, the Company had a net gain change in estimate of \$1,038 on the disposal of the discontinued retail golf segment that was primarily due to a change in estimated value of stock-based compensation. The change in estimated value of the stock-based compensation was a result of a decrease in the fair market value of the common shares underlying the options granted to Paul Azinger of \$1,607 in June 2002. This gain was partially offset by other changes in the estimated loss on disposal that included; \$312 of additional operating expenses, \$57 increase in the allowance for doubtful accounts and \$200 primarily for the reduction of the estimated disposal value of work-in-process inventory and equipment.

Net liabilities of the discontinued operations of the retail golf segment have been segregated on the balance sheets presented, the components of which are as follows:

	<u>June 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Assets:		
Cash	\$ 114	\$ 317
Accounts receivable, net	150	321
Inventories	—	1,468
Property and equipment, net	—	78
	<u>264</u>	<u>2,184</u>
Liabilities:		
Current liabilities	3,527	9,676
	<u>3,527</u>	<u>9,676</u>
Net liabilities of discontinued operations	<u>\$(3,263)</u>	<u>\$ (7,492)</u>

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three months and Six Months Ended June 30, 2002 and 2001
(In Thousands, Except Share Data)

The results of operations for all periods presented have been restated for discontinued operations. The operating results of the discontinued operations are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
Net sales	\$ —	\$ 1,343	\$ —	\$ 1,963
Cost of sales	—	1,014	—	1,423
Gross profit	—	329	—	540
Operating expenses	—	2,580	—	4,678
Loss from operations	—	(2,251)	—	(4,138)
Gain on disposal	1,038	—	508	—
Net income (loss)	1,038	(2,251)	508	(4,138)
Foreign exchange translation loss during the period	—	(2)	(98)	(1)
Comprehensive income (loss)	\$ 1,038	\$ (2,253)	\$ 410	\$ (4,139)

8. Income Taxes

The provision for income tax benefit (expense) for the six months ended June 30, 2002 and 2001, respectively, was calculated through the use of the estimated annual income tax rates based on projected annualized income (loss). The Company estimated an effective tax rate of 0% during the six months ended June 30, 2002 and 2001, respectively, based on the Company's reported losses.

9. Income (Loss) Per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Weighted average basic shares	37,697,190	33,046,818	36,395,648	32,124,827
Effect of dilutive securities:				
Stock options	—	—	—	—
Warrants	—	—	—	—
Diluted shares	37,697,190	33,046,818	36,395,648	32,124,827

The conversion of preferred stock to common stock was not included in the computation of diluted EPS for the three months and six months ended June 30, 2001 as the inclusion would be antidilutive. The conversion of the preferred stock to common stock upon the closing of the initial public offering on May 28, 2002 was included in the basic EPS for the three months and six months ended June 30, 2002. The effect of outstanding options and warrants to purchase common stock was excluded in all period presented because the inclusion would have been antidilutive.

10. Initial Public Offering

Pursuant to the Company's Registration Statement on Form S-1, as amended, filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002, (Registration No. 333-73716), the Company closed an initial public offering of 5,000,000 registered shares of common stock on May 28, 2002, plus an additional 229,000 shares on June 10, 2002 pursuant to an overallotment option, at a price of \$15.00 per share (which sale is referred to herein as the "Offering"). The Offering generated net cash proceeds for the Company during the second quarter 2002 of approximately \$70,730, net of underwriting commissions of \$5,490 and other transaction fees of approximately \$2,215. The managing underwriters for the Offering were Merrill Lynch & Co., UBS Warburg and Robert W. Baird & Co.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three months and Six Months Ended June 30, 2002 and 2001
(In Thousands, Except Share Data)

11. Segment Reporting and Major Customers

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, requires companies to provide certain information about their operating segments. In April 2002, the Company began classifying operations into two reportable segments: Liquidmetal alloy industrial coatings and products made from bulk Liquidmetal alloys. The Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants. Products made from bulk Liquidmetal alloys include potential market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods and defense applications. Primarily, the expenses incurred by the bulk Liquidmetal alloy segment are research and development costs and selling expenses associated with identifying and developing potential market opportunities. Bulk Liquidmetal alloy products can be distinguished from Liquidmetal alloy coatings in that the bulk Liquidmetal alloy can have significant thickness, up to approximately one inch which allows for their use in a wider variety of applications other than a thin protective coating applied to machinery and equipment. Revenue and expenses associated with research and development services are included in the bulk Liquidmetal alloy segment. The accounting policies of the reportable segments are the same as those described in Note 2 to the consolidated financial statements included in the Company's Prospectus filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002, (Registration No. 333-73716), pursuant to Rule 424(b)(1) of the Securities Act of 1933.

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

	<u>Coatings</u>	<u>Bulk Alloy Products</u>	<u>Segment Totals</u>
Three months ended June 30, 2002:			
Revenue to external customers	\$1,335	\$ 809	\$ 2,144
Gross profit (loss)	643	314	957
Income (loss) before minority interest, interest expense and discontinued operations	463	(2,080)	(1,617)
Total identifiable assets at end of period	1,650	6,475	8,125
Three months ended June 30, 2001:			
Revenue to external customers	\$1,022	\$ —	\$ 1,022
Gross profit (loss)	494	(3)	491
Income (loss) before minority interest, interest expense and discontinued operations	94	9	103
Total identifiable assets at end of period	1,048	47	1,095
Six months ended June 30, 2002:			
Revenue to external customers	\$2,628	\$ 979	\$ 3,607
Gross profit (loss)	1,255	483	1,738
Income (loss) before minority interest, interest expense and discontinued operations	926	(5,035)	(4,109)
Total identifiable assets at end of period	1,650	6,475	8,125
Six months ended June 30, 2001:			
Revenue to external customers	\$1,849	\$ 47	\$ 1,896
Gross profit (loss)	900	23	923
Income (loss) before minority interest, interest expense and discontinued operations	122	28	150
Total identifiable assets at end of period	1,048	47	1,095

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three months and Six Months Ended June 30, 2002 and 2001
(In Thousands, Except Share Data)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
Total segment income (loss) before interest expense and discontinued operations	\$ (1,617)	\$ 103	\$ (4,109)	\$ 150
General and administrative expenses	(1,946)	(516)	(3,638)	(798)
Consolidated loss before interest expense, minority interest and discontinued operations	(3,563)	(413)	(7,747)	(648)
Interest expense	(791)	(299)	(1,103)	(487)
Interest income	96	—	96	—
Minority interest in income of consolidated subsidiary	(10)	—	(10)	—
Loss from operations of the discontinued retail golf segment, net	—	(2,251)	—	(4,138)
Gain from disposal of discontinued retail golf segment, net	1,038	—	508	—
CONSOLIDATED NET LOSS	\$ (3,230)	\$ (2,963)	\$ (8,256)	\$ (5,273)

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

	June 30, 2002	June 30, 2001
Total segment assets	\$ 8,125	\$1,095
Cash and cash equivalents	56,397	446
Prepaid expenses and other current assets	497	165
Other property, plant & equipment	803	225
Other assets	73	34
Intangibles, net	752	603
Total assets of continuing operations	66,647	2,568
Net assets of discontinued operations	—	2,377
Total consolidated assets	\$66,647	\$4,945

Certain customers in the Company's coatings segment accounted for more than 10% of revenues from continuing operations as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
Grant Prideco	13%	33%	23%	26%
TAFA, Inc.	13%	14%	11%	13%
Smith International	15%	14%	13%	15%
Hardface Alloys, Inc.	11%	10%	6%	9%
Texas Steel Conversions	9%	—	10%	—

The principal markets for the Company's products from continuing operations have been in the United States. Revenues earned outside of the United States, primarily in Korea, were \$279 for the three months and six months ended June 30, 2002.

Long-lived assets, which include net property, plant and equipment, located in the United States amounted to \$803 and \$1,078 at June 30, 2002 and December 31, 2001, respectively. The Company had long-lived assets of \$2,654 and \$808 located in Korea at June 30, 2002 and December 31, 2001, respectively.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Three months and Six Months Ended June 30, 2002 and 2001 (In Thousands, Except Share Data)

12. Related Party Transactions

Related party transactions include subordinated promissory notes issued to certain shareholders, the related interest incurred on the notes and the repayment of such notes (see Note 6). Additionally, two of the holders of the shareholder promissory notes (see Note 6) are directors and one such note holder is an officer of the Company. The Company has a consulting agreement with a former employee and officer that provides for the payment of annual consulting fees of \$50 through the year ended December 31, 2005. For this same former employee and officer, the Company has an accrued severance balance of \$75 at June 30, 2002 and \$167 at December 31, 2001. A company managed and partially owned by one of our board of directors provides technical support services and computer equipment to the Company. As of June 30, 2002, the Company had incurred \$37 of expenses and equipment purchases related to this arrangement.

A company partially owned and managed by an employee of the Company purchased primarily work-in-process inventory and equipment in the discontinued retail golf segment in the amount of \$250 in March, 2002. Of this amount, \$50 remained receivable from the employee at March 31, 2002. The proceeds from the transaction were considered in determining the net realizable value of the inventory of the discontinued retail golf segment. During the second quarter of 2002, both parties agreed to rescind the transaction. The effect of this rescission is included as an increase of \$200 to the loss on disposal of the discontinued retail golf segment as of June 30, 2002.

On July 29, 2002, the Company invested \$2,000 in Growell Metal, Inc. ("Growell"), a metals processing company located in South Korea and publicly traded on South Korea's KOSDAQ stock market. The Company acquired an estimated 5% of Growell's outstanding common stock in this transaction. The Company has accounted for this investment as an available for sale security in accordance with SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities*. Currently, Growell holds 92,167 shares (or approximately 0.002%) of the Company's common stock.

The Company has engaged Growell to produce Liquidmetal alloy ingots for the Company to purchase and use as a raw material in the production of products and components. During the second quarter of 2002, the Company sold a machine to Growell for \$129 to be used in the production of Liquidmetal alloy ingots to be purchased by the Company.

During the second quarter of 2002, the Company provided to Growell Telecom, Inc. ("Growell Telecom"), a public company located in South Korea and an affiliate of Growell, technical support services for \$37 and sample products for \$23. Prior to June 30, 2002, Growell Telecom issued a purchase order to the Company for production quantities of casing components.

Independent Accountants' Report

To the Board of Directors and Shareholders of
Liquidmetal Technologies

We have reviewed the accompanying condensed consolidated balance sheet of Liquidmetal Technologies and subsidiaries (the "Company") as of June 30, 2002, the related condensed consolidated statements of operations and comprehensive loss, and cash flows for the three-month and six-month periods ended June 30, 2002 and 2001 and the condensed consolidated statements of shareholders' equity (deficiency) for the six months ended June 30, 2002. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Liquidmetal Technologies and subsidiaries as of December 31, 2001, and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for the year then ended (not presented herein) and in our report dated April 4, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2001 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche LLP
Certified Public Accountants

Tampa, Florida
July 19, 2002

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

Liquidmetal Technologies and Subsidiaries Management's Discussion and Analysis of Financial Condition And Results of Operations

This discussion should be read in the conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the Company's Registration Statement on Form S-1, as amended, filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002 (Registration No. 333-73716).

This management's discussion and analysis, as well as other sections of this report of Form 10-Q, may contain "forward-looking statements" that involve risks and uncertainties, including statements regarding our plans, future events, objectives, expectations, forecasts, or assumptions. Any statement that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as "believe," "estimate," "project," "expect," "intend," "may," "anticipate," "plans," "seeks," and similar expressions identify forward-looking statements. These statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results, and undue reliance should not be placed on these statements. These risks and uncertainties may include: our limited operating history in developing and manufacturing products from bulk amorphous alloys; the adoption of our alloys by customers; the commercial success of our customer's products; our ability to identify, develop, and commercialize new applications for our alloys; competition with suppliers of incumbent materials; the development of new materials that render our alloys obsolete; the ability to manage our anticipated growth; our limited direct experience in manufacturing bulk alloy products; scaling-up our manufacturing facilities; protecting our intellectual property; problems associated with manufacturing and selling our alloys outside of the United States; and other risks and uncertainties discussed in filings made with the Securities and Exchange Commission (including risks described in subsequent reports on Form 10-Q, Form 10-K, Form 8-K, and other filings). Liquidmetal Technologies disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

OVERVIEW

We are in the business of developing, manufacturing, and marketing products made from amorphous alloys. We market and sell Liquidmetal alloy industrial coatings and make products from bulk Liquidmetal alloys that can be incorporated into the finished goods of our customers. Since our inception in 1987, we have marketed and sold industrial coatings made from our proprietary amorphous alloys. In 1993, we acquired an exclusive license to commercialize what we believe is the world's first commercially viable bulk Liquidmetal alloy, and we began selling products made from this alloy in 1997.

The historical operating information contained in this section is based substantially on our coatings business, which we believe will constitute a diminishing percentage of our business in the near future. We only recently began producing bulk Liquidmetal alloy components and products for incorporation into our customers' finished goods. While we anticipate this business will generate substantially all of our revenue in the near future, we have generated minimal revenue from this marketing effort to date. We will be focusing our initial commercialization efforts primarily on applications for products with high unit volumes that are sold in major industries. We expect that these new sources of revenues will significantly change the current size and character of our revenue mix.

The cost of sales for our Liquidmetal coatings consists primarily of the costs incurred in outsourcing our manufacturing to a third party. We expect that our cost of sales will change significantly from historical results as we further develop our bulk Liquidmetal alloy business. Although we plan to continue outsourcing the manufacturing of our coatings, we intend to internally manufacture applications derived from our bulk Liquidmetal alloys. By manufacturing our products in our own facilities with our own equipment, we expect to reduce costs, protect know-how, and achieve efficiencies. However, we expect to incur substantial capital expenses as we establish our manufacturing capabilities.

Selling, general, and administrative expenses currently consist primarily of marketing and advertising, salaries and related benefits, stock-based compensation, professional fees, administrative expenses, and other expenses related to our operations. While many of these same expenses will continue, we expect that the amounts incurred of these expenses will

increase significantly in support of the expanding operations, facilities, and applications offered. For example, we intend to hire additional personnel to manage our manufacturing activities and the sales and marketing of new applications.

Research and development expenses represent salaries, related benefits expense, stock-based compensation, expenses incurred for the design and testing of new processing methods, 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 expect these research and development efforts to increase significantly, as will our expenses relating to these efforts.

Our historical operations included our coatings business and our retail golf operation conducted through our majority owned Liquidmetal Golf subsidiary. On September 29, 2001, our board of directors and the board of directors of Liquidmetal Golf voted to discontinue the retail golf operations of Liquidmetal Golf in order to conform our operations to our 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 Liquidmetal Golf's retail golf operations. The revenues, costs and expenses, assets and liabilities, and cash flows of the retail golf business were segregated in our 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 retail golf business were reported as discontinued operations in our annual consolidated financial statements and the condensed consolidated financial statements included in this Form 10-Q. On April 30, 2002, management terminated the operations of the retail golf segment by means of liquidating the retail golf assets and liabilities.

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

RESULTS OF OPERATIONS

Comparison of the three months ended June 30, 2002 and 2001

Revenues. Revenues increased to \$2.1 million in the three months ended June 30, 2002 from \$1.0 million in the three months ended June 30, 2001. This increase was primarily due to increased revenue recognized from research and development contracts with the Department of Defense related to our bulk Liquidmetal alloys, the prototyping of bulk Liquidmetal alloy parts for customers and increased sales of our Liquidmetal alloy coatings to the hard-faced coatings industry resulting from increased marketing efforts. Revenues from research and development contracts increased to \$0.5 million in the three months ended June 30, 2002 from \$0.0 million in the three months ended June 30, 2001 and revenue from the sales of Liquidmetal coatings products increased \$0.3 million. The balance of the increase in revenue was attributable to \$0.2 million from the sale of molds and tools related to the prototyping of samples for our customers as well as \$0.1 million in revenue recognized from equipment sales through our newly acquired subsidiary, Chusik Hoesa Dongyang Yudoro, as discussed further in the Liquidity and Capital Resources section below.

Cost of Sales. Cost of sales increased to \$1.2 million, or 55% of revenue, in the three months ended June 30, 2002 from \$0.5 million, or 52% of revenue, in the three months ended June 30, 2001. This increase was primarily a result of increased costs to support our research and development contracts and costs related to sales of our Liquidmetal alloy coatings. The increase in cost of sales as a percentage of revenue was the result of increased materials costs required for the research and development contracts in the three months ended June 30, 2002.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased to \$2.9 million, or 133% of revenue, in the three months ended June 30, 2002, from \$0.6 million, or 62% of revenue, in the three months ended June 30, 2001. This increase was primarily a result of increased wages of \$1.1 million, increased professional fees of \$0.3 million, increased insurance expenses of \$0.1 million, and increased travel expenses of \$0.2 million. These and other increases in selling, general and administrative expenses represent the continued additions to 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 increased to \$1.7 million, or 77% of revenue, in the three months ended June 30, 2002 from \$0.3 million, or 26% of revenue, in the three months ended June 30, 2001. This increase was partially a result of expenses related to the continued research and development of new Liquidmetal alloys and related processing capabilities, including the hiring of additional research employees, developing new manufacturing techniques, and contracting with consultants to advance the development of Liquidmetal alloys. Specifically, salaries and wages increased \$0.4 million, travel related expenses increased \$0.2 million, laboratory and prototyping expenses increased \$0.3 million, and contracted services increased \$0.2 million.

Interest (Expense) Income, Net. Interest expense, net, increased to \$0.7 million, or 32% of revenue, in the three months ended June 30, 2002 from \$0.3 million, or 29% of revenue, in the three months ended June 30, 2001. This increase was primarily due to the amortization of the fair value of warrants granted in connection with subordinated promissory notes issued in February 2001. In the three months ended June 30, 2002, these subordinated promissory notes were paid, requiring the unamortized fair value of the warrants granted in connection with these subordinated promissory notes to be expensed fully in the three months ended June 30, 2002 in the amount totaling \$0.5 million. Also in the three months ended June 30, 2002, we earned \$0.1 million in interest income from the investment of the net proceeds of our initial public offering.

Comparison of the six months ended June 30, 2002 and 2001

Revenues. Revenues increased to \$3.6 million in the six months ended June 30, 2002 from \$1.9 million in the six months ended June 30, 2001. This increase was primarily due to increased sales of our Liquidmetal alloy coatings to the hard-faced coatings industry resulting from increased marketing efforts and revenue recognized from research and development contracts with the Department of Defense related to our bulk Liquidmetal alloys. Revenues from the sales of Liquidmetal coatings products increased \$0.8 million and revenues from our research and development contracts increased \$0.6 million. The balance of the increase in revenue was attributable to \$0.2 million from the sale of molds and tools related to the prototyping of samples for our customers as well as \$0.1 million in revenue recognized from equipment sales through our newly acquired subsidiary, Chusik Hoesa Dongyang Yudoro, as discussed further in the Liquidity and Capital Resources section below.

Cost of Sales. Cost of sales increased to \$1.9 million, or 52% of revenue, in the six months ended June 30, 2002 from \$1.0 million, or 51% of revenue, in the six months ended June 30, 2001. This increase was primarily a result of increased costs to support the increased sales of our Liquidmetal alloy coatings and increased costs to support our research and development contracts. The increase in cost of sales as a percentage of revenue was the result of increased materials costs required for the research and development contracts in the three months ended June 30, 2002.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased to \$5.1 million, or 142% of revenue, in the six months ended June 30, 2002 from \$1.0 million, or 55% of revenue, in the six months ended June 30, 2001. This increase was primarily a result of increased wages of \$2.0 million, increased stock-based compensation of \$0.1 million, increased insurance expenses of \$0.1 million, increased professional fees of \$0.6 million, and increased travel expenses of \$0.4 million. These and other increases in selling, general and administrative expenses represent the continued additions to 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 increased to \$4.4 million, or 121% of revenue, in the six months ended June 30, 2002 from \$0.5 million, or 28% of revenue, in the six months ended June 30, 2001. This increase was partially a result of expenses related to the continued research and development of new Liquidmetal alloys and related processing capabilities, including the hiring of additional research employees, developing new manufacturing techniques, and contracting with consultants to advance the development of Liquidmetal alloys. Salaries and wages increased \$0.8 million, travel related expenses increased \$0.3 million, laboratory and prototyping expenses increased \$0.7 million, and contracted services increased \$0.2 million. The increase in research and development expenses in the six months ended June 30, 2002 also included \$0.2 million in accelerated depreciation attributable to the acceleration of the estimated useful lives of certain capitalized research and development equipment and \$1.4 million of stock-based compensation expense primarily triggered by modifications made to accelerate the remaining vesting periods of stock options in connection with the hiring of certain consultants as employees in March 2002.

Interest (Expense) Income, Net. Interest expense, net increased to \$1.0 million, or 28% of revenue, in the six months ended June 30, 2002 from \$0.5 million, or 26% of revenue, in the six months ended June 30, 2001. This increase was primarily due to the amortization of the fair value of warrants granted in connection with subordinated promissory notes we issued in February 2001. In the six months ended June 30, 2002, these subordinated promissory notes were paid, requiring the unamortized fair value of the warrants granted in connection with these subordinated promissory notes to be expensed fully in the six months ended June 30, 2002 in an amount totaling \$0.5 million. Also in the three months ended June 30, 2002, we earned \$0.1 million in interest income from the investment of the net proceeds of our initial public offering.

LIQUIDITY AND CAPITAL RESOURCES

Our operating activities, including our discontinued retail golf operations, used cash of \$9.0 million for the six months ended June 30, 2002 and used cash of \$6.4 million for the six months ended June 30, 2001. Cash used in operating activities for the six months ended June 30, 2002 resulted primarily from net cash used by discontinued operations of \$2.3 million and net cash used by continuing operations of \$6.8 million. Cash used in operating activities for the six months ended June 30, 2001, resulted primarily from net cash used by discontinued operations of \$5.6 million and net cash used by continuing operations of \$0.9 million. We have working capital of \$54.4 million as of June 30, 2002.

Our investing activities used cash of \$2.6 million for the six months ended June 30, 2002 primarily for the acquisition of machinery and equipment in connection with the construction and development of our South Korean manufacturing facility totaling \$2.5 million, net of proceeds from the sale of property and equipment of \$0.1 million. Included in the investing activities for the six months ended June 30, 2002 was the investment of \$0.3 million, resulting in \$0.1 million net of cash received, in Chusik Hoesa Dongyang Yudoro ("Dongyang"), a South Korean company, whereby we acquired 51% of the outstanding stock of Dongyang. Dongyang manufactures equipment critical to the manufacturing of our bulk Liquidmetal alloys. The acquisition of a controlling interest in Dongyang allows us to better control the manufacturing equipment supply chain relating to the manufacture of our bulk Liquidmetal alloys. We also invested \$0.1 million in patents and trademarks related to our Liquidmetal alloys during the six months ended June 30, 2002. Investing activities used cash of \$0.1 million for the six months ended June 30, 2001 primarily from the acquisition of furniture and equipment.

Our financing activities provided \$67.5 million in cash for the six months ended June 30, 2002 and primarily included \$71.0 million, net of transaction costs paid, received from our initial public offering. Included in the financing activities is \$3.5 million of cash borrowed through the issuance of debt prior to the initial public offering and \$7.4 million used to repay all of the outstanding debt obligations of our Company. Also received in the six months ended June 30, 2002 was \$0.5 million from the exercise of stock options. Financing activities provided \$6.9 million in cash for the six months ended June 30, 2001. This amount includes \$3.5 million from the sale of shares of our common stock, \$0.4 million from exercises of options to purchase shares of our common stock, and \$3.0 million from the issuance of promissory notes.

We currently anticipate significant capital expenditures for at least the next 12 months, primarily for the construction and development of manufacturing facilities. In addition to our first leased manufacturing facility in Incheon, South Korea, we have finished construction of a new plant in Pyoungtaek, South Korea, which is approximately 13,000 square feet in size. This plant is immediately adjacent to a larger 153,000 square foot plant that is currently under construction. We expect the 153,000 square foot plant to be completed by the end of the third quarter of 2002. The larger plant was originally intended to be 110,000 in square feet, but due to economies of adding additional square footage while under construction, we expanded the size of the facility to accommodate additional manufacturing equipment. We also currently intend to build-out our leased facility in Pinellas County, Florida to provide research, development, and testing capabilities, as well as possible prototype manufacturing capabilities. We anticipate that our capital expenditures will be approximately \$20 to \$25 million over the next six months, and approximately \$10 to \$15 million in 2003 for the construction and equipping of our manufacturing facilities and 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 orders that we actually receive from customers.

Our capital requirements during the next 12 months will depend on numerous factors, including the success of our existing products, the development of new applications for Liquidmetal alloys, and the resources we devote to develop and support our Liquidmetal alloy products. During the next 12 months, we expect to devote substantial capital to expand our sales and marketing capabilities, to expand our research and development activities, to develop or acquire additional manufacturing facilities, and for working capital and other general corporate purposes. These additional expenses and capital expenditures will consume a material amount of our cash resources, including a portion of the net proceeds of our initial public offering. Our liquidity is not dependent upon the use of off-balance sheet financing arrangements, such as securitization of receivables or obtaining access to assets through special purpose entities.

We intend to continue to develop our manufacturing resources and capabilities. Additionally, we anticipate significant growth in our working capital requirements from our expanding bulk Liquidmetal alloy business. However, the amount of these requirements will depend on the nature and amount of orders we receive for the purchase of our bulk Liquidmetal alloy products. We believe the net proceeds received from our initial public offering, together with our anticipated cash flows from our bulk Liquidmetal alloy business, will be sufficient to fund our long-term liquidity requirements. We may, however, need to raise additional funds through private or public debt or equity financings, although there is no guarantee that additional capital will be available or, if available, will be on terms acceptable to us.

We are a party to a distribution agreement whereby we granted to a third party exclusive rights to market and sell golf products incorporating Liquidmetal technology to certain Japanese sporting equipment companies. The third party paid us a \$1.0 million distribution fee as part of this distribution agreement, of which a portion was refundable according to a formula based on the gross profit earned by the third party. None of the distribution fee has been refunded, and we do not believe it is entitled to be refunded.

USE OF PROCEEDS

Pursuant to the Company's Registration Statement on Form S-1, as amended, filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002, (Registration No. 333-73716), the Company 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 overallotment option, at a price of \$15.00 per share (which sale is referred to herein as the "Offering"). The Offering generated aggregate cash proceeds for the Company 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 June 30, 2002, the Company used approximately \$7.8 million of its net proceeds from the Offering to repay all of its outstanding promissory notes and accrued interest. Additionally, the Company used \$0.8 million to partially fund the construction of our manufacturing facilities in South Korea, \$0.6 million to purchase equipment used to manufacture Liquidmetal parts, and \$0.3 million that was used to purchase the 51% interest in Dongyang. As of June 30, 2002, the Company used approximately \$2.6 million of the net proceeds for working capital excluding \$1.1 million paid to Paul Azinger for amounts due under the terms of his endorsement agreement. We have invested the remaining net proceeds of this offering in short-term, investment grade, interest-bearing securities. We intend to use the remaining net proceeds of the offering for the construction of our manufacturing facility in South Korea, additional equipment used to manufacture Liquidmetal parts, and working capital purposes. Additionally, management may determine to fund all or a portion of the costs of any acquisitions of complementary businesses we determine to pursue in the future with proceeds from the Offering, although there are no assurances that we will be able to successfully identify or consummate any such acquisitions.

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:

- We have accounted for our retail golf business as a discontinued operation. In calculating the loss on disposal of our retail golf business, we made certain estimates with regard to the valuation of the assets and liabilities of the retail golf business. Estimates were made for the collectability of accounts receivables, the liquidation value of inventories, the liquidation of certain other operating assets, and the estimated future losses of the retail golf business through the estimated disposal date of April 30, 2002. Also included in the loss on disposal is our estimate of stock option compensation expense attributable to an endorsement contract. The estimated stock option expense is based in part on an estimated future common stock price. If the market price of our common stock fluctuates from our estimate over the remaining life of the endorsement contract, the estimated stock option expense may be subject to significant volatility. To the degree actual results vary from any of these estimates or management adjusts the estimates, the accounting of the loss on disposal of discontinued operations may increase or decrease and cash received from the liquidation of these assets may not meet our estimates. During the six months ended June 30, 2002, the Company recorded a \$1.6 million reduction to the estimated loss on disposal of the discontinued retail golf segment due to a change in the estimated stock option value attributable to options granted pursuant to an endorsement agreement. The change in the estimated stock option value was due to a change in the market price of the underlying common stock.
- We have recorded stock-based compensation expense related to the issuance of stock options to non-employees. To the extent that these non-employees have not completed the services required to earn the options, we are required to value these option grants based on their fair market value, which is based in part on the underlying market price of our common stock at the time the financial statements are presented. If the market price of our common stock increases over the period in which the non-employees earn the stock option awards, the expense attributable to these stock options increases and is charged against income. Due to the number of options issued to non-employees, material amounts could be charged against earnings and could cause significant volatility in future earnings if the market price of our common stock increases.
- 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 are translated into U.S. dollars in consideration. 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 shareholders' 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 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill should be amortized over their useful lives. Implementation of SFAS No. 141 and SFAS No. 142 is required for fiscal year 2002. The adoption of SFAS No. 141 and 142 did not have a material impact on the Company's financial statements.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which such liabilities are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs should be capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Adoption of SFAS No. 143 is not expected to have a material impact on the Company's financial statements.

Issued in October 2001, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, replaces SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, *Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business*, for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. In 2002, the Company adopted SFAS No. 144 which did not result in a material impact to the Company's financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds SFAS No. 4, *Reporting Gains and Losses from Extinguishment of Debt*, and an amendment of that Statement, SFAS No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements*. This Statement also rescinds SFAS No. 44, *Accounting for Intangible Assets of Motor Carriers*. SFAS No. 145 amends SFAS No. 13, *Accounting for Leases*, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement 4 are required to be applied in fiscal years beginning after May 15, 2002. The provisions in paragraphs 8 and 9(c) of this Statement related to Statement 13 are required to be applied to transactions occurring after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB No. 30 for classification as an extraordinary item is required to be reclassified. All other provisions of this Statement are effective for financial statements issued on or after May 15, 2002. The Company elected to early adopt SFAS No. 145 during the six months ended June 30, 2002. The effect of adopting SFAS No. 145 was to increase interest expense by \$0.5 million, increase net loss from continuing operations by \$0.5 million, and to increase basic and diluted loss from continuing operations per share by \$0.01.

RELATED PARTY TRANSACTIONS

In May 2002, we paid a total of \$7.8 million to certain shareholders and directors of the Company in full payment of subordinated promissory notes held by them. The holders of these notes were John Kang, Ricardo Salas and Tjoa Thian Song, each of whom are directors and shareholders of the Company. John Kang is also our president and chief executive officer. We believe that the terms and conditions of these notes, including their interest rates, were more favorable to us than the terms and conditions that we could have obtained from clearly independent third parties.

A company partially owned and managed by an employee of the Company purchased primarily work-in-process inventory and equipment in the discontinued retail golf segment in the amount of \$250 in March, 2002. Of this amount, \$50 remained receivable from the employee at March 31, 2002. The proceeds from the transaction were considered in determining the net realizable value of the inventory of the discontinued retail golf segment. During the second quarter of 2002, both parties agreed to rescind the transaction. The effect of this rescission is included as an increase of \$200 to the loss on disposal of the discontinued retail golf segment as of June 30, 2002.

We are currently a party to a consulting agreement with a company that is owned by a director and former executive officer of the Company. This agreement provides for the payment by the Company of consulting fees of \$50,000 per year through December 31, 2005. Additionally, a company managed and partially owned by one of our directors provides technical support services and computer equipment to the Company. Fees incurred pursuant to this consulting agreement and to these technical supports services were not significant during the three months and six months ended June 30, 2002.

Consistent with our strategy of pursuing strategic transactions and relationships, on July 29, 2002, we invested \$2 million in Growell Metal Inc. ("Growell"), a South Korean metals processing company. This investment took the form of a purchase of Growell's common stock directly from Growell, which is a public company whose common stock is traded on South Korea's KOSDAQ stock market. We acquired an estimated 5% of Growell's outstanding common stock in this transaction. The specific purpose of this investment was to solidify and bolster our supply chain in anticipation of an expected significant ramp-up in our manufacturing activities. Prior to our investment in Growell, we engaged Growell to produce and sell to us Liquidmetal alloy ingots that will be used to produce products and components in our South Korean manufacturing facilities. We expect that, for the near term, Growell will supply a significant portion of the ingots to be used in our manufacturing operations, and our investment in Growell will enable Growell to develop the capabilities to meet our expected demand.

We also expect that affiliates of Growell could be valuable customers of Liquidmetal alloy finished goods. In particular, Growell Telecom, Inc. (formerly known as Jascom Co., Ltd.), a South Korean public company and an affiliate of Growell Metal, has issued a purchase order to us for production quantities of casing components for a combination MP3/CD player. Growell Metal holds 92,167 shares (or approximately 0.002%) of the outstanding common stock of our Company. None of our executive officers or directors holds any shares of Growell Metal.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rates. We are exposed to market risks relating to changes in interest rates. Some of the proceeds of this offering may be invested in short-term, interest-bearing, investment grade securities. The value of these securities will be subject to interest rate risk and could fall in value if interest rates rise.

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

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

PART II
OTHER INFORMATION

Item 2 – Change in Securities and Use of Proceeds.

Pursuant to the Company's Registration Statement on Form S-1, as amended, filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002 (Registration No. 333-73716), the Company 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 overallotment option, at a price of \$15.00 per share (which sale is referred to herein as the "Offering"). The Offering generated aggregate cash proceeds for the Company 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 June 30, 2002, the Company used approximately \$7.8 million of its net proceeds from the Offering to repay all of its outstanding promissory notes and accrued interest thereon. Additionally, the Company used \$0.8 million to partially fund the construction of our manufacturing facilities in South Korea, \$0.6 million to purchase equipment used to manufacture Liquidmetal parts, and \$0.3 million to purchase the 51% interest in Dongyang. As of June 30, 2002, the Company used approximately \$2.6 million of the net proceeds for working capital, excluding \$1.1 million paid to Paul Azinger for amounts due under the terms of his endorsement agreement. We have invested the remaining net proceeds of this offering in short-term, investment grade, interest-bearing securities. We intend to use the remaining net proceeds of the offering for the construction of our manufacturing facility in South Korea, additional equipment used to manufacture Liquidmetal parts, and working capital purposes. Additionally, management may determine to fund all or a portion of the costs of any acquisitions of complementary businesses we determine to pursue in the future with proceeds from the Offering, although there are no assurances that we will be able to successfully identify or consummate any such acquisitions. See "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q for further discussion.

Item 6 – Exhibits and Reports on Form 8-K.

(a) Exhibits

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

Exhibit Number	Description of Document
2.1	Joint Venture Agreement, dated June 26, 2002, by and among Liquidmetal Korea Co., Ltd, Juh Ho Suh, Yong Woo Gi, Hi Su Kim, Ju Yong Lee and Chusik Hoesa Dongyang Yudoro.
2.2	Agreement for Subscription of New Stock, dated July 22, 2002, between Growell Metal Inc. and Liquidmetal Technologies.
99.1	Certificate of Chief Executive Officer pursuant to 18 U. S. C. 1350.
99.2	Certificate of Chief Financial Officer pursuant to 18 U. S. C. 1350.

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended June 30, 2002.

SIGNATURES

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

LIQUIDMETAL TECHNOLOGIES
(Registrant)

Date: August 12, 2002

/s/ John Kang

John Kang
President & Chief Executive Officer
(Principal Executive Officer)

Date: August 12, 2002

/s/ Brian McDougall

Brian McDougall
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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JOINT VENTURE AGREEMENT

among

LIQUIDMETAL KOREA
Ju Ho Suh
Yong Woo Gi
Hi Su Kim
Ju Yong Lee

AND

CHUSIK HOESA DONGYANG YUDORO

Dated as of June 26, 2002

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Exhibit 2.1

This JOINT VENTURE AGREEMENT is made as of June 26, 2002 (this "Agreement") by and among Liquidmetal Korea, a company incorporated under the laws of Korea, having its registered office at 11th Floor, West Wing, POSCO Center Building, 892, Daechi-4-dong, Kangnam-gu, Korea ("LMK"), Ju Ho Suh, a Korean national with resident registration number 580921-1347713, residing at 404-503, Hyundai Apt., 200-1, Hyosung-dong, Geyang-gu, Incheon, Korea, ("Mr. Suh"), Yong Woo Gi, a Korean national with resident registration number 700118-1325611, residing at 101-1207, Kangnam Apt., 221, Toegewon-myun-11-ri, Namyangju, Kyunggi, Korea ("Mr. Ji"), Hi Su Kim, a Korean national with resident registration number 720916-1524715, residing at 316-17, Byungbang-dong, Geyang-gu, Incheon, Korea ("Mr. Kim"), Ju Yong Lee, a Korean national with resident registration number 720320-1561013, residing at Ga-dong, #205, Dongjin Apt., 490, Suknam-3-dong, Suh-gu, Incheon, Korea ("Mr. Lee") (the foregoing four individuals shall collectively hereinafter be referred to as the "Group") and Chusik Hoesa Dongyang Yudoro, a company incorporated under the laws of Korea, having its registered office at 626-3, Hyosung-dong, Geyang-gu, Incheon, Korea (the "Company"). (LMK and the Group shall hereinafter individually be referred to as a "Party" and collectively be referred to as "Parties".)

WHEREAS, LMK desires to acquire 51% of the Shares; and

WHEREAS, the Parties wish to provide for certain matters relating to the foregoing acquisition of Shares by LMK and the management and operation of the Company.

In consideration of the foregoing and of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Definitions.

1.1 General. Any reference herein to any Section shall refer to such Section of this Agreement. The words "herein," "hereof" and "hereunder," and words of like import, shall refer to this Agreement as a whole and not to any particular provision hereof.

1.2 Certain Definitions. The following capitalized terms shall have the following meanings for purposes of this Agreement.

"Agreement" shall have the meaning described in the Recitals.

"Articles of Incorporation" means the articles of incorporation of the Company and any amendments or supplements thereto or restatements thereof.

"Board" means the board of directors of the Company.

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8.2. "Breaching Party" shall have the meaning described in Section

"CEO" means the chief executive officer of the Company.

"CFO" means the chief financial officer of the Company.

"Company" shall have the meaning described in the Recitals.

"Closing" shall mean the completion of the investments pursuant to Section 2.

"Closing Date" shall mean June 29, 2002 or any other date mutually agreed upon by the Parties.

"Director" means a director of the Company.

"Embarrassed Person" shall have the meaning described in Section 8.2.2 (b).

"Government Approval" shall mean, with respect to an action or transaction, the approval, authorization, consent or registration, required to be obtained from, or any report, notification, statement or other communication required to be filed with or delivered to, all relevant Governmental Entities with respect to such action or transaction, together with any licenses or permits required for such action or transaction pursuant to any applicable Laws.

"Governmental Entity" means any national, regional, municipal, county or other governmental, quasi-governmental, administrative or regulatory authority, body, agency, court, tribunal, commission or other similar entity (including any branch, department or official thereof) in Korea or elsewhere.

"Group" shall have the meaning described in the Recitals.

"Korea" means the Republic of Korea.

"Law" means any national, regional, local, municipal, foreign, international, or other constitution, law, rule, requirement, administrative ruling, Order, ordinance, code, regulation, statute or treaty made or rendered by any Governmental Entity.

"Non-breaching Group" shall have the meaning described in Section 8.2.

"Order" means any award, decision, injunction, judgment, decree, settlement, order, process, ruling, subpoena or verdict (whether temporary, preliminary or permanent)

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entered, issued, made or rendered by any court, administrative agency, arbitrator, Governmental Entity or other tribunal of competent jurisdiction.

"Party" and "Parties" shall have the meaning described in the Recitals.

"Representative Director" means the representative director of the Company.

"Shareholder" shall mean a shareholder of the Company.

"Shareholders' Meeting" means a general meeting of the Shareholders of the Company.

"Share" shall mean any share of capital stock of the Company of whatever class, type or denomination which may be created from time to time with the approval of the Shareholders required hereunder.

"Statutory Auditor" means a statutory auditor of the Company.

"Won" or "KW" means Korean Won, the lawful currency of Korea.

2. Subscription and Acquisitions of Shares.

2.1 On the Closing Date, the Parties shall make the following transactions simultaneously: (i) LMK shall acquire from the Group and the Group shall transfer to LMK 2,500 existing Shares in exchange for KW 100 million; (ii) the Group shall use KW 100 million to purchase shares in Liquidmetal Technologies in Nasdaq; and (iii) LMK shall subscribe and acquire 5,300 new Shares in exchange for KW 300 million.

2.2 LMK's and the Group's investments stipulated in Section 2.1 shall be subject to obtaining all Government Approvals necessary for such investments. Further, the following shall be the conditions precedent to LMK's investments pursuant to Section 2.1: (i) the Articles of Incorporation having been revised as provided in Section 3.2 and (ii) the representation and warranty provided in Section 7 having been remained true and accurate as of the Closing Date.

2.3 Upon the Closing, LMK and Group shall each hold the following number and proportion of the issued and outstanding Shares:

LMK: 7,800 Shares (51%)
Group: 7,500 Shares (49%)

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3. Business of the Company.

3.1 Scope of Business. The scope of business of the Company shall be limited to the following:

(a)

(b) any other business ancillary to the foregoing.

3.2 Articles of Incorporation. The Articles of Incorporation shall be as revised in conformity with this Agreement prior to the Closing Date. Further, the Parties shall further revise the Articles of Incorporation from time to time, as may be required, to ensure that the Articles of Incorporation at all times conform with this Agreement and any amendments to this Agreement.

4. Corporate Governance.

4.1 Board of Directors. The Company shall have three Directors. LMK shall have the right to nominate two Directors and the Group shall have the right to nominate one Director. Each Party shall vote its Shares at any Shareholders' Meeting called for the purpose of filling the positions on the Board or in any written consent executed for such purpose to elect, and shall take all other actions necessary to ensure the election to the Board of, (i) two nominees of LMK and (ii) one nominee of the Group.

4.2 Board Meetings.

4.2.1 Chairman of the Board. The Parties shall elect the chairman of the Board nominated by LMK at a meeting of the Board.

4.2.2 Quorum. Meetings of the Board shall require a quorum consisting of the majority of all the Directors.

4.2.3 Location. Meetings of the Board shall be convened in a location and at such times as are determined by the Board. The Company will make commercially reasonable efforts to make facilities available so that Directors may participate in Board meetings by means of (i) a telephone conference or a videophone conference or (ii) a writing (only if unanimous approval is obtained) and such participation shall constitute presence "in person" for purposes of this Agreement to the extent permissible under the Korean Commercial Code.

4.2.4 Notice. Not less than seven days' notice (or such other period as may be required under applicable Law) shall be given to all Directors and the

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Statutory Auditor; provided, however, that such notice period may be reduced if approved by all of the Directors and Statutory Auditor in writing.

4.2.5 Voting. At any Board meeting, each Director may exercise one vote. Unless otherwise specified in this Agreement, the adoption of any resolution of the Board shall require the affirmative vote of a majority of the Directors present in person at a duly constituted meeting of the Board.

4.3 Shareholders' Meeting. Unless otherwise required by applicable Laws, all resolutions of a Shareholders' Meeting shall be adopted by the affirmative vote of a simple majority of the total issued and outstanding Shares.

4.4 Statutory Auditor: The Company shall have one Statutory Auditor nominated by LMK. LMK shall have the right to decide whether the Statutory Auditor is standing or non-standing.

4.5 Appointment of Officers. The CEO/Representative Director shall be appointed by the resolution of the Board from among the Directors nominated by LMK. The CFO shall be nominated by LMK and elected by the resolution of the Board. All other officers of the Company shall be appointed by the CEO/Representative Director. 4.6 Compensation Generally. In principle, only standing Directors (i.e., Directors serving in a management capacity) will be compensated; provided, however, that non-standing Directors and non-standing Statutory Auditor may be reimbursed for travel and other expenses as may reasonably be incurred by them in the performance of their duties to the Company. Remuneration, salaries, bonuses, and other benefits of the full time standing Directors, Statutory Auditor, officers, and employees of the Company shall be reviewed and, if appropriate, adjusted annually by the Board, in consideration of the current general practice in Korea.

4.7 Books and Records. The books and records of the Company shall be maintained in accordance with generally accepted Korean and international accounting principles and shall accurately reflect the Company's financial position. Such records and supporting documents shall be available for inspection by either Party at all reasonable times.

4.8 Report to Shareholders. The Company shall prepare and provide to the Shareholders financial statements on a quarterly basis and management reports on a monthly basis. The Company shall also prepare year-end financial statements which shall be audited by an internationally reputable accounting firm selected by the Board.

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5. Other Arrangements. Notwithstanding anything to the contrary contained herein, Mr. Suh shall serve as the CEO/Representative Director for a period of initial three years after the Closing Date. For the foregoing purpose, the Group shall nominate Mr. Suh as its Director. The annual

salary of Mr. Suh shall be KW100 million. In addition to the foregoing salary, Mr. Suh shall be entitled to spend KW50 million annually for the business of the Company. Mr. Suh may receive a performance-based bonus pursuant to a separate agreement between LMK and the Group.

6. Confidentiality.

6.1 General Obligation. Each Party undertakes that it shall not reveal, to any third party any information acquired by it in connection with this Agreement or confidential or proprietary information concerning the organization, business, technology, finance, transactions or affairs of the other Party or the Company.

6.2 Exceptions. The provisions of Section 6.1 shall not apply to:

(a) information that is publicly available (except by virtue of a breach of this Agreement);

(b) a disclosure to legal, financial or professional advisors or bankers of any Party; or

(c) a disclosure, after giving prior notice to the other Party to the extent practicable under the circumstances and subject to any practicable arrangements to protect confidentiality, to the extent required under the rules of any stock exchange or by applicable Laws or in connection with any judicial process regarding any legal action, suit or proceeding arising out of or relating to this Agreement.

7. Representation and Warranty of the Group. The Group hereby represents and warrants to LMK that all liabilities of the Company as of the Closing Date (except those incurred in the ordinary course of its business after December 31, 2001) are, in all material respects, completely and accurately disclosed in the balance sheet of the Company as of December 31, 2001 a copy of which has been provided to LMK.

8. Term and Termination

8.1 Term. Unless terminated by written agreement between LMK and the Group or in accordance with Section 8.2, this Agreement shall continue in effect indefinitely. Sections 6, 11.10 and 11.11 shall, however, survive the termination of this Agreement.

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8.2 Termination.

8.2.1 If either LMK or the Group (the "Breaching Party") materially breaches any of its obligations hereunder in any material respect, the other Party (the "Non-Breaching Party") may terminate this Agreement in accordance with the following procedures. Upon occurrence of the material breach, a Non-breaching Party may give a written notice of breach and demand rectification within a period of time (which shall be no less than fifteen (15) days) specified on the notice, and if the Breaching Party fails to cure its breach within such time period, such Non-breaching Party may immediately terminate this Agreement by giving a written notice of termination to the Breaching Party.

8.2.2 This Agreement shall be terminable forthwith upon the sending of notice in writing upon the occurrence of one or more of the following events;

(a) by either Party, if the other Party shall commit a breach of any of its obligations under this Agreement which shall not be remedied within fifteen (15) days following the giving of written notice requiring said breach to be remedied;

(b) by either Party, if the other Party (in case of the Group, any member thereof) (the "Embarrassed Person") or its creditors or any other eligible party shall file for the Embarrassed Person's liquidation,

bankruptcy, reorganization, compulsory composition, or dissolution, or if the Embarrassed Person is unable to pay any debt as they become due, has explicitly or implicitly suspended payment of any debts as they became due (except debts contested in good faith), or if the creditors of the Embarrassed Person have taken over its management, or if the relevant financial institutions have suspended the Embarrassed Person's clearing house privileges, or if any material of significant part of the Embarrassed Person's undertaking, property, or assets shall be intervened in, expropriated, or confiscated by action of any Government Entity; or

(c) by either Party, if the other Party's collective shareholding ratio in the Company falls below 10% of the total issued and outstanding Shares.

8.3 Termination of this Agreement shall be without prejudice to the accrued rights and liabilities of the Parties at the date of termination, unless waived in writing by mutual agreement of the Parties.

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9. Group's Rights and Obligations

For the purpose of exercising the Group's rights under this Agreement, unless otherwise provided, Mr. Suh, Mr. Gi, Mr. Kim and Mr. Lee shall act jointly as one party. Unless otherwise provided, Mr. Suh, Mr. Gi, Mr. Kim and Mr. Lee shall be jointly and severally responsible for the full performance of the Group's obligations under this Agreement.

10. Miscellaneous.

10.1 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally or sent by registered mail or courier service, in either case postage prepaid, or delivered by facsimile. Any such notice shall be deemed given when so delivered personally or, if sent by registered mail, five (5) days after the date of deposit in the mail or, if sent by courier service, three (3) days after the date of deposit with the courier service or, if delivered by facsimile, at the time of receipt thereof as evidenced by the confirmation of successful transmission produced by such equipment, as follows:

(a) if to LMK, to:

(b) if to the Group, to:

Any Party may, by notice to the other Party pursuant to this Section 10.1, designate another address or person for receipt of notices hereunder.

10.2 Discrepancies. If there is any discrepancy between any of the provisions of the Articles of Incorporation and this Agreement, the provisions of this Agreement shall prevail, and the Parties shall thereupon procure that the Articles of Incorporation are promptly amended, to the extent permitted by applicable Law, in order to conform with this Agreement.

10.3 Severability. In the event any provision hereof is held void or unenforceable by any court, such provisions shall be severable and shall not affect the remaining provisions hereof.

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10.4 Entire Agreement. This Agreement, together with any other agreements referred to herein, reflects the entire agreement among the Parties and supersedes all prior agreements and communications, either oral or in writing, among the Parties with respect to the subject matter

hereof.

10.5 Effective Date. This Agreement shall become as of the date first above written.

10.6 Amendment and Waiver. This Agreement may not be amended, modified or supplemented without the written consent of both Parties. Any failure by a Party to comply with any obligation, agreement or condition herein may be expressly waived in writing by the other Party; provided however, neither any such waiver or failure to insist upon strict compliance with such obligation, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any such subsequent or other failure.

10.7 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF KOREA.

10.8 Dispute. Any dispute or claim arising out of or in connection with or relating to this Agreement shall be submitted to the Seoul District Court as the court of the first instance.

[This space is intentionally left blank.]

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IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

Liquidmetal Korea

Ju Ho Suh

By: /s/ Sonny Hong

By: /s/ Ju Ho Suh

Name: Sonny Hong
Title: Authorized Representative

Ju Ho Suh

Yong Woo Gi

Hi Su Kim

By: /s/ Yong Woo Gi

By: /s/ Hi Su Kim

Yong Woo Gi

Hi Su Kim

Ju Young Lee

Chusik Hoesa Dongyang Yudoro

By: /s/ Ju Young Lee

By: /s/ Ju Ho Suh

Ju Young Lee

Name: Ju Ho Suh
Title: Authorized Representative

AGREEMENT FOR SUBSCRIPTION OF NEW STOCK

This Agreement has been signed on July 22, 2002 between Growell Metal Inc. (hereafter "the company") having its address in 319-8 Kasan-dong, Kumchon-gu, Seoul, Korea and Liquid Metal Technologies (hereafter "the subscriber") located in 258000 Commercentre Dr. Suite 100 Lake Forest, CA 92630, USA.

ARTICLE 1 (OBJECTIVE OF THE AGREEMENT)

Objective of this Agreement is to fix the right and obligation that will occur between the concerned parties in the participation of the subscriber as investor to the issuing of new stock to the third party, which will be executed by the company, and to specify various matters regarding business operation of the company after capital participation of the subscriber.

ARTICLE 2 (SUBSCRIPTION OF THE STOCK)

1. The company shall issue newly common stock for USD \$2,000,000, which is the investment amount by the subscriber, according to this Agreement and shall make it available to subscription of the subscriber, and the subscriber will subscribe the said stock from the company.
2. Issuing value per share is estimated through arithmetic averaging of one month average final value, one week average final value and final value at the latest day for common stock of the company transacted in the association brokerage market by making the previous day before resolution date by the board of directors for this paid-in capital increase, as the starting point of reckoning. When the estimated value exceeds the final value at the latest day, the final value at the latest day shall be the issuing value.
3. Number of stock to be issued: The subscriber will exchange USD \$2,000,000 into Korean Won on or prior to the Closing Date (as defined below), and number of stock to be issued is fixed through calculation based on the issuing value specified in the pervious item. But the amount for stock of single digit number shall be returned.
4. The payment of the subscription money by the subscriber and the issuance of the stock by the Company hereunder shall take place on July 29, 2002 or any other date mutually agreed upon by the parties

(hereafter called as the "Closing Date"). The company should notify the subscriber of the detail paid-in account in writing before three business days from the Closing Date.

5. The subscriber's subscription hereunder shall be subject to obtaining all necessary or desirable government approvals, clearances pre-clearances, acceptances and consents. For the avoidance of doubt, in case any of such government approvals, clearances pre-clearances, acceptances or consents is not obtained, the subscriber shall not be obligated to carry out any of its obligations hereunder.

ARTICLE 3 (STATEMENT AND GUARANTEE OF THE COMPANY)

The company states and guarantees matters in the following respective items as of the signing date and Closing Date of this Agreement.

1. The company was founded lawfully pursuant to the laws of the Republic of Korea, which is the company under effectively continued existence. The company owns lawfully the assets of the company, and operates the company business in accordance with the related laws and regulations such as the commercial

law, and normal practice of commerce.

2. The company possesses all legal and actual rights required in signing of this Agreement and in the performance of the obligations pursuant to this Agreement.
3. Number of stock to be issued by the company is 16,500,000 shares of common stock, whose par value per share is the amount of 500 Won, and other issue stock does not exist. Moreover, the company assures that convertible bonds and bonds with stock warrants do not exist.
4. Stock to be subscribed by the subscriber according to this Agreement was issued lawfully and effectively. The said stock should be delivered to the account to be designated by the subscriber so that it can be transacted in KOSDAQ market within 20days after the Closing Date.
5. Signing of this Agreement and issuing of new stock does not violate laws or regulations, or other related laws and ordinances, and it complies with the article of association of the company. It does not bring about breach of contract or other obligations for which the company is the concerned party.
6. Except the things that the company provides to the subscriber in writing

or notify officially through the securities registration statement, there is no suits, mediation or administrative procedures, or other conflicts, which influence important impact to the company business and are currently under way or expected to occur.

7. All information and documents provided by the company to the subscriber in connection with the transaction contemplated hereunder are accurate and complete in all material respects.

ARTICLE 4 (STATEMENT AND GUARANTEE OF THE SUBSCRIBER)

The subscriber states and guarantees matters in the following respective items as of the signing date and Closing Date of this Agreement.

1. The subscriber possesses all legal rights required in signing and performance of this Agreement.
2. Obligations of the company by this Agreement are lawful and effective, and they constitute legal obligations that can be executed against the company.
3. The subscriber has taken actions required internally for signing of this Agreement.
4. The subscriber does not violate the related laws and ordinances in relation with the signing of this Agreement, and does not conflict with the article of association of the subscriber, and does not bring about the breach of contract or default for which the subscriber is the concerned party.

ARTICLE 5 (PROMISSORY MATTERS UNTIL THE CLOSING DATE)

1. The company operates the company business according to the related laws and ordinances, and normal practice of commerce until the Closing Date after signing of this Agreement. The company should not be divided or should not be merged with other companies, and major assets or business of the company should not be sold off, and stock of the third party, whole or important part of its business or asset should not be bought or subscribed.
2. The company should not issue other new stock besides new

stock to be issued to the subscriber until the Closing Date after signing of this Agreement.

3. The company shall not make technical manpower of the company be retired against the will of the concerned employees or transfer to other companies or institutions.

ARTICLE 6 (TERMINATION)

1. This Agreement is terminated in case of applying to one of the following respective items.
 - (1) By either party in case of mutual agreement between the concerned parties
 - (2) By either party when the other party materially breaches its statement, guarantee or engagement included in this Agreement
 - (3) By either party when the closing of the transactions contemplated hereunder is not made until Aug. 12, 2002 due to any cause beyond reasonable control by the concerned parties
2. When this Agreement is terminated on account of item 1, this Agreement shall become ineffective immediately after the effective date of termination. But compensation for damage and other liabilities or obligations that have occurred prior to the termination date shall not be exempted.

ARTICLE 7 (GRIEVANCE SETTLEMENT)

For all disputes occurring pursuant to this Agreement, Seoul District Court shall be a competent court.

ARTICLE 8 (LAWS FOR CONFORMITY)

This Agreement shall be ruled or interpreted according to the laws of the Republic of Korea.

ARTICLE 9 (MISCELLANEOUS)

1. The subscriber shall have the right to invest an additional amount of USD \$2,000,000 within 6 months after the Closing Date under the terms and conditions substantially identical to those contained in this Agreement.
2. This Agreement and its affixed documents shall substitute all advanced

statements, understandings and agreements conducted in oral or writing between the concerned parties in connection with the objective of this Agreement on the signing date of this Agreement.

3. The concerned parties shall not transfer their rights and obligations on this Agreement unless advanced written consent is obtained from the other party.
4. This Agreement can be modified or revised only through the documents signed in writing and duly by the concerned parties.

To witness it, the concerned parties have signed this Agreement in the method of signing and sealing this Agreement by representatives or the duly authorized persons regarding the signing of agreement.

July 22, 2002

/s/ Jeong Seo Park

/s/ James Kang

"The company"
Jeong Seo Park
Chairman of the board
Growell Metal Inc.
319-8 Kasan-dong, Kumchon-gu
Seoul, Korea

"The Subscriber"
James Kang
Chairman of the board
Liquidmetal Technologies
258000 Commercecentre Dr. Suite
100 Lake Forest, Ca 92630

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

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Chief Executive Officer of Liquidmetal Technologies (the "Company"), hereby certifies, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Kang

John Kang, Chief Executive Officer
August 12, 2002

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

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Chief Financial Officer of Liquidmetal Technologies (the "Company"), hereby certifies, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian McDougall

Brian McDougall, Chief Financial Officer
August 12, 2002