

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from _____ to _____

Commission File No. **001-31332**

LIQUIDMETAL TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

20321 Valencia Circle
Lake Forest, CA 92630
(Address of principal executive offices, zip code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.001 par value per share	LQMT	OTCQB

The number of common shares outstanding as of November 8, 2019 was 914,359,124.

LIQUIDMETAL TECHNOLOGIES, INC.
FORM 10-Q
FOR THE QUARTER ENDED September 30, 2019

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q of Liquidmetal Technologies, Inc. contains “forward-looking statements” that may state our management’s plans, future events, objectives, current expectations, estimates, forecasts, assumptions or projections about the company and its business. Any statement in this report that is not a statement of historical fact is a forward-looking statement, and in some cases, words such as “believes,” “estimates,” “projects,” “expects,” “intends,” “may,” “anticipates,” “plans,” “seeks,” and similar words or expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results. These statements are not guarantees of future performance, and undue reliance should not be placed on these statements. It is important to note that our actual results could differ materially from what is expressed in our forward-looking statements due to the risk factors described in the section of our Annual Report on Form 10-K for the year ended December 31, 2018 entitled “Risk Factors,” as well as the following risks and uncertainties:

- Our ability to fund our operations in the long-term through financing transactions on terms acceptable to us, or at all;
- Our history of operating losses and the uncertainty surrounding our ability to achieve or sustain profitability;
- Our limited history of developing and selling products made from our bulk amorphous alloys;
- Challenges associated with having products manufactured from our alloys and the use of third parties for manufacturing;
- Our limited history of licensing our technology to third parties;
- Lengthy customer adoption cycles and unpredictable customer adoption practices;
- Our ability to identify, develop, and commercialize new product applications for our technology;
- Competition from current suppliers of incumbent materials or producers of competing products;
- Our ability to identify, consummate, and/or integrate strategic partnerships;
- The potential for manufacturing problems or delays; and
- Potential difficulties associated with protecting or expanding our intellectual property position.

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

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**PART I
FINANCIAL INFORMATION**

Item 1 – Financial Statements

**LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(\$ in thousands, except par value and share data)**

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	<u>(Unaudited)</u>	
<u>ASSETS</u>		
Current assets:		
Cash	\$ 31,219	\$ 35,229
Restricted cash	5	5
Trade accounts receivable	312	120
Inventory	86	31
Prepaid expenses and other current assets	411	363
Total current assets	\$ 32,033	\$ 35,748
Property and equipment, net	9,081	11,767
Patents and trademarks, net	259	322
Equipment held for sale	585	-
Other assets	14	14
Total assets	\$ 41,972	\$ 47,851
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 124	\$ 253
Accrued liabilities	508	270
Deferred revenue	1	31
Total current liabilities	\$ 633	\$ 554
Long-term liabilities:		
Other long-term liabilities	856	856
Total liabilities	\$ 1,489	\$ 1,410
Shareholders' equity:		
Preferred Stock, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	-	-
Common stock, \$0.001 par value; 1,100,000,000 shares authorized; 914,359,124 and 914,206,832 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	914	914
Warrants	18,179	18,179
Additional paid-in capital	286,705	286,276
Accumulated deficit	(265,240)	(258,854)
Non-controlling interest in subsidiary	(75)	(74)
Total shareholders' equity	\$ 40,483	\$ 46,441
Total liabilities and shareholders' equity	\$ 41,972	\$ 47,851

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

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHENSIVE LOSS
(\$ in thousands, except share and per share data)
(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenue				
Products	\$ 373	\$ 205	\$ 728	\$ 340
Licensing and royalties	48	48	48	48
Total revenue	<u>421</u>	<u>253</u>	<u>776</u>	<u>388</u>
Cost of sales				
	<u>284</u>	<u>884</u>	<u>566</u>	<u>1,026</u>
Gross profit (loss)	137	(631)	210	(638)
Operating expenses				
Selling, marketing, general and administrative	1,380	1,381	4,088	4,493
Research and development	284	601	1,179	1,855
Impairment of long-lived assets	-	-	1,676	-
Gain on disposal of fixed assets	(7)	-	(2)	-
Total operating expenses	<u>1,657</u>	<u>1,982</u>	<u>6,941</u>	<u>6,348</u>
Operating loss	<u>(1,520)</u>	<u>(2,613)</u>	<u>(6,731)</u>	<u>(6,986)</u>
Interest income	125	89	344	157
Net loss and comprehensive loss	<u>(1,395)</u>	<u>(2,524)</u>	<u>(6,387)</u>	<u>(6,829)</u>
Net loss attributable to non-controlling interest	-	1	1	1
Net loss and comprehensive loss attributable to				
Liquidmetal Technologies shareholders	<u>\$ (1,395)</u>	<u>\$ (2,523)</u>	<u>\$ (6,386)</u>	<u>\$ (6,828)</u>
Net loss per common share attributable to Liquidmetal Technologies				
shareholders, basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Number of weighted average shares - basic and diluted	<u>914,359,124</u>	<u>909,972,342</u>	<u>914,332,758</u>	<u>909,366,218</u>

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

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

	For the Nine	
	Months Ended September 30,	
	2019	2018
Operating activities:		
Net loss	\$ (6,387)	\$ (6,829)
Adjustments to reconcile net loss to net cash used in operating activities:		
Mark-down of inventory	-	641
Depreciation and amortization	848	802
Stock-based compensation	415	725
Impairment of long-lived assets	1,676	-
Loss on disposal of fixed assets	(2)	-
Changes in operating assets and liabilities:		
Trade accounts receivable	(192)	(15)
Inventory	(55)	(269)
Prepaid expenses and other current assets	(48)	(22)
Accounts payable and accrued liabilities	109	31
Deferred revenue	(30)	6
Net cash used in operating activities	(3,666)	(4,930)
Investing Activities:		
Purchases of property and equipment	(630)	(156)
Proceeds from disposal of fixed assets	272	-
Net cash used in investing activities	(358)	(156)
Financing Activities:		
Proceeds from exercise of stock options	14	125
Net cash provided by financing activities	14	125
Net decrease in cash and restricted cash	(4,010)	(4,961)
Cash and restricted cash at beginning of period	35,234	41,314
Cash and restricted cash at end of period	\$ 31,224	\$ 36,353

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

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2019 and 2018
(numbers in thousands, except percentages, share and per share data)
(unaudited)

1. Description of Business

Liquidmetal Technologies, Inc. (the “Company”) is a materials technology company that develops and commercializes products made from amorphous alloys. The Company’s family of alloys consists of a variety of bulk alloys and composites that utilize the advantages offered by amorphous alloys technology. The Company designs, develops and sells products and custom parts from bulk amorphous alloys to customers in a wide range of industries. The Company also partners with third-party manufacturers and licensees to develop and commercialize Liquidmetal alloy products.

Amorphous alloys are, in general, unique materials that are distinguished by their ability to retain a random atomic structure when they solidify, in contrast to the crystalline atomic structure that forms in other metals and alloys when they solidify. Liquidmetal alloys are proprietary amorphous alloys that possess a combination of performance, processing, and potential cost advantages that the Company believes will make them preferable to other materials in a variety of applications. The amorphous atomic structure of bulk alloys enables them to overcome certain performance limitations caused by inherent weaknesses in crystalline atomic structures, thus facilitating performance and processing characteristics superior in many ways to those of their crystalline counterparts. The Company believes that the alloys and the molding technologies it employs may result in components, for many applications, that exhibit: exceptional dimensional control and repeatability that rivals precision machining, excellent corrosion resistance, brilliant surface finish, high strength, high hardness, high elastic limit, alloys that are non-magnetic, and the ability to form complex shapes common to the injection molding of plastics. Interestingly, all of these characteristics are achievable from the molding process, so design engineers often do not have to select specific alloys to achieve one or more of the characteristics as is the case with crystalline materials. The Company believes these advantages could result in Liquidmetal alloys supplanting high-performance alloys, such as titanium and stainless steel, and other incumbent materials in a wide variety of applications. Moreover, the Company believes these advantages could enable the introduction of entirely new products and applications that are not possible or commercially viable with other materials.

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

In July 2019, the Company adopted a restructuring plan pursuant to which the Company elected to wind down its prior manufacturing operations at the Company’s Lake Forest, CA facility and seek to outsource the manufacture of parts utilizing the Company’s technology through its domestic and international manufacturing partners (the “2019 Restructuring Plan”). In connection with the 2019 Restructuring Plan, the Company shifted its business strategy from internal manufacture of parts and products for customers toward the use and reliance of outsourced manufacturers, which will initially be Dongguan Yihao Metals Materials Technology Co., Ltd. (“Yihao”), a China-based company that is an affiliate of our largest beneficial stockholder, CEO and Chairman, Professor Lugee Li.

2. Basis of Presentation and Recent Accounting Pronouncements

The accompanying unaudited interim consolidated financial statements as of and for the nine months ended September 30, 2019 and September 30, 2018 have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All intercompany balances and transactions have been eliminated in consolidation. Operating results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2019. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 5, 2019.

Impairment of long-lived assets

The Company reviews long-lived assets to be held and used in operations for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. These evaluations may result from significant decreases in the overall market outlook for the Company’s technology or the market price of an asset, a significant adverse change in the extent or manner in which an asset is being used in its physical condition, a significant adverse change in legal factors or in the business climate that could affect the value of an asset, as well as economic or operational analyses. If the Company concludes that the carrying value of certain assets will not be recovered based on expected undiscounted future cash flows, an impairment write-down is recorded to reduce the assets to their estimated fair value. Fair value is determined via market, cost and income based valuation techniques, as appropriate. The fair value is measured on a nonrecurring basis using a combination of quoted prices for similar assets in active markets and other unobservable adjustments to historical cost (Level 3) inputs. Based on the results of this analysis, the Company recorded non-cash impairment charges of \$0 and \$1,676 for the three and nine month periods ended September 30, 2019, respectively, primarily related to the carrying value of the Company’s manufacturing assets that it does not plan to utilize as a result of the 2019 Restructuring Plan.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2019 and 2018
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Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update which modifies the accounting for leasing arrangements, particularly those arrangements classified as operating leases. This update will require entities to recognize the assets and liabilities arising from operating leases on the balance sheet. The Company adopted the requirements of this guidance as of January 1, 2019, utilizing the modified retrospective approach. Due to the Company not having any qualifying lease obligations, the adoption of this guidance did not have any impact on the Company’s consolidated financial statements.

Liability Classified Warrants

In July 2017, the FASB issued an accounting standards update which modifies the requirements for the classification of certain financial instruments with down round features as equity versus liabilities. The guidance will allow for financial instruments previously required to be presented as liabilities due to the presence of down round features to be presented as equity upon meeting other criteria. The Company adopted the requirements of this update effective as of January 1, 2019, utilizing the full retrospective transition option. Accordingly, the Company reclassified the warrant liability to additional paid in capital on its December 31, 2018 consolidated balance sheets, which increased additional paid-in capital by \$6,970, increased accumulated deficit by \$4,778, and decreased warrant liability by \$2,192. In addition, because of the retrospective adoption, the Company credited change in fair value of warrant liability on its consolidated statements of operations by \$1,267 for year ended December 31, 2018. The change in fair value of the warrant liability was offset by a \$1,267 credit to accumulated deficit on the consolidated balance sheets. Similarly, the Company debited change in fair value of warrant liability on its consolidated statements of operations by \$585 and \$593 for three and nine month periods ended September 30, 2018, respectively. The adoption of this guidance had no impact on the Company’s consolidated statement of cash flows in the current or previous interim and annual reporting periods. The following table provides a reconciliation of warrant liability, additional paid-in capital, accumulated deficit, and change in fair value of warrant liability on the consolidated balance sheets for the year ended December 31, 2018 and the three and nine month periods ended September 30, 2018:

	Balance Sheet		
	<u>Warrant Liability</u>	<u>APIC</u>	<u>Accum Def.</u>
Balance as of 12/31/2018 (Prior to Adoption of ASU 2017-11)	\$ 925	\$ 279,306	\$ (252,809)
Reverse beginning balance as of January 1, 2018	(2,192)	6,970	(4,778)
Change in fair value of warrant liability	1,267	-	(1,267)
Balance as of 12/31/2018 (After Adoption of ASU 2017-11)	\$ -	\$ 286,276	\$ (258,854)

	Statement of Operations			
	<u>For the three-months ended September 30, 2018</u>		<u>For the nine-months ended September 30, 2018</u>	
	<u>Change in Value of Warrant Liability</u>	<u>Net Loss and Comprehensive Loss</u>	<u>Change in Value of Warrant Liability</u>	<u>Net Loss and Comprehensive Loss</u>
Balance as of 9/30/2018 (Prior to Adoption of ASU 2017-11)	\$ 585	\$ (1,939)	\$ 593	\$ (6,236)
Reverse beginning balance as of January 1, 2018	-	-	-	-
Change in fair value of warrant liability	(585)	(585)	(593)	(593)
Balance as of 9/30/2018 (After Adoption of ASU 2017-11)	\$ -	\$ (2,524)	\$ -	\$ (6,829)

Fair Value Measurements

The estimated fair values of financial instruments reported in the consolidated financial statements have been determined using available market information and valuation methodologies, as applicable. The fair value of cash and restricted cash approximate their carrying value due to their short maturities and are classified as Level 1 instruments within the fair value hierarchy.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(numbers in thousands, except percentages, share and per share data)
(unaudited)

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities;
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Other recent pronouncements

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

3. Significant Transactions

Manufacturing Facility Purchase

On February 16, 2017, the Company purchased a 41,000 square foot manufacturing facility located in Lake Forest, CA, where operations commenced during July 2017. The purchase price for the property was \$7,818. As a result of the 2019 Restructuring Plan, the Company will discontinue manufacturing operations in this facility and seek to lease it to a third-party commercial tenant.

2016 Purchase Agreement

On March 10, 2016, the Company entered into a Securities Purchase Agreement (the "2016 Purchase Agreement") with Liquidmetal Technology Limited, a Hong Kong company (the "Investor"), which is controlled by the Company's Chairman and CEO, Professor Lugee Li ("Professor Li"). The 2016 Purchase Agreement provided for the purchase by the Investor of a total of 405,000,000 shares of the Company's common stock for an aggregate purchase price of \$63,400. The transaction occurred in multiple closings, with the Investor having purchased 105,000,000 shares at a purchase price of \$8,400 (or \$0.08 per share) at the initial closing on March 10, 2016 and the remaining 200,000,000 shares at \$0.15 per share and 100,000,000 shares at \$0.25 per share for an aggregate purchase price of \$55,000 on October 26, 2016.

In addition to the shares issuable under the 2016 Purchase Agreement, the Company issued to the Investor a warrant to acquire 10,066,809 shares of common stock (of which the right to exercise 2,609,913 of the warrant shares vested on March 10, 2016 and the right to exercise the remaining 7,456,896 warrant shares vested on October 26, 2016 at an exercise price of \$0.07 per share). The warrant will expire on the tenth anniversary of its issuance date.

Further, the 2016 Purchase Agreement provided that the Investor would have the right to designate three members of the Company's board of directors, with one such member serving as Chairman. The 2016 Purchase Agreement also provided that, with certain limited exceptions, if the Company issues any shares of common stock at any time through the fifth anniversary of the 2016 Purchase Agreement, the Investor will have a preemptive right to subscribe for and to purchase at the same price per share (or at market price, in the case of issuance of shares pursuant to stock options) the number of shares necessary to maintain its ownership percentage of Company-issued shares of common stock.

Eontec License Agreement

On March 10, 2016, in connection with the 2016 Purchase Agreement, the Company and DongGuan Eontec Co., Ltd., a Hong Kong corporation ("Eontec"), entered into a Parallel License Agreement (the "License Agreement") pursuant to which the Company and Eontec agreed to cross-license their respective technologies. The Company's Chairman and CEO, Professor Li, is also a major shareholder and Chairman of Eontec.

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The License Agreement provides for the cross-license of certain patents, technical information, and trademarks between the Company and Eontec. In particular, the Company granted to Eontec a paid-up, royalty-free, perpetual license to the Company's patents and related technical information to make, have made, use, offer to sell, sell, export, and import products in certain geographic areas outside of North America and Europe. In turn, Eontec granted to the Company a paid-up, royalty-free, perpetual license to Eontec's patents and related technical information to make, have made, use, offer to sell, sell, export, and import products in certain geographic areas outside of specified countries in Asia. The license granted by the Company to Eontec is exclusive (including to the exclusion of the Company) in the countries of Brunei, Cambodia, China (P.R.C and R.O.C.), East Timor, Indonesia, Japan, Laos, Malaysia, Myanmar, Philippines, Singapore, South Korea, Thailand, and Vietnam. The license granted by Eontec to the Company is exclusive (including to the exclusion of Eontec) in North America and Europe. The cross-licenses are non-exclusive in geographic areas outside of the foregoing exclusive territories.

Beyond the License Agreement, the Company collaborates with Eontec to accelerate the commercialization of amorphous alloy technology. This includes but is not limited to developing technologies to reduce the cost of amorphous alloys, working on die cast machine technology platforms to pursue broader markets, sharing knowledge to broaden our intellectual property portfolio, and utilizing Eontec's volume production capabilities as a third party contract manufacturer.

In March 2017, the Company signed contracts with Eontec to purchase two hot-crucible amorphous metal molding machines ("Machines") at a total purchase price of \$780. The Machines were delivered to the Company's new manufacturing facility located in Lake Forest, CA in April 2017 and were operational during the fourth quarter of 2017. As a result of the 2019 Restructuring Plan, the Company will seek to develop domestic manufacturing partners and will transfer the Machines, and associated equipment, to support the continued commercialization of amorphous metal applications.

Apple License Transaction

On August 5, 2010, the Company entered into a license transaction with Apple Inc. ("Apple") pursuant to which (i) the Company contributed substantially all of its intellectual property assets to a newly organized special-purpose, wholly-owned subsidiary, called Crucible Intellectual Property, LLC ("CIP"), (ii) CIP granted to Apple a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual

property in the field of consumer electronic products, as defined in the license agreement, in exchange for a license fee, and (iii) CIP granted back to the Company a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in all other fields of use.

Under the agreements relating to the license transaction with Apple, the Company was obligated to contribute, to CIP, all intellectual property developed through February 2016. The Company is also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction.

Other License Transactions

On January 31, 2012, the Company entered into a Supply and License Agreement for a five year term with Engel Austria GmbH ("Engel") whereby Engel was granted a non-exclusive license to manufacture and sell injection molding machines to the Company's licensees. Since that time, the Company and Engel have agreed on an injection molding machine configuration that can be commercially supplied and supported by Engel. On December 6, 2013, the companies entered into an Exclusivity Agreement for a 10 year term whereby the Company agreed, with certain exceptions and limitations, that the Company and its licensees would purchase amorphous alloy injection molding machines exclusively from Engel in exchange for certain royalties to be paid by Engel to the Company based on a percentage of the net sales price of such injection molding machines.

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

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

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

LIQUIDMETAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2019 and 2018
(numbers in thousands, except percentages, share and per share data)
(unaudited)

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets totaled \$411 and \$363 as of September 30, 2019 and December 31, 2018, respectively. Included within these totals are the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Prepaid service invoices	\$ 69	\$ 79
Prepaid manufacturing and mold costs	69	91
Prepaid insurance premiums	273	193
Total	<u>\$ 411</u>	<u>\$ 363</u>

5. Inventory

Inventory totaled \$86 and \$31 as of September 30, 2019 and December 31, 2018, respectively. Included within these totals are the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Work in progress	\$ 86	\$ 31
Total	<u>\$ 86</u>	<u>\$ 31</u>

6. Property and Equipment, net

Property and equipment consist of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Land, building, and improvements	\$ 9,494	\$ 9,039
Machinery and equipment	1,494	5,745
Computer equipment	272	282
Office equipment, furnishings, and improvements	63	181
Total	<u>11,323</u>	<u>15,247</u>
Accumulated depreciation	<u>(2,242)</u>	<u>(3,480)</u>
Total property and equipment, net	<u>\$ 9,081</u>	<u>\$ 11,767</u>

Depreciation expense for three and nine months ended September 30, 2019 was \$265 and \$785, respectively. Depreciation expense for the three and nine months ended September 30, 2018 was \$253 and \$736, respectively. For the three and nine months ended September 30, 2019, \$24 and \$75 of depreciation expense, respectively, was included in cost of sales and \$241 and \$710 was included in selling, marketing, general and administrative expenses, respectively. For the three and nine months ended September 30, 2018, \$18 and \$45 of depreciation expense, respectively, was included in cost of sales and \$235 and \$691 was included in selling, marketing, general and administrative expenses, respectively.

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The 2019 Restructuring Plan involves, among other actions, the disposal and/ or cease of use of the Company's manufacturing equipment. The implications of the 2019 Restructuring Plan, including asset groupings and future use, were incorporated into the Company's periodic review of its long-lived assets for impairment and the Company recorded non-cash impairment charges of \$1,676, during the three months ended June 30, 2019. Additionally, the remaining useful life, for depreciation purposes, of the Company's machinery and equipment was adjusted to align with the cease of use contemplated under the 2019 Restructuring Plan.

During the three-month period ended September 30, 2019, the Company disposed of certain equipment that it was not expecting to utilize prospectively, as part of the 2019 Restructuring Plan, for gross proceeds of \$267. This resulted in a gain on disposal of \$7 during the three-month period ended September 30, 2019.

7. Equipment Held for Sale

During the three-month period ended September 30, 2019, the Company reclassified \$585 in equipment, planned to be disposed of under the 2019 Restructuring Plan, from property and equipment to equipment held for sale on its consolidated balance sheet. As of September 30, 2019, the Company had identified a buyer for this equipment, with a negotiated sales price of \$600. The sale will be finalized during the fourth quarter following delivery and other title transfer of equipment to the buyer. No additional adjustments to asset carrying value were recorded as a result of this reclassification.

8. Patents and Trademarks, net

Net patents and trademarks totaled \$259 and \$322 as of September 30, 2019 and December 31, 2018, respectively, and primarily consisted of purchased patent rights and internally developed patents.

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

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

The Company amortizes capitalized patents and trademarks over an average of 10 to 17 year periods. Amortization expense for patents and trademarks was \$21 and \$63 for the three and nine months ended September 30, 2019, respectively. This compares to \$22 and \$66 for the three and nine months ended September 30, 2018, respectively.

9. Other Assets

Other assets totaled \$14 and \$14 as of September 30, 2019 and December 31, 2018, respectively, and consisted of long-term deposits.

10. Accrued Liabilities

Accrued liabilities totaled \$508 and \$270 as of September 30, 2019 and December 31, 2018, respectively. Included within these totals are the following:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Accrued payroll, vacation, and bonuses	\$ 157	\$ 178
Accrued severance and settlements	256	10
Accrued audit fees	95	82
Total	<u>\$ 508</u>	<u>\$ 270</u>

In connection with the 2019 Restructuring Plan, the Company has recorded severance expenses related to employees who will be terminated. The elements and impact of the 2019 Restructuring Plan were communicated to all impacted employees during July 2019, inclusive of outlining the severance elements that Company has adopted. Total expense of \$273 has been recorded as a component of sales, general, and administrative expenses within the consolidated statement of operations for the three-month period ended September 30, 2019. As of September 30, 2019, \$256 remains as an accrued liability.

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11. Other Long-Term Liabilities

Other long-term liabilities were \$856 as of September 30, 2019 and December 31, 2018, and consisted of long-term, aged payables to vendors, individuals, and other third parties that have been outstanding for more than 5 years. The Company is in the process of researching and resolving the balances for settlement and/or escheatment in accordance with applicable state law.

12. Stock Compensation Plans

On April 4, 2002, our shareholders and Board of Directors adopted the 2002 Equity Incentive Plan (“2002 Plan”). The 2002 Plan provided for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. A total of 10,000,000 shares of our common stock were available to be granted under the 2002 Plan. The 2002 Plan expired by its terms in April 2012, and remains in effect only with respect to the equity awards that have been granted prior to its expiration. As of September 30, 2019 and December 31, 2018, there were 69,000 and 169,000 options, respectively, outstanding under the 2002 Plan.

On June 28, 2012, the Company adopted the 2012 Equity Incentive Plan (“2012 Plan”), with the approval of the shareholders, which provides for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. The 2012 Plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees and consultants of non-statutory stock options. In addition, the Plan permits the granting of stock appreciation rights, or SARs, with or independently of options, as well as stock bonuses and rights to purchase restricted stock. A total of 30,000,000 shares of the Company’s common stock may be granted under the 2012 Plan, and all options granted under the 2012 Plan had exercise prices that were equal to the fair market value on the date of grant. During the nine months ended September 30, 2019, the Company granted no options to purchase shares of common stock. Under this plan, the Company had outstanding grants of options to purchase 7,892,666 and 11,755,503 shares of the Company’s common stock as of September 30, 2019 and December 31, 2018, respectively.

On January 27, 2015, the Company adopted its 2015 Equity Incentive Plan (“2015 Plan”), which provided for the grant of stock options to officers, employees, consultants, and directors of the Company and its subsidiaries. A total of 40,000,000 shares of the Company’s common stock are available for issuance under the 2015 Plan. All options granted under the 2015 Plan had exercise prices that were equal to the fair market value on the dates of grant. During the nine months ended September 30, 2019, the Company granted no options to purchase shares of common stock. Under this plan, the Company had outstanding grants of options to purchase 12,341,667 and 16,906,667 shares of the Company’s common stock as of September 30, 2019 and December 31, 2018, respectively.

Stock based compensation expense attributable to these plans was \$73 and \$415 for the three and nine months ended September 30, 2019, respectively. This compares to \$179 and \$725 for the three and nine months ended September 30, 2018, respectively.

In connection with the separation of former executives and directors, the Company has modified previously granted equity awards to allow for the acceleration of vesting of equity awards, and the extension of the timing to exercise vested awards, following the respective separation dates. The Company incurred incremental stock-based compensation expense of \$0 and \$0 during the three and nine months ended September 30, 2019, respectively. This compares to \$0 and \$104 for the three and nine months ended September 30, 2018, respectively.

13. Consolidated Statements of Changes in Equity

The following table provides the Company’s changes in equity for the three months ended September 30, 2019:

	Preferred Shares	Common Shares	Common Stock	Warrants part of Additional Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Non- Controlling Interest	Total
Balance, June 30, 2019	-	914,359,124	\$ 914	\$ 18,179	\$ 286,632	\$ (263,845)	\$ (75)	\$ 41,805
Stock option exercises		-	-		-			-
Stock-based compensation		-	-		73			73
Net loss						(1,395)	-	(1,395)
Balance, September 30, 2019	-	914,359,124	\$ 914	\$ 18,179	\$ 286,705	\$ (265,240)	\$ (75)	\$ 40,483

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The following table provides the Company's changes in equity for the nine months ended September 30, 2019:

	<u>Preferred Shares</u>	<u>Common Shares</u>	<u>Common Stock</u>	<u>Warrants part of Additional Paid-in Capital</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Non- Controlling Interest</u>	<u>Total</u>
Balance, December 31, 2018	-	914,206,832	\$ 914	\$ 18,179	\$ 286,276	\$ (258,854)	\$ (74)	\$ 46,441
Stock option exercises		152,292	-		14			14
Stock-based compensation		-	-		415			415
Net loss						(6,386)	(1)	(6,387)
Balance, September 30, 2019	-	914,359,124	\$ 914	\$ 18,179	\$ 286,705	\$ (265,240)	\$ (75)	\$ 40,483

The following table provides the Company's changes in equity for the three months ended September 30, 2018:

	<u>Preferred Shares</u>	<u>Common Shares</u>	<u>Common Stock</u>	<u>Warrants part of Additional Paid-in Capital</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Non- Controlling Interest</u>	<u>Total</u>
Balance, June 30, 2018	-	909,239,009	\$ 909	\$ 18,179	\$ 285,488	\$ (254,459)	\$ (73)	\$ 50,044
Stock option exercises		733,333	1		77			78
Stock-based compensation		-	-		178			178
Net loss						(2,523)	(1)	(2,524)
Balance, September 30, 2018	-	909,972,342	\$ 910	\$ 18,179	\$ 285,743	\$ (256,982)	\$ (74)	\$ 47,776

The following table provides the Company's changes in equity for the nine months ended September 30, 2018:

	<u>Preferred Shares</u>	<u>Common Shares</u>	<u>Common Stock</u>	<u>Warrants part of Additional Paid-in Capital</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Non- Controlling Interest</u>	<u>Total</u>
Balance, December 31, 2017	-	908,768,116	\$ 909	\$ 18,179	\$ 284,894	\$ (250,154)	\$ (73)	\$ 53,755
Stock option exercises		1,204,226	1		124			125
Stock-based compensation		-	-		725			725
Net loss						(6,828)	(1)	(6,829)
Balance, September 30, 2018	-	909,972,342	\$ 910	\$ 18,179	\$ 285,743	\$ (256,982)	\$ (74)	\$ 47,776

14. Loss Per Common Share

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

Options to purchase 20,303,333 shares of common stock, at prices ranging from \$0.07 to \$0.38 per share, were outstanding at September 30, 2019, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss. Warrants to

purchase 10,066,809 shares of common stock, with a price of \$0.07 per share, outstanding at September 30, 2019, were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss.

Options to purchase 33,359,068 shares of common stock, at prices ranging from \$0.07 to \$0.47 per share, were outstanding at September 30, 2018, but were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss. Warrants to purchase 10,066,809 shares of common stock, with a price of \$0.07 per share, outstanding at September 30, 2018, were not included in the computation of diluted EPS for the same period as the inclusion would have been antidilutive, given the Company's net loss.

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15. Commitments and Contingencies

Legal Contingencies

During October 2018, the Company received a notice of intent to sue from a former employee. The Claims raised in the notice included accusations of pay discrimination, employment misclassification, and unfair labor practices. On April 30, 2019, the Company reached a confidential settlement of the matter in the amount of \$250. This amount was included as a portion of sales, general, and administrative expense and was fully paid as of June 30, 2019.

16. Related Party Transactions

On March 10, 2016, the Company entered into the 2016 Purchase Agreement with Liquidmetal Technology Limited, providing for the purchase of 405,000,000 shares of the Company's common stock for an aggregate purchase price of \$63,400. Liquidmetal Technology Limited was a newly formed company owned by Professor Li. In connection with the 2016 Purchase Agreement and also on March 10, 2016, the Company and Eontec, entered into a license agreement pursuant to which the Company and Eontec entered into a cross-license of their respective technologies. Eontec is a publicly held Hong Kong corporation of which Professor Li is the Chairman and major shareholder. As of September 30, 2019, Professor Li is a greater-than 5% beneficial owner of the Company and serves as the Company's Chairman, President, and Chief Executive Officer. Equipment and services procured from Eontec were \$0 and \$0 during the three and nine months ended September 30, 2019, respectively. Equipment and services procured from Eontec were \$85 and \$133 during the three and nine months ended September 30, 2018, respectively.

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

This management’s discussion and analysis should be read in conjunction with the consolidated financial statements and notes included elsewhere in this Quarterly Report on Form 10-Q. All amounts described in this section are in thousands, except percentages, periods of time, and share and per share data.

This management’s discussion and analysis, as well as other sections of this Quarterly Report on Form 10-Q, may contain “forward-looking statements” that involve risks and uncertainties, including statements regarding our plans, future events, objectives, expectations, estimates, forecasts, assumptions, or projections. 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,” “plan,” “seek,” and similar words or expressions identify forward-looking statements. These statements involve risks and uncertainties that could cause actual outcomes and results to differ materially from the anticipated outcomes or results, and undue reliance should not be placed on these statements. These risks and uncertainties include, but are not limited to, the matters discussed under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and other risks and uncertainties discussed in other filings made with the Securities and Exchange Commission (including risks described in subsequent reports on Form 10-Q and Form 8-K and other filings). We disclaim any intention or obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

We are a materials technology company that develops and commercializes products made from amorphous alloys. Our Liquidmetal® family of alloys consists of a variety of proprietary bulk alloys and composites that utilize the advantages offered by amorphous alloy technology. We design, develop and sell custom products and parts from bulk amorphous alloys to customers in various industries. We also partner with third-party manufacturers and licensees to develop and commercialize Liquidmetal alloy products.

Amorphous alloys are, in general, unique materials that are distinguished by their ability to retain a random atomic structure when they solidify, in contrast to the crystalline atomic structure that forms in other metals and alloys when they solidify. Liquidmetal alloys are proprietary amorphous alloys that possess a combination of performance, processing, and potential cost advantages that we believe will make them preferable to other materials in a variety of applications. The amorphous atomic structure of bulk alloys enables them to overcome certain performance limitations caused by inherent weaknesses in crystalline atomic structures, thus facilitating performance and processing characteristics superior in many ways to those of their crystalline counterparts. We believe our alloys and the molding technologies we employ can result in components for many applications that exhibit exceptional dimensional control and repeatability that rivals precision machining, excellent corrosion resistance, brilliant surface finish, high strength, high hardness, high elastic limit, alloys that are non-magnetic, and the ability to form complex shapes common to the injection molding of plastics. All of these characteristics are achievable from the molding process, so design engineers often do not have to select specific alloys to achieve one or more of the characteristics as is the case with crystalline materials. We believe these advantages could result in Liquidmetal alloys supplanting high-performance alloys, such as titanium and stainless steel, and other incumbent materials in a wide variety of applications. Moreover, we believe these advantages could enable the introduction of entirely new products and applications that are not possible or commercially viable with other materials.

Our revenues are derived from i) selling our bulk amorphous alloy custom products and parts for applications which include, but are not limited to, non-consumer electronic devices, medical products, automotive components, and sports and leisure goods; ii) selling tooling and prototype parts such as demonstration parts and test samples for customers with products in development; and iii) product licensing and royalty revenue. We expect that these sources of revenue will continue to significantly change the character of our revenue mix as operations are scaled.

Our cost of sales consists primarily of the costs of manufacturing, which include raw alloy and internal labor required to operate our on-site production cells. Selling, general, and administrative expenses currently consist primarily of salaries and related benefits, travel, consulting and professional fees, depreciation and amortization, insurance, office and administrative expenses, and other expenses related to our operations.

Research and development expenses represent salaries, related benefits expenses, consulting and contract services, expenses incurred for the design and testing of new processing methods, expenses for the development of sample and prototype products, and other expenses related to the research and development of Liquidmetal bulk 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.

In July 2019, the Company adopted a restructuring plan pursuant to which the Company elected to wind down its prior manufacturing operations at the Company’s Lake Forest, CA facility and seek to outsource the manufacture of parts utilizing the Company’s technology through domestic and international manufacturing partners (the “2019 Restructuring Plan”). In connection with the 2019 Restructuring Plan, the Company shifted its business strategy from internal manufacture of parts and products for customers toward the use and reliance of outsourced manufacturers, which will initially be Dongguan Yihao Metals Materials Technology Co., Ltd. (“Yihao”), a China-based company that is an affiliate of our largest beneficial stockholder our CEO and Chairman, Professor Lugee Li.

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Licensing Transactions

Eontec License Agreement

On March 10, 2016, in connection with the 2016 Purchase Agreement, we entered into a Parallel License Agreement (the “License Agreement”) with DongGuan Eontec Co., Ltd., a Hong Kong corporation (“Eontec”) pursuant to which we each entered into a cross-license of our respective technologies.

The License Agreement provides for the cross-license of certain patents, technical information, and trademarks between us and Eontec. In particular, we granted to Eontec a paid-up, royalty-free, perpetual license to our patents and related technical information to make, have made, use, offer to sell, sell, export, and import products in certain geographic areas outside of North America and Europe, and Eontec granted to us a paid-up, royalty-free, perpetual license to Eontec’s patents and related technical information to make, have made, use, offer to sell, sell, export, and import products in certain geographic areas outside of specified countries in Asia. The license granted by us to Eontec is exclusive (including to the exclusion of us) in the countries of Brunei, Cambodia, China (P.R.C and R.O.C.), East Timor, Indonesia, Japan, Laos, Malaysia, Myanmar, Philippines, Singapore, South Korea, Thailand, and Vietnam. The license granted by Eontec to us is exclusive (including to the exclusion of Eontec) in North America and Europe. The cross-licenses are non-exclusive in geographic areas outside of the foregoing exclusive territories.

Beyond the License Agreement, we collaborate with Eontec to accelerate the commercialization of amorphous alloy technology. This includes but is not limited to developing technologies to reduce the cost of amorphous alloys, working on die cast machine technology platforms to pursue broader markets, sharing knowledge to broaden our intellectual property portfolio, and utilizing Eontec’s volume production capabilities as a third party contract manufacturer.

In March 2017, we signed contracts with Eontec to purchase two hot-crucible amorphous metal molding machines (“Machines”) at a total purchase price of \$780,000. The Machines were delivered to our new manufacturing facility located in Lake Forest, CA in April 2017 and were operational during the fourth quarter of 2017. As a result of the 2019 Restructuring Plan, we will seek to develop domestic manufacturing partners and will transfer the Machines, and associated equipment, to support the continued commercialization of amorphous metal applications.

Apple License Transaction

On August 5, 2010, we entered into a license transaction with Apple Inc. (“Apple”) pursuant to which (i) we contributed substantially all of our intellectual property assets to a newly organized special-purpose, wholly-owned subsidiary, called Crucible Intellectual Property, LLC (“CIP”), (ii) CIP granted to Apple a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in the field of consumer electronic products, as defined in the license agreement, in exchange for a license fee, and (iii) CIP granted back to us a perpetual, worldwide, fully-paid, exclusive license to commercialize such intellectual property in all other fields of use.

Under the agreements relating to the license transaction with Apple, we were obligated to contribute, to CIP, all intellectual property that we developed through February 2012. Subsequently, this obligation was extended to apply to all intellectual property developed through February 2016. We are also obligated to maintain certain limited liability company formalities with respect to CIP at all times after the closing of the license transaction.

Visser Precision Cast, LLC License Agreement

On June 1, 2012, we entered into a Master Transaction Agreement (the “Visser MTA”) with Visser Precision Cast, LLC (“Visser”) relating to a strategic transaction for manufacturing services and financing. On May 20, 2014, we and Visser entered into a settlement agreement significantly amending the Visser MTA, whereby we granted to Visser a fully paid-up, royalty-free, irrevocable, perpetual, worldwide, non-transferable, nonexclusive sublicense to all of our intellectual property developed on or prior to May 20, 2014 (the “Effective Date”). Visser does not have any rights, now or in the future, to our intellectual property developed after the Effective Date. The license to our intellectual property developed on or prior to the Effective Date does not include the right to use the “Liquidmetal” trademark or any of our other trademarks, except in certain defined situations, as set forth in the amended and restated agreement.

Other License Transactions

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

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

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

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

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:

- Revenue recognition
- Impairment of long-lived assets and definite-lived intangibles
- Deferred tax assets
- Valuation of liability classified warrants and options and embedded derivatives
- Valuation of inventory
- Share based compensation

Our Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Annual Report”) contains further discussions on our critical accounting policies and estimates.

Results of Operations

Comparison of the three and nine months ended September 30, 2019 and 2018

	For the Three months ended September 30,				For the Nine months ended September 30,			
	2019		2018		2019		2018	
	(unaudited)	% of Products Revenue	(unaudited)	% of Products Revenue	(unaudited)	% of Products Revenue	(unaudited)	% of Products Revenue
	in 000's		in 000's		in 000's		in 000's	
Revenue:								
Products	\$ 373		\$ 205		\$ 728		\$ 340	
Licensing and royalties	48		48		48		48	
Total revenue	421		253		776		388	
Cost of sales	\$ 284	76%	884	431%	\$ 566	78%	1,026	302%
Gross profit (loss)	137	37%	(631)	-308%	210	29%	(638)	-188%
Selling, marketing, general and administrative	1,380	370%	1,381	674%	4,088	562%	4,493	1321%
Research and development	284	76%	601	293%	1,179	162%	1,855	546%
Impairment of long-lived assets	-	0%	-	0%	1,676	230%	-	0%
Gain on disposal of fixed assets	(7)	-2%	-	0%	(2)	0%	-	0%
Operating loss	(1,520)		(2,613)		(6,731)		(6,986)	
Interest income	125		89		344		157	
Net loss	(1,395)		(2,524)		(6,387)		(6,829)	

Revenue and operating expenses

Revenue. Total revenue increased to \$421 for the three months ended September 30, 2019 from \$253 the three months ended September 30, 2018. Total revenue increased to \$776 for the nine months ended September 30, 2019 from \$388 for the nine months ended September 30, 2018. The increase was attributable to higher volumes associated with the completion of higher volume orders to provide current customers with buffer inventories while manufacturing capabilities are transitioned to outsourced manufacturing. As a result, product revenues during the remainder of 2019 will likely not be indicative of short-term, prospective volumes.

Cost of sales. Cost of sales was \$284, or 76% of products revenue, for the three months ended September 30, 2019, a decrease from \$884, or 431% of products revenue, for the three months ended September 30, 2018. Cost of sales was \$566, or 78% of products revenue, for the nine months ended September 30, 2019 a decrease from \$1,026, or 302% of products revenue, for the nine months ended September 30, 2018. The decrease in our cost of sales as a percentage of products revenue for the three and nine months ended September 30, 2019 was primarily attributable to lower raw material costs as a result of market adjustments taken during the three and nine months ended September 30, 2019, higher volume production during the three and nine months ended September 30, 2019, and improvements in production throughput during 2019. If we begin increasing our products revenues with shipments of routine, commercial products and parts through our manufacturing facility and, in future periods, third party contract manufacturers, we expect our cost of sales percentages to decrease, stabilize and be more predictable.

Gross profit (loss). Our gross profit increased to \$137 for the three month period ended September 30, 2019 from \$(631) for the three month period ended September 30, 2018. Our gross profit (loss) as a percentage of products revenue, increased to 37% for the three month period ended September 30, 2019 from (308)% for the three month period ended September 30, 2018. Our gross profit (loss) increased to \$210 for the nine month period ended September 30, 2019 from \$(638) for the nine month period ended September 30, 2018. Our gross profit (loss), as a percentage of products revenue, increased to 29% for the nine month period ended September 30, 2019 from (188)% for the nine month period ended September 30, 2018.

Early prototype and pre-production orders generally result in a higher cost mix, relative to revenue, than would otherwise be incurred in an on-site production environment, with higher volumes and more established operating processes, or through contract manufacturers. As such, our gross profit percentages have fluctuated and may continue to fluctuate based on volume and quoted production prices per unit and may not be representative of our future business. If we begin increasing our products revenues with shipments of routine, commercial products and parts through future orders to our manufacturing facility and, in future periods, third party contract manufacturers, we expect our gross profit percentages to stabilize, increase, and be more predictable.

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Selling, marketing, general and administrative. Selling, marketing, general and administrative expenses were \$1,380 and \$4,088 for the three and nine months ended September 30, 2019, respectively, compared to \$1,381 and \$4,493 for the three and nine months ended September 30, 2018, respectively. The decrease in expenses was due to overall lower costs associated with employee compensation as a result of headcount reductions. This decrease was partially offset by \$273 in additional severance expense during the three months ended September 30, 2019, as a result of the 2019 Restructuring Plan.

Research and development. Research and development expenses were \$284 and \$1,179 for the three and nine months ended September 30, 2019, respectively, compared to \$601 and \$1,855 for the three and nine months ended September 30, 2018, respectively. The decrease in expense was mainly due to reduction in mold, tooling, and alloy development initiatives. We continue to (i) perform research and development of new Liquidmetal alloys and related processing capabilities, (ii) develop new manufacturing techniques, and (iii) contract with consultants to advance the development of Liquidmetal alloys and related production processes. Such activities will be significantly reduced following completion of the 2019 Restructuring Plan.

Impairment of long-lived assets. In connection with the 2019 Restructuring Plan, non-cash impairment charges of \$0 and \$1,676 were recorded during the three and nine months ended September 30, 2019, respectively, as a result of changed assumptions regarding the asset grouping and future use of the Company's manufacturing assets. Similar charges were not recorded during the three and nine months ended September 30, 2018.

Gain on disposal of fixed assets. During the three and nine months ended September 30, 2019, the Company recorded gains on the disposal of fixed assets of \$7 and \$2, respectively. Similar charges were not recorded during the three and nine months ended September 30, 2018.

Operating loss. Operating loss was \$1,520 and \$6,731 for the three and nine months ended September 30, 2019, respectively. This compares to \$2,613 and \$6,986 for the three and nine months periods ended September 30, 2018, respectively. Fluctuations in our operating loss are primarily attributable to variations in operating expenses, as discussed above.

As a result of the 2019 Restructuring Plan, we anticipate that on-going operating selling, marketing, general and administrative expenses and research and development will be significantly reduced, primarily through employee headcount reductions and the outsourcing of development and manufacturing operations.

We continue to invest in our technology infrastructure to expedite the adoption of our technology, but we have experienced long sales lead times for customer adoption of our technology. Until that time when we can either (i) increase our revenues with shipments of routine, commercial products and parts through third party contract manufacturers or (ii) obtain significant licensing revenues, we expect to continue to have operating losses for the foreseeable future.

Other income and expenses

Interest income. Interest income relates to interest earned from our cash deposits for the respective periods. Such amounts were \$125 and \$344 for the three and nine months ended September 30, 2019, respectively. This compares to \$89 and \$157 for the three and nine months ended September 30, 2018, respectively.

Liquidity and Capital Resources

Cash used in operating activities

Cash used in operating activities totaled \$3,666 and \$4,930 for the nine months ended September 30, 2019 and 2018, respectively. The cash was primarily used to fund operating expenses related to our business and product development efforts.

Cash used in investing activities

Cash used in investing activities totaled \$358 and \$156 for the nine months ended September 30, 2019 and 2018, respectively. Investing outflows primarily consist of capital expenditures for additional production equipment and building improvements. We anticipate that our capital investments in the future will substantially decrease based on the above-described shift in our manufacturing strategy.

Cash provided by financing activities

Cash provided by financing activities totaled \$14 and \$125 for the nine months ended September 30, 2019 and 2018, respectively. Cash provided by financing activities is comprised of cash received for the issuance of shares following the exercise of stock options during the nine months ended September 30, 2019 and 2018, respectively.

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Financing arrangements and outlook

During 2016, we raised a total of \$62,700 through the issuance of 405,000,000 shares of our common stock in multiple closings under the 2016 Purchase Agreement. The Company has a relatively limited history of selling bulk amorphous alloy products and components on a mass-production scale. Furthermore, the ability of future contract manufacturers to produce the Company's products in desired quantities and at commercially reasonable prices is uncertain and is dependent on a variety of factors that are outside of the Company's control, including the nature and design of the component, the customer's specifications, and required delivery timelines. These factors have previously required that the Company engage in equity sales under various stock purchase agreements to support its operations and strategic initiatives. As a result of the funding under the 2016 Purchase Agreement, the Company anticipates that its current capital resources, when considering expected losses from operations, will be sufficient to fund the Company's operations for the foreseeable future.

Off Balance Sheet Arrangements

As of September 30, 2019, we did not have any off-balance sheet arrangements.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

None.

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Vice President of Finance (Principal Financial Officer), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2019. Based on their evaluation, our Chief Executive Officer and Vice President of Finance have concluded that our disclosure controls and procedures were effective as of September 30, 2019.

Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II
OTHER INFORMATION**

Item 1 – Legal Proceedings

None.

Item 1A – Risk Factors

For a detailed discussion of the risk factors that should be understood by any investor contemplating an investment in our stock, please refer to Part I, Item 1A “Risk Factors” in the 2018 Annual Report. There have been no material changes from the risk factors previously disclosed in Part I, Item 1A “Risk Factors” in the 2018 Annual Report, except for the addition of the following risk factors:

The restructuring plan that we adopted in July 2019 and the associated shift in business strategy may not result in the anticipated benefits

In July 2019, the Company adopted a restructuring plan pursuant to which the Company elected to wind down its prior manufacturing operations at the Company’s Lake Forest, CA facility and seek to outsource the manufacture of parts utilizing the Company’s technology through its domestic and international manufacturing partners (the “2019 Restructuring Plan”). In connection with this restructuring plan, the Company has shifted its business strategy from internal manufacture of parts and products for customers toward the use and reliance of outsourced manufacturers, which will initially be Dongguan Yihao Metals Materials Technology Co., Ltd. (“Yihao”), a China-based company that is an affiliate of our largest beneficial stockholder, our CEO and Chairman, Professor Lugee Li. The purpose of this shift was to preserve and maximize the value of the Company’s assets by reducing the infrastructure and cost associated with maintaining and building manufacturing operations and maximizing the prospects of successfully and more rapidly commercializing amorphous alloy products by leveraging the manufacturing capabilities of Yihao and potentially other manufacturers. There is no assurance, however, that this strategy will enable the Company to more rapidly and successfully commercialize its products.

We will rely on the manufacturing operations of a third party controlled by our largest stockholder, CEO and Chairman, which presents potential conflicts of interest.

As a result of the 2019 Restructuring Plan, we will rely, at least initially, on Yihao to manufacture our products. Yihao is an affiliate of Professor Li and is indirectly controlled by Professor Li. Professor Li, through his affiliates, is the largest beneficial owner of our common stock and owns approximately 45.1% of our common stock and is able to exercise significant influence over all matters affecting us, including the election of directors, formation and execution of business strategy and approval of mergers, acquisitions and other significant corporate transactions, which may have an adverse effect on our stock price and ability to execute our strategic initiatives. As a result of this significant ownership and his affiliation with Yihao, as well as the future importance of Yihao as a manufacturer of the Company’s products, Professor Li may have conflicts of interest and interests that are not aligned with those of other stockholders of the Company.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

During the period covered by this Quarterly Report on Form 10-Q, we did not issue or sell any unregistered equity securities.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

None.

Item 5 – Other Information

None.

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Item 6 – Exhibits

The following documents are filed as exhibits to this Report:

<u>Exhibit Number</u>	<u>Description of Document</u>
31.1	Certification of Principal Executive Officer, Lugee Li, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, Bryce Van, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, Lugee Li, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Vice President of Finance, Bryce Van, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following financial statements from Liquidmetal Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (unaudited), formatted in XBRL: (i) Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018, (ii) Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2019 and 2018, (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018, and (v) Notes to Consolidated Financial Statements.

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, INC.
(Registrant)

Date: November 12, 2019

/s/ Lugee Li
Lugee Li
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 2019

/s/ Bryce Van
Bryce Van
Vice President of Finance
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, Lugee Li, certify that:

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

Date: November 12, 2019

/s/ Lugee Li
Lugee Li
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Bryce Van, certify that:

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

Date: November 12, 2019

/s/ Bryce Van
Bryce Van
Vice President of Finance
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

Solely for the purposes of complying with 18 U.S.C. 1350, I, the undersigned Chief Executive Officer of Liquidmetal Technologies, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lugee Li

Lugee Li, President and Chief Executive Officer

November 12, 2019

Exhibit 32.2

**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 Vice President of Finance of Liquidmetal Technologies, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bryce Van

Bryce Van, Vice President of Finance

November 12, 2019