LIQUIDMETAL TECHNOLOGIES INC
Form 424B3
July 18, 2007

FINAL PROSPECTUS

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-142442

LIQUIDMETAL TECHNOLOGIES, INC.

12,032,140 Shares

Common Stock

This prospectus covers a total aggregate of up to 12,032,140 shares of our common stock, par value $0.001 per share, that may be offered from time to time by the selling stockholders identified on pages 27 of this prospectus. The shares being offered by this prospectus consist of:

- up to 7,537,385 shares issuable upon the conversion of our Convertible Subordinated Notes Due January 2010 issued by us in connection with a private placement in January 2007;

- up to 3,895,208 shares issuable upon the exercise of common stock purchase warrants issued by us in our January 2007 private placement; and

- up to 599,547 shares issuable upon the exercise of common stock purchase warrants issued by us between May 17, 2006 and December 1, 2006 in connection with a private placement of non-convertible subordinated notes.

We are registering these shares of our common stock for resale by the selling stockholders named in this prospectus, or their transferees, pledgees, donees or successors. We will not receive any proceeds from the sale of these shares by the selling stockholders. These shares are being registered to permit the selling stockholders to sell shares from time to time in the public market, in amounts, at prices and on terms determined at the time of offering. The selling stockholders may sell this common stock through ordinary brokerage transactions, directly to market makers of our shares or through any other means described in the section entitled Plan of Distribution beginning on page 93.

Before purchasing any of the shares covered by this prospectus, carefully read and consider the risk factors in the section entitled Risk Factors beginning on page 1.

Our common stock is quoted on the OTC Bulletin Board under the symbol LQMT.OB. On June 28, 2007, the last reported sales price of our common stock was $0.86 per share.

Our principal executive offices are located at 30452 Esperanza, Rancho Santa Margarita, California 92688, and our telephone number at that address is (949) 635-2100.

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

The date of this prospectus is July 17, 2007.

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

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

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The common stock is not being offered in any jurisdiction where the offer is not

permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock.

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

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PROSPECTUS SUMMARY

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

Liquidmetal Technologies, Inc.

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

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

Our Strategy

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

- Identifying and developing new applications for our Liquidmetal alloy technology;

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

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

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

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

Applications for Liquidmetal Alloys

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

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

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

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

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

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

Risk Factors / Going Concern

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

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2006 and 2005 was $14.5 million and $7.1 million, respectively. For the three months ended March 31, 2007 and 2006, we had a net income of $0.5 million and a net loss of $6.0 million, respectively. In the audit report on our financial statements for our fiscal years ended December 31, 2006 and 2005, our present auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. On January 3, 2007, we completed a private placement of $16.3 million in principal amount of 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes). The January 2010 Notes were issued for aggregate cash in the amount of $12.9 million and in payment of a total of $3.4 million in principal and accrued but unpaid interest under our previously issued 7% Senior Secured Convertible Notes due August 2007 and our 8% Unsecured Subordinated Notes.

We anticipate that the $12.9 million aggregate cash raised in the private placement will be sufficient to pursue our current operating plan only through the third quarter of 2007, and we will therefore require additional funding at or prior to that time. As a result, we are actively seeking additional sources of capital. The amount of funding that we seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products and/or the extent to which we can restructure or modify our debt. Because we cannot be certain that we will be able to obtain adequate funding from debt, equity, or other traditional financing sources, we are also actively exploring several strategic financing options, including the possible sale of our manufacturing plant in South Korea (which would then be replaced with a smaller facility), potential licensing and outsourcing of manufacturing operations including those in South Korea and China, and the possible sale of all or a part of our Liquidmetal Coatings business or our interest in such business. In June 2007, we entered into an equipment sale and licensing agreement with Grace Metal, a South Korean corporation, providing for $2.0 million in exchange for die casting machines and vacuum induction melters, and a 10-year exclusive license to manufacture Liquidmetal alloys for customers whose principal headquarters or major operations are based in South Korea. The principal purpose of the transactions with Grace Metal was to raise capital for the next-generation casting equipment and to shift the cost and burden of our manufacturing operations to a third party. Grace Metal was formed by an investor group that includes the former Founder and director of our company, James Kang, who is also the brother of John Kang, Chairman of the Board of our company. We cannot guarantee that adequate funds will be available when needed, and if we do not receive sufficient capital, we may be required to alter or reduce the scope of our operations.

Corporate Information

We were originally incorporated in California in 1987, and we reincorporated in Delaware in May 2003. Our principal executive offices are located at 30452 Esperanza, Rancho Santa Margarita, California 92688. Our telephone number at that address is (949) 635-2100 Our Internet website address is www.liquidmetal.com, and all of our filings with the Securities and Exchange Commission are available free of charge on our website. Any information that is included on or linked to our Internet site is not a part of this prospectus.

The Offering

Common stock offered	Up to 12,032,140 shares are being offered by the selling stockholders. Of these shares: • up to 7,537,385 shares are issuable upon the conversion of our Convertible Subordinated Notes Due January 2010 (the January 2010 Notes), which notes were issued by us to various selling stockholders in a private placement on January 3, 2007; • up to 3,895,208 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us in our January 2007 private placement and have an amended exercise price of $1.55 per share; and • up to 599,547 shares are issuable to various selling stockholders upon the exercise of outstanding common stock purchase warrants issued by us on May 17, 2006, September 20, 2006, and December 1, 2006 in connection with a private placement of non-convertible subordinated notes and have an adjusted exercise price of $2.13 per share.
Shares outstanding after the offering	56,663,908 shares
Use of proceeds	We will not receive any proceeds from the sale of the shares offered by the selling stockholders. Any proceeds we receive from the selling stockholders upon their exercise of the warrants or option to purchase the shares included in the shares that are being offered by them hereunder will be used for general working capital.
Risk factors	See RISK FACTORS and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the shares.
OTC Bulletin Board symbol	LQMT.OB

The number of shares of common stock that will be outstanding immediately after this offering is based on 44,631,768 shares outstanding as of June 1, 2007 and assumes the full conversion of the convertible promissory notes and the full exercise of the warrants identified above. There is no guarantee that all or any of such notes or warrants will be converted or exercised. The number of shares of common stock to be outstanding after this offering does not include 7,028,414 shares issuable pursuant to common stock options outstanding as of June 1, 2007 under our equity incentive plans, of which options to purchase 5,873,151 shares were exercisable as of such date at a weighted-average exercise price of $5.15 per share, and 8,683,173 additional shares of common stock reserved for future grants under our equity compensation plans. The number of shares of common stock to be outstanding after this offering also does not include the shares underlying our 6% Senior Secured Notes Due July 29, 2007 (the July 2007 Notes), our 7% Senior Secured Convertible Notes Due August 2, 2007 (the August 2007 Notes), and the warrants issued in connection with such notes. As of June 1, 2007, an aggregate of 10,632,606 shares of our common stock were issuable pursuant to the conversion or exercise of such notes and warrants.

The convertible notes identified above are convertible into such number of shares of our common stock as is determined by dividing the outstanding principal balance of such notes by the conversion price of the notes. As of June 1, 2007, approximately $2.1 million in aggregate principal amount of July 2007 Notes were outstanding at a conversion price of $1.00 per share, approximately $7.2 million in aggregate principal amount of August 2007 Notes were outstanding at an adjusted conversion price of $1.75 per share, and approximately $16.3 million in aggregate principal amount of January 2010 Notes were outstanding at a conversion price of $1.10. The warrants identified above are exercisable at the price per share indicated above. However, the above-described notes and warrants contain anti-dilution provisions that may result in a reduction of these conversion and exercise prices if we issue shares in the future for consideration below the existing conversion or exercise prices. Such anti-dilution provisions may cause a decrease in the voting power and value of your investment in our shares. See

DESCRIPTION OF CAPITAL STOCK Anti-Dilution Provisions in Notes and Warrants.

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

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Summary Consolidated Financial Data

The following summary consolidated financial data as of and for our years ended December 31, 2006, 2005, 2004, 2003 and 2002 have been derived from our audited consolidated financial statements, and the summary consolidated financial data as of and for the three months ended March 31, 2006, and 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Such unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for any future periods or the year ending December 31, 2007. In the opinion of management, all adjustments (consisting of only of normal recurring accruals) considered necessary for a fair presentation have been included. The following information should be read together with MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our Consolidated Financial Statements and Notes thereto included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of future results. The summary consolidated financial data should be read in conjunction with notes to the fiscal year 2006 consolidated financial statements included in this prospectus and in the fiscal 2003 annual report on Form 10-K filed on November 10, 2004, which reflects the restatements of prior year transactions.

	Three Months Ended		**Years Ended December 31,**				
	2007	**2006 (Restated)**	**2006**	**2005 (Restated)**	**2004 (Restated)**	**2003**	**2002 (Restated)**
	(Unaudited)						
	(In thousands, except per share data)						
Consolidated Statements Of Operation Data:							
Revenue	$ 5,067	$ 6,555	$ 27,669	$ 16,365	$ 17,429	$ 13,658	$ 9,138
Cost of sales	6,441	5,324	22,418	15,129	12,168	18,162	5,656
Gross (loss) profit	(1,374)	1,231	5,251	1,236	5,261	(4,504)	3,482
Operating expenses:							
Selling, general, and administrative expenses	2,532	2,705	9,962	8,534	11,591	17,729	13,099
Research and development expenses	263	203	950	1,120	1,467	8,780	11,825
Impairment of Goodwill						184	
Impairment of long lived assets				4,487		2,684	
Total operating expenses	2,795	2,908	10,912	14,141	13,058	29,377	24,924
Loss before interest, other income, income taxes, minority interest and discontinued operations	(4,169)	(1,677)	(5,661)	(12,905)	(7,797)	(33,881)	(21,442)
Loss from extinguishments of debt	(648)			(1,247)	(2,941)		
Change in value of warrants, gain (loss)	3,692	(1,289)	279	3,985	747		
Change in value of conversion feature, gain (loss)	4,344	(1,783)	(226)	9,118	2,093		
Other income		480	572		302		
Interest expense	(2,763)	(1,782)	(9,509)	(6,021)	(6,577)	(390)	(1,109)
Interest income	61	2	23	17	37	304	506
Gain on sale of marketable securities held for sale						1,178	832
Income (loss) before minority interest and discontinued operations	517	(6,049)	(14,522)	(7,053)	(14,136)	(32,789)	(21,213)
Minority interest in loss of consolidated subsidiary						21	118
Income loss from continuing operations	517	(6,049)	(14,522)	(7,053)	(14,136)	(32,768)	(21,095)
Discontinued Operations:							
(Loss) gain income from discontinued operations, net					(749)	(964)	83

Gain from disposal of discontinued operations, net						127	1,556
Net income (loss)	$ 517	$ (6,049)	$ (14,522)	$ (7,053)	$ (14,885)	$ (33,605)	$ (19,456)
Income (loss) per share from continuing operations	$ 0.01	$ (0.14)	$ (0.33)	$ (0.17)	$ (0.34)	$ (0.79)	$ (0.54)
(Loss) gain per share from discontinued operations	$	$	$	$	$ (0.02)	$ (0.02)	$ 0.04
Net income (loss) per share	$ 0.01	$ (0.14)	$ (0.33)	$ (0.17)	$ (0.36)	$ (0.81)	$ (0.50)
Weighted average shares - basic and diluted	44,925	42,817	43,809	41,833	41,610	41,505	38,714

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	As of March 31, 2007 (Unaudited) (In thousands)	As of December 31, 2006	2005 (Restated)	2004 (Restated)	2003	2002 (Restated)
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 2,937	$ 144	$ 1,392	$ 742	$ 3,127	$ 25,058
Working capital (deficit)	(16,066)	(23,157)	(10,993)	(14,910)	(698)	25,812
Total assets	25,735	22,244	21,563	28,508	30,852	24,845
Long-term debt, including current portion, net of discount	18,255	14,705	6,776	6,628	4,047	
Shareholders equity (deficiency)	(9,322)	(10,363)	(1,320)	4,191	16,163	50,599

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RISK FACTORS

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

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

We have experienced significant operating losses since our inception. Our net loss for the fiscal years ended December 31, 2006, 2005, and 2004, was $14.5 million, $7.1 million, and $14.9 million, respectively. For the three months ended March 31, 2007 and 2006, we had a net income of $0.5 million and a net loss of $6.0 million, respectively. We had an accumulated deficit of approximately $148.5 million at March 31, 2007. Of this accumulated deficit, $44.5 million was attributable to losses generated by our discontinued equipment manufacturing and retail golf. We anticipate that we may continue to incur operating losses for the foreseeable future. Consequently, it is possible that we may never achieve positive earnings and, if we do achieve positive earnings, we may not be able to achieve them on a sustainable basis.

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

Our future capital requirements will depend on the amount of cash generated by our operations. Our projections of cash flows from operations and, consequently, future cash needs are subject to substantial uncertainty. In addition, in our audit report on our financial statements for our fiscal years ended December 31, 2006 and 2005, our auditors included a going-concern qualification indicating that our significant operating losses and working capital deficit cause substantial doubt about our ability to continue as a going concern. By issuing an opinion stating that there is substantial doubt about our ability to continue as a going concern, our auditors have indicated that they are uncertain as to whether we have the capability to continue our operations without additional funding. On January 3, 2007, we completed a private placement of $16.3 million in principal amount of 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes). The January 2010 Notes were issued for aggregate cash in the amount of $12.9 million and in payment of a total of $3.4 million in principal and accrued but unpaid interest under our previously issued 7% Senior Secured Convertible Notes Due August 2007 and our previously issued 8% Unsecured Subordinated Notes.

We anticipate that the $12.9 million aggregate cash raised in the private placement will be sufficient to pursue our current operating plan only through the third quarter of 2007, and we will therefore require additional funding at or prior to that time. As a result, we are actively seeking additional sources of capital. The amount of funding that we seek and the timing of such fundraising efforts will depend on the extent to which we are able to increase revenues through obtaining additional purchase orders for our products and/or the extent to which we can restructure or modify our debt. Because we cannot be certain that we will be able to obtain adequate funding from debt, equity, or other traditional financing sources, we are also actively exploring several strategic financing options, including the possible sale of our manufacturing plant in South Korea (which would then be replaced with a smaller facility), potential licensing and outsourcing of manufacturing operations including those in South Korea and China, and the possible sale of our Liquidmetal Coatings business. In June 2007, we entered into an equipment sale and licensing agreement with Grace Metal, a South Korean corporation, providing for $2.0 million in exchange for die casting machines and vacuum induction melters, and a 10-year exclusive license to manufacture Liquidmetal alloys for customers whose principal headquarters or major operations are based in South Korea. The principal purpose of the transactions with Grace Metal was to raise capital for the next-generation casting equipment and to shift the cost and burden of our manufacturing operations to a third party. Grace Metal was formed by an investor group that includes the former Founder and director of our company, James Kang, who is also the brother of John Kang, Chairman of the Board of our company. We cannot guarantee that adequate funds will be available when needed, and if we do not receive sufficient capital, we may be required to alter or reduce the scope of our operations. If we raise additional funds by issuing equity securities, existing stockholders may be diluted. In addition, if shares of our common stock or securities convertible into or exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than the conversion and exercise prices of our currently outstanding convertible notes and warrants, then anti-dilution provisions in such convertible notes and warrants would be triggered, thus possibly causing even greater dilution o our then-existing stockholders if the notes are converted or the warrants are exercised. See RISK FACTORS Our convertible notes and warrants contain anti-dilution provisions that, if triggered, could cause substantial dilution to our then-existing stockholders.

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

We have marketed and sold industrial coatings to distributors in the coatings industry since 1987. Prior to the third quarter of 2002, our experience selling products made from bulk amorphous alloys has been limited to our discontinued retail golf business, which had a different marketing strategy than the one we are currently employing. Therefore, we have a relatively limited

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history of producing bulk amorphous alloy components and products on a mass-production basis. Furthermore, our ability to produce our products in desired quantities and at commercially reasonable prices is uncertain and is dependent on a variety of factors that are outside of our control, including the nature and design of the component, the customer s specifications, and required delivery timelines.

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

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

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

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

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

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

- identify a potential customer and introduce the customer to Liquidmetal alloys;
- work with the customer to select and design the parts to be fabricated from Liquidmetal alloys;
- make the molds and tooling to be used to produce the selected part;
- make prototypes and samples for customer testing;
- work with our customers to test and analyze prototypes and samples; and
- with respect to some types of products, such as medical devices, to obtain regulatory approval.

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

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

Our experience has shown that our customers will perform numerous tests and extensively evaluate our components and products before incorporating them into their finished products. The time required for testing, evaluating, and designing our components and products into a customer s products, and in some cases, obtaining regulatory approval, can take a significant amount of time, with an additional period of time before a customer commences volume production of products incorporating our components and products, if ever. Moreover, because of this lengthy development cycle, we may experience a delay between the time we accrue expenses for research and development and sales and marketing efforts and the time when we generate revenue, if any. We may incur substantial costs in an attempt to transition a customer from initial testing to prototype and from prototype to final product. If we are unable to minimize these transition costs, or to recover the costs of these transitions from our customers, our operating results will be adversely affected.

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

For the near future, we expect that a significant portion of our revenue will be concentrated in a limited number of customers. For example, for the three months ended March 31, 2007, revenues from one customer, Flextronics Manufacturing LTD, represented approximately 17% of total revenues from continuing operations, for the year ended December 31, 2006, revenues from one customer, Flextronics Manufacturing LTD, represented approximately 13% of total revenues from continuing operations, for the year ended December 31, 2005, revenues from one customer, Samsung, represented approximately 10% of total revenue from continuing operations, and for the year ended December 31, 2004, revenue from two customers represented approximately 62% of total revenue from continuing operations. Revenues from direct suppliers to SanDisk were approximately 18% of total revenues from continuing operations fro the three months ended March 31, 2007, and 22% of total revenues for the year ended December 31, 2006. Revenues from direct suppliers to Samsung represented approximately 0% of total revenues from continuing operations for the three months ended March 31, 2007 and 15%, 14% and 62% of total revenues from continuing operations, for the year ended December 31, 2006, 2005 and 2004, respectively. Also, revenues from defense related contracts with the United States of America represented 9% for the three months ended March 31, 2007 and 7%, 9%, and 10% for the year ended December 31, 2006, 2005, and 2004, respectively, and Growell Metal represented 0% of revenue from continuing operations for the three months ended March 31, 2007 and 0%, 0%, 12%, of revenue from continuing operations for the year ended December 31, 2006, 2005, and 2004. A reduction, delay, or cancellation of orders from one or more of these customers or the loss of one or more customer relationships could significantly reduce our revenue. Unless we establish long-term sales arrangements with these customers, they will have the ability to reduce or discontinue their purchases of our products on short notice.

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

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

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

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

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

The future growth and success of our bulk amorphous alloy business will depend in part on our ability to establish and retain a technological advantage over other materials for our targeted applications. For many of our targeted applications, we will compete with manufacturers of similar products that use different materials. These different materials may include plastics, titanium alloys, or stainless steel, among others. For example, we have targeted the cellular phone component market as an application for bulk Liquidmetal alloys. In this market, we believe we will compete with other manufacturers of cellular phone components who use plastics or metal to construct their components. These other manufacturers may be able to manufacture their cellular phone components, particularly those made from plastics, at significantly less cost than our alloys. In other markets, we will compete directly with suppliers of the incumbent material. In addition, in each of our targeted markets, our success will depend in part on the ability of our customers to compete successfully in their respective markets. Thus, even if we are successful in replacing an incumbent material in a finished product, we will remain subject to the risk that our customer will not compete successfully in its own market.

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

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

Future advances in materials science could render Liquidmetal alloys obsolete.

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

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

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

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

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

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

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

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

We expect that we will continue to manufacture a substantial portion of our initial bulk Liquidmetal alloy products in our South Korean facility and derive a material portion of our revenues from customers in South Korea and revenues from products manufactured by our licensing partner in China. For our fiscal years ended December 31, 2006, 2005, and 2004, approximately 12%, 31%, and 54%, of our revenues came from customers located in South Korea, respectively. For the three months ended March 31, 2007 and 2006, approximately 11% and 47% of our revenues came from customers located in South Korea, respectively. As a result, our manufacturing operations and financial results are subject to risks of political instability, including the risk of conflict between North Korea and South Korea and tensions between the United States and North Korea. In addition, we anticipate that the trend of foreign customers accounting for a significant portion of our total revenues may continue. Specifically, we expect to continue to derive a significant amount of revenue from sales to customers located in Asia. A downturn in the economies of Asian countries where our products will be sold, particularly South Korea s economy, could materially harm our business.

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

- staffing and managing our manufacturing facility located in South Korea;
- product or material transportation delays or disruption, including the availability and costs of air and other transportation between our South Korean facility and the United States;
- political and economic instability, including instability involving China and North Korea that may disrupt our operations in South Korea;
- potentially adverse tax consequences, which may reduce the profitability of products manufactured overseas or sold to overseas customers;
- burden of complying with complex foreign laws and treaties, which could limit our ability to conduct our business as contemplated in South Korea; and
- trade protection laws, policies, and measures and other regulatory requirements affecting trade and investment that could adversely affect the profitability of our South Korean Operations, including loss or modification of exemptions for taxes and tariffs.

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

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

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

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

We expect to conduct business in various foreign currencies and will be exposed to market risk from changes in foreign currency exchange rates and interest rates. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on our business, results of operations, and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on our operations cannot be accurately predicted. To the extent that the percentage of our non-U.S. dollar revenue derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates will increase further. Moreover, as a result of operating a manufacturing facility in South Korea, a substantial portion of our costs are and will continue to be denominated in the South Korean won. Adverse changes in the exchange rates of the South Korean won to the U.S. dollar will affect our costs of goods sold and operating margins and could result in exchange losses. The average foreign exchange rates for the years ended December 31, 2006, 2005, and 2004 were 967, 1,028, and 1,151 South Korean Won to the U.S. dollar, respectively. The average foreign exchange rates for the three months ended March 31, 2007 and 2006 were 954 and 993 South Korean Won to the U.S. dollar, respectively. The fluctuations in the exchange rates resulted in foreign currency translation gains of $0.3 million, $0.3 million, and $1.7 million, for the years ended December 31, 2006, 2005, and 2004, respectively, and loss of $0.2 million and a gain of $0.1 million for the three months ended March 31, 2007 and 2006, respectively.

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

We have an exclusive license from the California Institute of Technology, or Caltech, to several patents and patent applications relating to amorphous alloy technology, and we have obtained several of our own patents. Our success depends in part on our ability to obtain and maintain patent and other proprietary right protection for our technologies and products in the United States and other countries. If we are unable to obtain or maintain these protections, we may not be able to prevent third parties from using our proprietary rights. Specifically, we must:

- protect and enforce our owned and licensed patents and intellectual property;
- exploit our patented technology (owned and licensed); and
- operate our business without infringing on the intellectual property rights of third parties.

Our licensed technology comprises several issued United States patents covering the composition and method of manufacturing of the family of Liquidmetal alloys. We also hold several United States and corresponding foreign patents covering the manufacturing processes of Liquidmetal alloys and their use. The patents relating to our coatings have various expiration dates until 2022, and those relating to our bulk amorphous alloys have expiration dates between 2013 and 2025. Patents covering the sale of our ArmacoreTM coatings material expired during 2005. We continue to hold other coatings related patents; however, if we are unable to protect our proprietary rights prior to the expiration of these patents, we may lose the advantage we have established as being the first to market bulk amorphous alloy products. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and we may encounter significant problems and costs in protecting our proprietary rights in these foreign countries.

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

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

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

- stop or delay using our technology;
- stop or delay our customers from selling, manufacturing or using products that incorporate the challenged intellectual property;
- pay damages; or
- enter into licensing or royalty agreements that may be unavailable on acceptable terms.

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

As of March 31, 2007, our long-term debt was $29.8 million net of debt discount, including the current portion of such debt. Our long-term debt (including the current portion) includes the following:

- $1.2 million in principal outstanding under our Korean subsidiary s loan from Kookmin Bank of South Korea;
- $2.1 million in principal outstanding under the 6% Senior Secured Notes due July 2007 (the July 2007 Notes) issued in our August 19, 2004 private exchange;
- $7.2 million in principal outstanding under the 7% Senior Secured Convertible Notes due August 2007 (the August 2007 Notes) issued in our August 2, 2005 private placement;
- $16.3 million in principal outstanding under the 8% Convertible Subordinated Notes due January 2010 (the January 2010 Notes) issued in our January 3, 2007 private placement, as amended; and
- $3.0 million in principal outstanding under the 8% Unsecured Subordinated Notes issued in May 2006, September 2006, and December 2006 private placements.
- As of March 31, 2007, our short-term debt was $1.5 million. Our short-term debt included the following:
- $1.5 million in outstanding advances received under a factoring, loan, and security agreement executed in April 2005, as amended, with a financing company.

Under our loan from Kookmin Bank, we are obligated to make equal monthly payments of principal and interest of $0.11 million each through the period ending in February 2008. Under our July 2007 Notes, August 2007 Notes, and January 2010 Notes we are required to make cash interest payments to the noteholders of $0.51 million per quarter until such notes are converted or paid. Unless such notes are converted, the $2.1 million in aggregate principal amount under our July 2007 Notes will become due in July 2007, provided that the holders of such notes may demand payment thereunder at any time after July 2006. The $7.2 million in aggregate principal amount under our August 2007 Notes will become due in August 2007, the $3.0 million in aggregate principal amount under the 8% Unsecured Subordinated Notes will become due in August 2007, and $16.3 million in aggregate principal amount under our January 2010 Notes will become due beginning July 31, 2008 through January 3, 2010.

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

- a significant portion of our cash flow from operations is likely to be dedicated to the payment of the principal of and interest on our indebtedness;
- we may be unable to refinance our indebtedness on terms acceptable to us or at all;
- our cash flow may be insufficient to meet our required principal and interest payments; and
- we may be unable to obtain additional loans as a result of covenants and agreements with existing debt holders.

In addition, our convertible notes and related documents contain restrictive covenants pursuant to which we generally may not (i) incur any indebtedness that would be senior to, or on the same rank as, the convertible notes with respect to payment or security, (ii) grant any liens or security interests in any of our assets which serve as collateral for the convertible notes (which collateral consists of substantially all of our assets), (iii) with certain exceptions, sell any of the assets that constitute collateral for the notes, (iv) become a guarantor for a third-party s obligation (other than guarantees in the ordinary course of business not in excess of $500,000 in the aggregate), (v) acquire any shares or securities of any other person or entity in excess of an aggregate of $1.0 million over any rolling 12-month period, (vi) purchase or otherwise acquire any assets in excess of an aggregate of $3.0 million over any rolling 12-month period, (vii) engage in any transaction resulting in the issuance to any person of more than 40% of the equity of our company, or (viii) engage in any merger or sale of all or substantially all of our business assets. These covenants may curtail our ability to raise capital in the future or otherwise restrict our ability to enter into a transaction that we believe would be in the best interest of our stockholders.

One of the investors in our January 2007 private placement has demanded the redemption of its note issued in the private placement.

The January 2010 Notes issued in our January 2007 private placement were issued pursuant to a Securities Purchase Agreement, dated January 3, 2007, between our company and the purchasers of the January 2010 Notes (the January Purchase Agreement). Under the terms of the original January Purchase Agreement, we agreed to repay or otherwise satisfy, within 5 days after the closing of the private placement, approximately $15.5 million of our outstanding debt under previously issued promissory notes, including the August 2007 Notes (the Debt Satisfaction Covenant). We originally agreed to this covenant based on assurances that a substantial number of holders of previously issued notes would elect to convert such notes at a reduced conversion price following the January 2007 private placement under a note conversion agreement proposed by us, but most of such holders ultimately elected not to proceed with such conversion. Accordingly, in an effort to preserve funds, we have not yet repaid the indebtedness as required by the original January Purchase Agreement, and in April 2007, we entered into an amendment to the January Purchase Agreement providing that we will have until October 1, 2007 (or such earlier date on which the indebtedness to be repaid is due) to comply with the Debt Satisfaction Covenant.

On March 22, 2007, one of the purchasers of the January 2010 Notes (holding January 2010 Notes in the aggregate amount of $2.0 million) sent us an event of default notice (Event of Default Notice) indicating that we had defaulted under the January Purchase Agreement (and therefore under the January 2010 Note) by failing to comply with the Debt Satisfaction Covenant. This holder did not execute the April 2007 amendment to the January Purchase Agreement, although that amendment was approved by a majority of the note holders. In general, upon a breach of the January 2010 Notes or January Purchase Agreement, a holder of the January 2010 Notes may require us to redeem the January 2010 Notes at a price equal to the greater of (i) the conversion amount to be redeemed and (ii) the product of (A) the conversion rate with respect to such conversion amount in effect at such time as the purchaser of the January 2010 Note delivers an Event of Default Redemption Notice (as defined below) and (B) the closing sale price of our common stock on the date immediately preceding such event of default. Under the terms of the January 2010 Notes and January Purchase Agreement, we have ten (10) business days after the receipt of an Event of Default Notice to cure a default. On April 6, 2007, the holder which sent the Event of Default Notice further sent us an event of default redemption notice (Event of Default Redemption Notice). The Event of Default Redemption Notice states that the holder has elected to require us to redeem its January 2010 Note for a price equal to $2,000,000 (the amount of the January 2010 Note) plus accrued and unpaid interest. On April 16, 2007, we were served with a complaint filed by the holder in the Federal District Court in Minnesota to collect this amount. We have answered and denied that any amount is currently owed to the holder, because of the April 2007 amendment to the January Purchase Agreement. The holder has also moved for summary judgment and a hearing on that motion is scheduled for August 30, 2007. We are currently working to resolve this matter.

Also, because we repaid $1.8 million in principal and interest in January and February 2007 under certain subordinated bridge notes without first repaying the August 2007 Notes and July 2007 Notes, we may also be deemed to be in breach of the August 2007 Notes and July 2007 Notes, which case they would also have the right to accelerate such notes and foreclose on their security interest if the breach is not cured within thirty days of notice of default. The August 2007 Notes and July 2007 Notes are secured by substantially all of the assets of our company. If we fail to pay such notes, either at maturity or upon acceleration, then the noteholders may elect to foreclose upon the assets securing the notes.

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

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

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

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

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

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

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

To the extent that our products have the potential for dual use, such as military and non-military applications, they may be subject to import and export restrictions of the U.S. government, as well as other countries. The process of obtaining any required U.S. or foreign licenses or approvals could be time-consuming, costly, and uncertain. Failure to comply with import and export regulatory requirements can lead to substantial fines, civil and criminal penalties, and the loss of government contracting and export privileges.

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

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

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

During the first five months in 2007, the highest bid price for our common stock was $1.55 per share, while the lowest bid price during that period was $0.70 per share. The trading price of our common stock could continue to fluctuate widely due to:

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

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

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

The convertible notes and warrants issued in our January 2007 private placement contain full-ratchet anti-dilution rights. As a result of these anti-dilution rights, under our January 2010 Notes, if we issue or grant in the future any rights to purchase any of our common stock, or other security convertible into our common stock, for an effective per share price less than the conversion price then in effect, the conversion price of all unconverted January 2010 Notes will be decreased to equal such lower price. With regard to the warrants issued in connection with the January 2010 Notes, if we, in the future, issue or grant any rights to purchase any of our common stock, or other security convertible into our common stock, for a per share price less than

the conversion price of the January 2010 Notes then in effect, the exercise price of the warrants will be reduced to equal such lower price and the number of shares of our common stock for which the warrants may be exercised will be increased so that the total aggregate exercise price remains constant. The foregoing adjustments to the conversion price of the notes and the exercise price of the warrants will not apply to certain exempt issuances, including issuances pursuant to employee stock option plans and strategic transactions

In addition to the above-described full-ratchet anti-dilution rights, certain other notes and warrants previously issued by us contain weighted-average anti-dilution provisions. As of December 31, 2006, we had outstanding $2.1 million in aggregate principal amount of 6% Senior Convertible Notes Due July 2007 with a conversion price of $1.00 per share, $9.9 million in aggregate principal amount of 7% Senior Convertible Notes Due August 2007 with a conversion price of $2.00 per share, warrants to purchase 973,064 shares at an exercise price of $2.58 per share, and warrants to purchase 3,902,714 shares at an exercise price of $2.00 per share, each of which notes and warrants contain weighted-average anti-dilution provisions. Under these provisions, if we issue shares in the future for consideration below the conversion or exercise prices then in effect, then (with certain exceptions, including the issuance of stock options) the conversion price for our convertible notes would automatically be reduced (allowing the holders of the notes to receive additional shares of common stock upon conversion) and the exercise price of the warrants would automatically be reduced (with a corresponding increase in the number of shares issuable pursuant to such warrants). To illustrate the impact of these weighted-average anti-dilution provisions, because of the issuance of the January 2010 Notes in January 2007 and the reduction of the conversion price of certain previously issued convertible notes in February 2007, the above-described warrants outstanding as of December 31, 2006 have been adjusted to represent warrants to purchase 1,178,651 shares at an exercise price of $2.13 per share, warrants to purchase 4,317,409 shares at an exercise price of $1.75 per share, and warrants to purchase 125,000 shares at an exercise price of $2.00 per share as of April 4, 2007. Thus, an aggregate of 745,282 additional shares of our common stock have become issuable pursuant to such previously granted warrants subsequent to December 31, 2006 as a result of the operation of these weighted-average anti-dilution provisions. It is also possible that a future triggering of the full-ratchet anti-dilution rights in our January 2010 Notes could result in a corresponding triggering of the above-described weighted-average anti-dilution provisions in the other notes and warrants.

If our available funds and cash generated from operations are insufficient to satisfy our liquidity requirements in the future, then we may need to raise substantial additional funds in the future to support our working capital requirements and for other purposes. If shares of our common stock or securities convertible into or exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than the conversion and exercise prices of our convertible notes and warrants, then these anti-dilution provisions would be triggered, thus possibly causing substantial dilution to our then-existing stockholders if the notes are converted or the warrants are exercised. Further, subsequent sales of the shares in the public market could depress the market price of our stock by creating an excess in supply of shares for sale.

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

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

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

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

- authorize our board of directors, without stockholder approval, to issue up to 10,000,000 shares of blank check preferred stock that could be issued by our board of directors to increase the number of outstanding shares and prevent a takeover attempt;
- limit stockholders ability to call a special meeting of our stockholders;
- provide for a classified board of directors; and
- establish advance notice requirements to nominate directors for election to our board of directors or to propose matters that can be acted on by stockholders at stockholder meetings.

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

An ongoing investigation by the Department of Justice could have a material adverse impact on our company.

In August 2006, we received a federal grand jury subpoena for the production of documents related to the period from January 1, 1999 though the present. The documents being sought include accounting records, documents relating to our relationship with Growell Metal of Korea, and documents and records relating to transactions in company stock by officers and directors. The subpoena was issued in connection with a grand jury investigation being conducted by the U.S. Department of Justice, Criminal Division, in the Middle District of Florida concerning alleged accounting improprieties involving our company, among other things. We have been, and intend to continue to be, fully cooperative with the authorities in connection with the Department of Justice s subpoena and investigation. However, in the event that current or former members of our senior management were to be implicated in any wrongdoing, it could have a material adverse impact on our capital resources and business focus.

FORWARD-LOOKING STATEMENTS

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

- Our history of operating losses and uncertainty surrounding our ability to achieve or sustain profitability;
- Our limited history of developing, manufacturing, and selling products made from our bulk amorphous alloys;
- 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 to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

DESCRIPTION OF PRIVATE PLACEMENT AND CONVERTIBLE NOTES

Description of Private Placement

On January 3, 2007, we completed a private placement of $16.3 million in principal amount of Convertible Subordinated Notes due January 2010 (the January 2010 Notes). This prospectus covers the resale of the shares of our common stock issuable upon the conversion of the January 2010 Notes and upon the exercise of the warrants issued in the private placement.

The January 2010 Notes were issued pursuant to a Securities Purchase Agreement dated January 3, 2007 among our company and the purchasers of the January 2010 Notes, as amended by Amendment No. 1 on April 23, 2007 (the Securities Purchase Agreement). The principal purposes of the private placement were to raise additional funding for working capital and to provide for the repayment of certain indebtedness of our company. The January 2010 Notes were issued for aggregate cash in the amount of $12.9 million (before expenses and placement agent fees) and in payment of a total of $3.4 million in principal and accrued but unpaid interest under our previously issued 7% Senior Secured Convertible Notes Due August 2007 (the 7% Senior Notes) and our 8% Unsecured Subordinated Notes (the Subordinated Notes).

The January 2010 Notes (as amended) are convertible at any time at the option of the holder into shares of our common stock at a conversion price of $1.10 per share, subject to adjustment for stock splits, stock dividends, and the like. In the event that we issue or grant, in the future, any rights to purchase any of our common stock, or other security convertible into our common stock, for an effective per share price less than the conversion price then in effect, the conversion price of all unconverted January 2010 Notes will be decreased to equal such lower price, provided that such adjustment will not apply to certain exempt issuances, including stock issuances pursuant to employee stock option plans and strategic transactions. In the event that the average of the daily volume weighted average price of the shares of our common stock for any 20 consecutive trading days exceeds 250% of the conversion price, we will have the right, but not the obligation, to require the holders of the January 2010 Notes to convert the Notes into our common stock at the conversion price then in effect. Such a mandatory conversion is subject to specified conditions, including the existence of an effective registration statement covering the resale of the shares into which the January 2010 Notes are converted and certain minimum trading volumes in the stock to be issued.

Prior to maturity, the January 2010 Notes will bear interest at 8% per annum with interest payable quarterly in arrears in cash, or, at our option, in the form of additional January 2010 Notes (in which case the interest rate will be 10% per annum). Our ability to pay interest with additional January 2010 Notes is subject to specified conditions, including the existence of an effective registration statement covering the resale of the shares issued in payment of interest and certain minimum trading volumes in the stock to be issued. From and after an event of default under the January 2010 Notes and for so long as the event of default is continuing, the January 2010 Notes will bear default interest at a rate of 12% per annum (or 15% per annum if we elect to pay interest with additional January 2010 Notes).

Beginning on July 31, 2008, and at the end of each month thereafter, we will be required to redeem 1/36th of the principal amount of the January 2010 Notes in cash or, at our election, with shares of our common stock. Our ability to pay the redemption amounts with shares of our common stock will be subject to specified conditions, including the existence of an effective registration statement covering the resale of the shares issued in payment of the redemption amount and certain minimum trading volumes in the stock to be issued. Any unconverted January 2010 Notes will become due on January 3, 2010, although we will have the right at any time after 18 months following the issuance of the January 2010 Notes to redeem the January 2010 Notes in whole or in part for a cash redemption price of 105% of the portion of the principal amount being redeemed plus all accrued and unpaid interest thereon. The January 2010 Notes are unsecured and are subordinate to our 6% Senior Convertible Notes Due July 2007 (the 6% Senior Notes) and to certain secured financing from commercial lenders incurred by our company in the future.

As a part of the private placement, we issued warrants to the purchasers of the Notes giving them the right to purchase up to an aggregate of 7.4 million shares of our common stock at an amended exercise price of $1.55 per share (the Warrants). The exercise price of the Warrants is subject to adjustment for stock splits, stock dividends, and the like. In the event that we, in the future, issue or grant any rights to purchase any of our common stock, or other security convertible into our common stock, for a per share price less than the conversion price of the Notes then in effect, the exercise price of the Warrant will be reduced to equal such lower price and the number of shares of our common stock for which the Warrant may be exercised will be increased so that the total aggregate exercise price remains constant. The foregoing adjustment to the exercise price will not apply to certain exempt issuances, including issuances pursuant to employee stock option plans and strategic transactions. In connection with the private placement, we also issued to the placement agent for the transaction warrants to purchase an aggregate of 248,710 shares of our common stock at an exercise price of $1.55 per share. All of the Warrants (including the warrants granted to the placement agent) are immediately exercisable and will expire on January 3, 2012.

In connection with the private placement, our company and the purchasers of the January 2010 Notes entered into a Registration Rights Agreement under which we were required, on or before 45 days after the closing of the private placement, to file a registration statement with the SEC covering the resale of the shares of our common stock issuable pursuant to the January 2010 Notes and Warrants and to use our best efforts to have the registration declared effective at the earliest date (but in no event later than 90 days after filing if there is no SEC review of the registration statement, or 120 days if there is an SEC review). We will be subject to certain monetary penalties, as set forth in the Registration Rights Agreement, up to a maximum amount of 18% of the aggregate amount of January 2010 Notes sold in the private placement if the registration statement is not filed or does not become effective on a timely basis. The monetary penalties will accrue at the rate of 1% per month of the then-outstanding principal amount of the January 2010 Notes. In the event that we are unable to include in the registration statement all shares of our common stock issuable pursuant to the January 2010 Notes and Warrants, then we will be required to file up to two additional registration statements to register the resale of any shares excluded from the originally filed registration statement and to pay monetary penalties on the January 2010 Notes convertible into the excluded shares until the resale of such excluded shares is covered by an effective registration statement or until such shares can be sold under SEC Rule 144. As of May 31, 2007, an aggregate of $127,995 in monetary penalties under the Registration Rights Agreement had already been paid to investors as a result of the late filing of the required registration statement, while an additional $263,193 in such penalties were accrued but unpaid. The registration statement of which this prospectus is a part was filed pursuant to this Registration Rights Agreement.

Dollar Value of Underlying Securities and Potential Profits on Conversion

The following table sets forth the potential profit to be realized upon conversion of the January 2010 Notes based on the conversion price at January 3, 2007 and the closing price of our common stock on January 3, 2007 (the date the Notes were issued). Although the original conversion price of the January 2010 Notes exceeded the market price of our common stock on that date, the holders of our nonconvertible subordinated notes issued in 2006 (the Bridge Notes) were, under the terms of the Bridge Notes, entitled to a discount on the purchase of the January 2010 Notes.

Potential Profit from Conversion of Convertible Notes

Market price per share at January 3, 2007	$	1.54
Conversion Price per share at January 3, 2007	$	1.55
Total shares underlying January 2010 Notes based on conversion price	10,515,818	
Aggregate market value of underlying shares based on market price as of January 3, 2007	$	16,194,360
Aggregate conversion price of underlying shares	$	16,299,518
Discount to holders of Bridge Notes	$	73,000
Aggregate purchase price for Notes after discount for Bridge Note holders	$	16,226,518

Pursuant to the amendment of the January 2010 Notes on April 23, 2007, the conversion price of the January 2010 Notes was reduced to $1.10, which is a premium over the $0.89 per share closing price of our common on the date of such amendment. The exercise price of the Warrants issued in the private placement was initially $1.93 per share prior to the April 23 amendment, and therefore the Warrants were granted at a premium (not a discount) to the market value of our common stock on the date of the closing of the private placement. Pursuant to the April 23 amendment, the exercise price of the Warrants was decreased to $1.55, which is a premium over the $0.89 per share closing price of our common on the date of the amendment.

Payments to Selling Stockholders and Affiliates

In connection with the January 2010 Notes and the related private placement, we are or may be required to make the following payments to the selling stockholders.

Payee	Maximum Interest Payments(1)	Maximum Redemption Premiums(2)	Maximum Registration Penalties(3)	Total Maximum Payments During First Year(4)
Fort Mason Master, LP	595,145	140,865	507,114	292,999
Fort Mason Partners, LP	38,595	9,135	32,886	19,001
The Tail Wind Fund Ltd.	264,058	62,500	225,000	130,000
Solomon Strategic Holdings, Inc.	52,812	12,500	45,000	26,000
Whitebox Intermarket Partners, LP	422,493	100,000	360,000	208,000
Castlerigg Master Investments Ltd.	422,493	100,000	360,000	208,000
Diamond Opportunity Fund, LLC	73,936	17,500	63,000	36,400
Rockmore Investment Master Fund, Ltd.	211,247	50,000	180,000	104,000
Abdi Mahamedi	105,623	25,000	90,000	52,000
BridgePointe Master Fund Ltd.	422,493	100,000	360,000	208,000
Iroquois Master Fund Ltd.	105,623	25,000	90,000	52,000
Kenneth Lisiak	35,460	8,393	30,215	17,458
Vestal Venture Capital	77,514	18,347	66,048	38,161
Charles (Hyun Ju) Kim	47,701	11,290	40,645	23,484
Chunhyong Myong	35,776	8,468	30,484	17,613
Rodd Friedman	31,449	7,444	26,797	15,483
Myron Neugeboren	6,106	1,445	5,203	3,006
Ricardo Salas	69,921	16,550	59,578	34,423
Chang Ki Cho	92,140	21,809	78,511	45,362
Eric Brachfeld	11,518	2,726	9,814	5,670
Ed Neugeboren	4,245	1,005	3,617	2,090
Wynnefield Partners Small Cap Value L.P.	88,724	21,000	75,600	43,680
Wynnefield Partners Small Cap Value LP I	116,186	27,500	99,000	57,200
Wynnefield Small Cap Value Offshore	111,961	26,500	95,400	55,120

(1) Represents maximum amount of interest payable by us to the selling stockholders under the January 2010 Notes assuming the January 2010 Notes remain outstanding until the maturity date and assuming that interest is paid in cash.

(2) Represents the cash amount that would be payable by us if we exercised the optional redemption right described above, but does not include the warrants that would be issuable upon the exercise of such right.

(3) Represents the maximum monetary penalties that would be payable if we failed to timely file or obtain a declaration of effectiveness with respect to the registration statement required under the above-described Registration Rights Agreement.

(4) Represents the maximum amounts payable in cash during the first year of the January 2010 Notes under the other columns in this table assuming that (i) the optional redemption right is not exercised during the first year and (ii) monetary penalties accrue under the Registration Rights Agreement by reason of the late filing and effectiveness registration statement required by the Registration Rights Agreement.

In addition to the foregoing, we reimbursed the placement agent for the January 2007 private placement an amount equal to $37,500 for legal fees incurred by them in connection with the private placement.

Net Proceeds from Private Placement of January 2010 Notes

The following table sets forth the gross cash proceeds received from the private placement of the January 2010 Notes and calculates the net proceeds from the private placement of the January 2010 Notes after deduction of the anticipated payments pursuant to the Notes and the other private placement documents. The net proceeds do not include the payment of any contingent payments, such as liquidated damages or repayment premiums in the case of default or a change in control. The net proceeds assumes that all interest and principal will be paid in cash notwithstanding that we may pay interest and principal in additional January 2010 Notes or shares of our common stock under specified circumstances, as described above. The interest amount reflected below assumes that all payments are made when due without any event of default, and the table assumes that none of the January 2010 Notes are converted prior to maturity. Based on the foregoing assumptions, the net proceeds represent approximately 63% of the gross proceeds.

Gross Cash Proceeds	$12,580,000
Approximate Aggregate Interest Payments	$3,443,219
Approximate Transaction Costs (including Placement Agent Fees)	$1,240,876
Net Proceeds	$7,895,905

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Comparison of Issuer Proceeds to Potential Investor Profit

We plan to use the proceeds from the sale of the January 2010 Notes for working capital and to provide for the repayment of certain indebtedness of our company. The following table summarizes the potential proceeds we will receive pursuant to the Securities Purchase Agreement, January 2010 Notes, and Warrants. For purposes of this table, we have assumed that the selling stockholders will exercise all of the Warrants on a cash basis, although there is no assurance that any of the Warrants will actually be exercised. We have also assumed that the January 2010 Notes will be held by the selling stockholders through the maturity date of the January 2010 Notes.

Total Gross Proceeds Payable to Company in January 2007 Private Placement(1)	$	24,719,266	
All Payments that have been made or may be required to be made by Company until Maturity(2)	$	3,834,407	
Net Proceeds to Company Assuming Maximum Payments made by Company(3)	$	20,884,859	
Total Possible Profit to the Selling Stockholders(4)	$	0	
Percentage (%) of Payments and Profit over Net Proceeds(5)	18		%
Percentage (%) of Payments and Profit over Net Proceeds per year of Term(6)	6		%

(1) Includes gross cash proceeds payable to our company on the sale of the January 2010 Notes in the amount of $12,850,000 and assumes full exercise of the Warrants (including Warrants granted to placement agents) to yield an aggregate exercise price of $11,869,266. However, there is no assurance that any Warrants will actually be exercised.

(2) Total possible payments (excluding repayment of principal) payable by us to the selling stockholders or their affiliates assuming the January 2010 Notes remain outstanding until the maturity date and that interest is paid in cash. Assumes that liquidated damages under the Registration Rights Agreement are incurred only through April 30, 2007 and that no redemption premium on the January 2010 Notes will be applicable.

(3) Total net proceeds to us calculated by subtracting the result in footnote (2) from the results in footnote (1) (excluding transaction costs and placement agent fees).

(4) Total possible profit to the selling stockholders based on the aggregate discount to market price of the shares underlying the January 2010 Notes and Warrants as indicated above in the table entitled Potential Profit from Conversion of Convertible Notes.

(5) Percentage of the total possible payments to the selling stockholders as calculated in footnote (2) plus profit calculated in footnote (4) compared to net proceeds disclosed in footnote (3).

(6) Based on three year term.

Comparison of Registered Shares to Outstanding Shares

The following table compares the number of shares held by persons other than the selling stockholders, affiliates of our company, and affiliates of the selling stockholders with the number of shares registered for resale and sold by such parties in prior transactions as well as in January 2007:

Shares Outstanding Prior to January 2007 Private Placement Held by Persons Other than Selling Stockholders, or Affiliates of Company or Selling Stockholders	33,629,122
Shares Registered for Resale by Selling Stockholders, or Affiliates of Company or Selling Stockholders in Prior Registration Statements	100,500
Shares Registered for Resale by Selling Stockholders, or Affiliates of Company or Selling Stockholders, under Prior Registration Statements that Continue to be Held by Such Persons	0
Shares Sold in Registered Resale Transactions by the Selling Stockholders or Affiliates of the Selling Stockholders	100,500
Shares Registered for Resale on behalf of the Selling Stockholders or Affiliates of the Selling Stockholders in connection with the January 2007 Private Placement	12,032,140

Other Information

We currently intend, and we have a reasonable basis to believe that, we will have the financial ability to make all payments on the January 2010 Notes when they are due.

We have not received any information from the selling stockholders indicating that any selling shareholder has an existing short position our common stock.

With the exception of the following, we have not had any material relationships or arrangements with any of the selling stockholders, their affiliates, or any person with whom any selling shareholder has a contractual relationship regarding the January 2007 private placement (or any predecessors of those persons):

- Kenneth Lisiak, Vestal Venture Capital, Charles (Hyun Ju) Kim, Chunhyong Myong, and Ricardo Salas were investors in our May 2006 private placement and were therefore issued Bridge Notes in that transaction. These investors have exchanged their Bridge Notes for the January 2010 Notes.

- Rodd Friedman, Myron Neugeboren, Ricardo Salas, Chang Ki Cho, Eric Brachfeld, Ed Neugeboren, Wynnefield Partners Small Cap Value L.P., Wynnefield Partners Small Cap Value LP I, and Wynnefield Small Cap Value Offshore were investors in our August 2005 private placement and were therefore issued 7% Senior Secured Convertible Notes due August 2007 in that transaction. These investors have exchanged their 7% Senior Secured Convertible Notes for January 2010 Notes.

- Ricardo Salas was a former President, Chief Executive Officer, and director of our company.

- Chang Ki Cho was appointed as a director of our company in December of 2004.

SELLING STOCKHOLDERS

On behalf of the selling stockholders named in the table below (including their donees, pledgees, transferees or other successors-in-interest who receive any of the shares covered by this prospectus), we are registering, pursuant to the registration statement of which this prospectus is a part, all 12,032,140 shares of our common stock which will become issuable upon:

- the conversion of Convertible Subordinated Notes Due January 2010 (the January 2010 Notes), which notes were issued by us to such selling stockholders in connection with a private placement in January 2007;

- the exercise of outstanding common stock purchase warrants issued by us in our January 2007 private placement and having an exercise price of $1.55 per share; and

- the exercise of outstanding common stock purchase warrants issued by us between May 17, 2006 and December 1, 2006 and having an adjusted exercise price of $2.13 per share.

The selling stockholders are investors that provided financing to us or are those that acted as placement agents in our private placement financings. We are registering the shares to permit the selling stockholders to offer these shares for resale from time to time. The selling stockholders may sell all, some or none of the shares covered by this prospectus. All information with respect to beneficial ownership has been furnished to us by the respective selling stockholders. For more information, see Plan of Distribution. As of May 14, 2007, the January 2010 Notes and the above-described warrants are convertible or exercisable for an aggregate of 23,653,994 shares of our common stock, although we are registering only 12,032,140 of this shares in the registration statement of which this prospectus is a part. The selling stockholders will have the right to determine whether the shares registered on their behalf will be allocated to the conversion of January 2010 Notes, the exercise of warrants, or a combination of the two.

The table below lists the selling stockholders and information regarding their ownership of common stock as of June 1, 2007:

SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(1)		SHARES OWNED AFTER OFFERING(1) NUMBER	PERCENTAGE(2)	
Fort Mason Master, LP(3)(5)	2,227,125	1,954,205	(4)	1,887,568	4.06	%
Fort Mason Partners, LP(3)(5)	249,137	126,729	(4)	122,408	*	
The Tail Wind Fund Ltd.(3)(6)	1,704,546	867,056	(4)	837,490	1.84	%
Solomon Strategic Holdings, Inc. (3)(7)	340,910	174,412	(4)	166,498	*	
Whitebox Intermarket Partners, LP(3)(8)	2,227,125	1,387,290	(4)	1,339,983	2.91	%
Castlerigg Master Investments Ltd. (3)(9)	2,227,125	1,387,290	(4)	1,339,983	2.91	%
Diamond Opportunity Fund, LLC (3)(10)	477,273	242,775	(4)	234,498	*	
Rockmore Investment Master Fund, Ltd. (3)(11)	1,363,637	693,645	(4)	669,992	1.48	%
Abdi Mahamedi(3)	2,227,125	346,823	(4)	2,227,125	4.97	%
BridgePointe Master Fund Ltd. (3)(12)	2,227,125	1,387,290	(4)	1,339,983	2.91	%
Iroquois Master Fund Ltd. (3)(13)	681,819	346,823	(4)	334,996	*	

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SELLING STOCKHOLDER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING	NUMBER OF SHARES BEING OFFERED HEREBY(1)	SHARES OWNED AFTER OFFERING(1)	
Gryphon Master Fund, L.P. (14)	234,742	119,407	115,335	*
GSSF Master Fund, LP(15)	117,371	59,703	57,668	*
Triage Capital Management L.P. (16)	28,170	14,329	13,841	*
Leon Frenkel	89,203	45,375	43,828	*
Stratford Partners, LP(17)	70,424	35,823	34,601	*
Kenneth Lisiak(3)	269,045	136,855(4)	132,190	*
Vestal Venture Capital(3)(18)	576,658	293,330(4)	283,328	*
James Kang	6,164,322	41,793	6,122,529	12.88%
Kurtis Jang	23,475	11,941	11,534	*
Charles (Hyun Ju) Kim(3) (23)	354,868	180,512(4)	174,356	*
Chunhyong Myong(3)	266,151	135,384(4)	130,767	*
Hamilton Investment Partners, LLC(19)	58,686	29,852	28,834	*
Rockport Funding, LLC(20)	23,475	11,941	11,534	*
Jay P. Deahna	23,475	11,941	11,534	*
Indigo Securities, LLC(21)(24)	346,481	176,245	170,236	*
Rodd Friedman(3)	245,546	103,266(4)	142,280	*
Myron Neugeboren(3)	70,274	20,049(4)	50,225	*
Ricardo Salas(3)	1,726,425	296,279(4)	1,430,146	3.17%
Chang Ki Cho (3)	1,214,192	302,550(4)	911,642	2.01%
Eric Brachfeld(3)(23)	118,826	37,819(4)	81,007	*
Ed Neugeboren(3)(23)	63,120	13,940(4)	49,180	*
Wynnefield Partners Small Cap Value L.P.(3)(22)	692,729	291,322(4)	401,407	*
Wynnefield Partners Small Cap Value LP I(3) (22)	907,143	381,504(4)	525,639	1.16%
Wynnefield Small Cap Value Offshore(3) (22)	874,158	367,632(4)	506,526	1.12%

* Less than 1.0%.

(1) Assumes that the stockholders dispose of all the shares of common stock covered by this prospectus and do not acquire or dispose of any additional shares of common stock. The selling stockholders are not representing, however, that any of the shares covered by this prospectus will be offered for sale, and the selling stockholders reserve the right to accept or reject, in whole or in part, any proposed sale of shares.

(2) The percentage of common stock beneficially owned is based on 44,631,768 shares of common stock outstanding on June 1, 2007.

(3) On January 3, 2007, we entered into a registration rights agreement with these selling stockholders. See the section of this prospectus entitled DESCRIPTION OF CAPITAL STOCK Registration Rights. Under the registration rights agreement, we are required to file a resale registration statement for the shares underlying the Convertible Subordinated Notes due January 2010 and the related Common Stock Purchase Warrants to enable the resale of such shares by these selling stockholders on a delayed or continuous basis under Rule 415 of the Securities Act.

(4) Represents a good faith estimate of the maximum number of shares of common stock issuable pursuant to the Convertible Subordinated Notes due January 2010 and the related Common Stock Purch