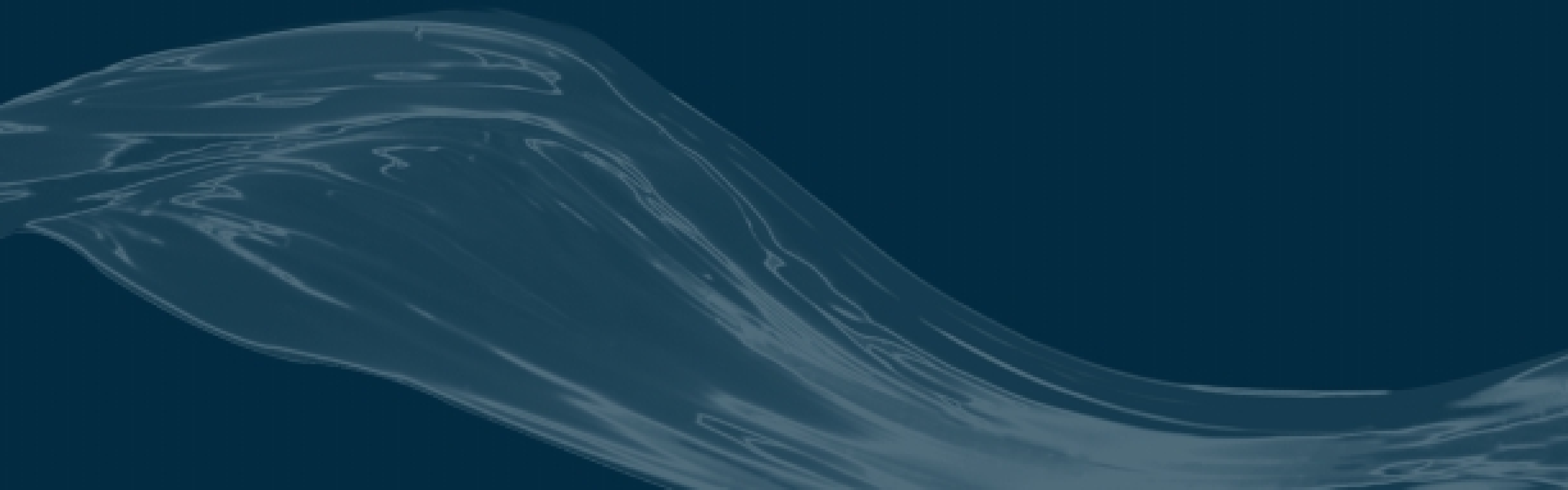
LIQUIDMETAL® TECHNOLOGIES

2002 annual report

"Since the discovery of thermoplastics over 50 years ago, Liquidmetal® alloy is the most significant development in the materials science world."

Michael F. Ashby, Ph.D.
Cambridge University

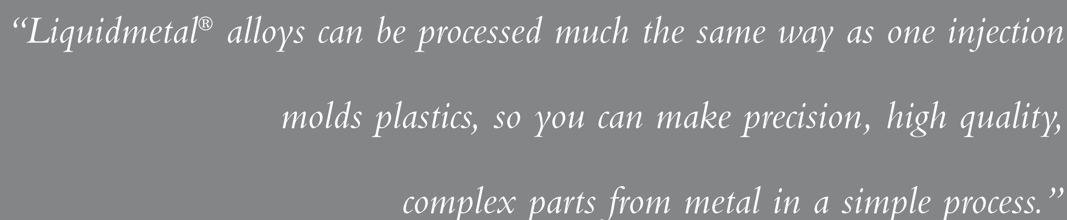


Revolutionary Milestones.....1800s ..... 1810 .... 1820..... 1830 .... 1840 ..... 1850 .... 1860 ..... 1870 .... 1880 .....

The Third Revolution™ in Materials

Mass-produced steel is introduced, helping launch the Industrial Revolution.

In the 1800s, Sir Henry Bessemer of England invented a process to mass-produce steel that opened the gateway to the Industrial Revolution. Factories, railroads, bridges, high-rise buildings and automobiles were all made possible by his vision. **During the 1900s,** chemists invented thermoplastics. These materials, which can use a single mold to produce tens of thousands of parts, dramatically reduced the cost of manufacturing and spawned entire new industries that provide an endless array of inexpensive products accessible to consumers everywhere. **Today,** Liquidmetal Technologies is leading the next revolution—the development and commercialization of a new class of metal alloys whose unique atomic structure provides more than twice the strength of titanium and combines it with processing capabilities similar to plastics. Already, some of the world's preeminent companies are pioneering the use of Liquidmetal® alloys in existing products and envisioning applications not previously possible to engineer, much less manufacture. Like mass-produced steel and plastics before, Liquidmetal® alloys offer the potential to revolutionize materials development and the vast industries that rely on it.


"Liquidmetal® alloys can be processed much the same way as one injection molds plastics, so you can make precision, high quality, complex parts from metal in a simple process."

William L. Johnson, Ph.D.
California Institute of Technology

TO OUR SHAREHOLDERS:

We have characterized 2002 as our foundational year—the year in which we established the technological, financial and operational footings that we believe will support an entirely new industry. As a company, we advanced our revolutionary bulk alloy technology, built and began operating a manufacturing facility like none before and established relationships with some of the world's most visionary and prestigious corporations. We worked very hard to ensure that all three—our alloys, our plant and our customers—came together smoothly.

This annual report, our first as a public company, details those successes. Like all of us at Liquidmetal Technologies, it also looks to what lies ahead. We believe 2003 will be critical to establishing our credibility and to demonstrating how real and how revolutionary our technology is.

TECHNOLOGY PLATFORM Liquidmetal holds exclusive rights to a metal alloy technology that promises to change the world—much as plastics did 50 years ago. Because of their unique atomic structure, our patented amorphous alloys do not have the grain boundaries or weak areas that limit the performance of traditional metals and metal alloys. More than twice as strong as commonly used titanium alloys, bulk Liquidmetal® alloys can be processed similar to plastics and therefore offer cost advantages over more extensive processes. They are corrosion and wear resistant. Their approximate weight is between titanium and steel, and they can be manufactured to precise specifications with a wide variety of finishes.

We must stress that Liquidmetal's breakthrough is not just one alloy, *but our ability to make amorphous metals in bulk form*. To put it another way, our value is a broad technology platform, which will be applicable to many different metals and manufacturing processes. By the end of 2003, we expect to have four alloys available for commercial use, each designed to address specific performance parameters. We also continue to explore new possibilities such as iron-based amorphous alloys. And we recently produced Liquidmetal® platinum, the first of several anticipated amorphous precious metals for which we are pursuing patent protection.

Our value is a **broad technology** platform, which will be applicable to many different metals and manufacturing processes.

John Kang
President & Chief Executive Officer

Our technology platform was significantly bolstered in 2002 when we proved our ability to make products on a commercial scale. To accomplish that, we designed and commissioned proprietary machinery to produce our alloy ingots as well as finished parts. We built a 166,000-square-foot manufacturing plant in an extraordinary six months from groundbreaking to operations. We have mass-produced casing components for cell phones. Prototyping work is underway or has been completed for dozens of additional products for customers in several different industries.

The facility, in Pyongtaek, South Korea, is in close proximity to our first electronics customers but has the capability to produce parts for a wide range of end markets. We plan to add new facilities as we master additional manufacturing processes, and likely will require a U.S. plant for medical and military products within the next two to three years.

Our technology priorities include protecting and expanding our intellectual property while leveraging our research and development (R&D) dollars. As such, we currently have research contracts with 17 leading universities in the United States and abroad. Materials science researchers in these schools are further characterizing our existing alloys; determining the biocompatibility of Liquidmetal® alloys for use in medical devices and implants; or actively seeking new compositions. For example, researchers at the University of Virginia (UVA) have developed an iron-based bulk amorphous alloy that could have a significantly lower cost basis than our currently commercialized alloys. Liquidmetal Technologies has exclusive licensing rights to this and other ongoing compositional research at UVA. We believe our research contracts are yielding vital data now and introducing our revolutionary technology to tomorrow's finest metallurgists—scientists who may one day be Liquidmetal employees or customers.

The technology continues to enjoy tremendous support and advancement through the hands-on contributions of the alloys' discoverers, William Johnson, Ph.D., and Atakan Peker, Ph.D. As Liquidmetal employees, they oversee ongoing R&D projects at the California Institute of Technology (Caltech) and were instrumental in furthering our prototyping and manufacturing projects through 2002. Also available to them and to other Liquidmetal management is our Technology Advisory Board, which includes some of the finest minds in materials science today.

Liquidmetal Technologies holds or exclusively licenses more than 20 composition, processing and usage patents that cover our technology platform and the resulting alloys. We are committed to introducing our alloys by way of many premium, high-performance products and high-volume industries to proliferate our technology as rapidly as possible.

FINANCIAL RESULTS We entered 2002 as a privately held company with a revolutionary technology but not the internal financial resources to commercialize it. Despite a very challenging economic environment, we completed our initial public offering (IPO) in May—one of only 82 successful U.S. IPOs for the year, compared to 93 in 2001 and 450 in 2000. We raised $78 million, funds sufficient to retire earlier debt, hire necessary staff, build our manufacturing facility and help finance our initial product rollouts.

"Steels can have very impressive properties in terms of strength, and plastics can be molded easily into particular shapes, but there is no high performance material having properties anything like steel than can be processed and formed much like plastics. That's what is unique about Liquidmetal® alloys."

William D. Nix, Ph.D.
Stanford University

The IPO also established our presence on the Nasdaq National Market® and, based on our market capitalization and style attributes, we were added to the Russell 3000 Index and small-cap Russell 2000 Index in July. These indexes are widely used by index fund managers and as benchmarks for both passive and active investment strategies.

During 2002 we put in place a top-notch management team with the maturity and attention to detail necessary to roll out an entirely new technology. Through their efforts, we built our manufacturing facility, produced and shipped our first products, established relationships with phenomenal brands and realized revenue gains in every quarter. We ended the year with cash and marketable securities of $29 million as we drive to achieve profitability in 2003.

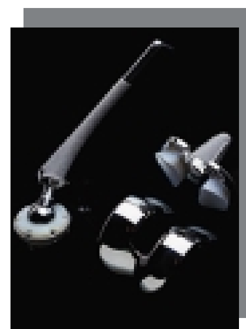
BUSINESS DEVELOPMENT We are working diligently to capture key markets and build the Liquidmetal® brand for sustained future success. Our strategy is to "launch large." As such, we are forging relationships with corporations that have prominent brands, premium products, reputations for innovation, early-adopter tendencies and, if possible, strong internal design departments. To date, we have partnered with customers who are leaders in their respective markets and understand the power of our technology. These relationships will afford both our customers and our company significant, sustainable and mutually rewarding branding opportunities.

Our customers have spent years building their design capabilities, product expertise and corporate reputations, so their enthusiasm for our material is both gratifying to us and carries significant validation for other prospective customers. Among companies we are working with are LVMH (Möet Hennessy Louis Vuitton), TAG Heuer, PING, HEAD Sport, Rawlings, Johnson & Johnson, Samsung Electronics, Motorola, Raytheon and Lockheed Martin. These and many others continue to move forward with our technology, and most have products in various stages of material validation, prototyping, testing or design review.

Realizing that our first priority is to ensure that our customers' products are prototyped and produced for market as quickly as possible, we elected to focus first on the five key

Pyongtaek Plant

Cell Phone Components



Orthopedic Implants

Luxury Goods

Chemists invent thermoplastics, enabling the creation of entire new industries and a vast array of inexpensive products.

industries discussed below. In addition to meeting our high-profile, high-quality, high-volume and/or high-margins criteria, these industries feature varying adoption rates or lead times. That is, our product managers are working with electronics customers who are already receiving cell phone components and with defense contractors whose products likely will not enter production for two or more years. These staggered operational styles give us added flexibility in refining our growth strategies as needed.

Electronic Product Casings Liquidmetal® alloys have an impressive strength-to-weight ratio and can be molded to produce a near-mirror finish. They appeal to engineers' needs for increased functionality while offering designers unparalleled aesthetic solutions. Those attributes could make Liquidmetal® alloys the new material of choice for electronics companies, which are currently focused on miniaturizing cellular phones and handheld devices while accommodating larger LCD screens and ever more complex operations. Other commonly used materials do not provide comparable structural integrity and thus have limited design flexibility.

In September 2002 we shipped our first manufactured parts—a combination MP3/CD player casing—and by year's end we were mass-producing handset components for Samsung. We currently are in the validation process with leading U.S. electronics companies, including Motorola, and are working with Samsung on Liquidmetal® components for several of its next-generation phones. Through these applications, the electronics industry will be the first to exploit Liquidmetal's capabilities.

Sporting Goods & Leisure Products Perhaps no product sector is more driven by a combination of performance and appearance than sporting goods. Consider how the world of sports gave titanium alloys widespread appeal in the 1990s, decades after they were first used in aerospace applications. Now consider a class of materials that is 250% stronger and can be molded to a near net-shape finish—and apply it to a market where consumer awareness has few boundaries.

Liquidmetal® alloys offer high-visibility brands in the sports product sector an opportunity to align their market leadership with a new standard in materials technology. The advantage will be to those companies for whom innovation is a driving priority. In late spring 2003, HEAD Sport A.G. will launch a new tennis racquet featuring Liquidmetal® technology. Rawlings is rolling out a new baseball bat incorporating our materials, and leading golf equipment manufacturers such as PING are developing Liquidmetal® clubs. Major sporting goods manufacturers also are evaluating our alloys for products used in skiing, hunting, diving, fishing and many other applications.

Liquidmetal® technology recently made a dramatic debut in the world of luxury products. In early April, TAG Heuer showcased the avant-garde Microtimer, an exclusive new watch prominently featuring a Liquidmetal® alloy casing, at the renowned World Watch and

"Most of the metal alloys, and most processes, have taken a hundred years to get where they are. Liquidmetal® alloy is a very young material, but it has been moving extraordinarily rapidly in the short life it has had. I would anticipate that pace to continue if not accelerate."

Merton C. Flemings, Ph.D.
Massachusetts Institute of Technology

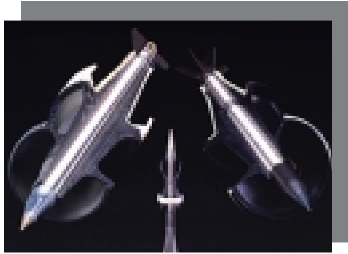
Jewelry Show in Basel, Switzerland. The Microtimer is essentially a Liquidmetal version of the Micrograph Formula One—winner of the 2002 Design Watch Prize at The Grand Prix d'Horlogerie de Genève in November. An international jury of experts, journalists and historians judged the highly prestigious annual competition and selected the Micrograph from among the world's most famous watchmakers' brands.

TAG is contemplating incorporating Liquidmetal® alloys in other new or redesigned products slated for launch in 2004. Our ability to produce net-shape cast Liquidmetal parts eliminates multiple hand-machining steps required by other alloys, while consistently turning out jeweler-quality pieces. TAG is one of a family of LVMH companies that sells some of the world's most sought after watches, jewelry, writing instruments, eyewear, fashion accessories and luggage. The company has shown keen interest in our initial alloys across a range of products and is exploring potential applications for Liquidmetal® platinum and other new precious metal alloys currently in development.

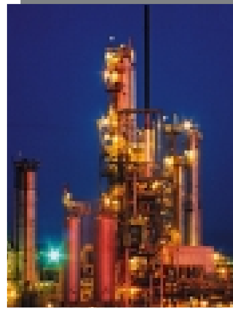
Medical Devices From surgical blades to implants, Liquidmetal® alloys offer the potential for lightweight, durable and reliable medical products with attractive production advantages over current technologies. For example, Liquidmetal® alloys do not shrink as they cool, so they can be cast in precise, finished form. We are prototyping ophthalmic scalpels for Surgical Specialties Corporation that are sharper than steel and less expensive than diamond; they will be higher quality, feature more consistent manufacturing and offer lower edge degradation over the life of the blade.

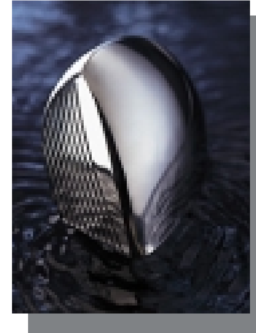
Among our most noteworthy 2002 accomplishments was the signing of an exclusive agreement with DePuy Orthopaedics, Inc., a Johnson & Johnson company, for development of orthopedic knee implants and instruments. This is a first and significant entrée into the $14 billion orthopedic market, which encompasses other reconstructive devices, fracture repair options, spinal implants and instrumentation. Other early stage projects are evaluating Liquidmetal® alloys for dental and cardiovascular applications.

As previously mentioned, Liquidmetal Technologies is currently engaged in extensive bio-compatibility tests necessary for any manufacturer interested in utilizing new materials for


Kinetic Energy Penetrators

Sports Products


Coatings for Industry

Golf Clubs


1993 Scientists at Caltech discover a way to produce amorphous, or non-crystalline, alloys in bulk form.

applications that require acute or chronic contact with the human body. Thus far the tests have been very successful, with no indications that the submitted alloys will not be suitable for everything from instruments to active implantables. With only the final phases of long-term implantation tests remaining, the results appear certain to validate the potential of Liquidmetal® alloys for use across a broad range of medical devices and instrumentation.

Defense Applications Liquidmetal® alloys, with their lighter weight and increased strength, could significantly enhance the performance and safety of many military products. We are working with the U.S. Department of Defense and the U.S. Army on the Kinetic Energy Penetrator (KEP), the military's most effective armor-piercing ammunition. A Liquidmetal alternative for the depleted uranium alloy rods currently used would offer comparable performance with better environmental safety. With the 2003 Defense Appropriations Bill, President Bush signed into effect a $4.25 million authorization for the continued development of Liquidmetal® alloys in KEPs with the U.S. Army and $1 million for an Air Force study to document the corrosion-resistant properties of various Liquidmetal® alloys.

We also have teamed with Lockheed Martin and Raytheon, two of the world's largest defense contractors, to jointly pursue defense projects. Ongoing projects with Lockheed Martin include both lethality and survivability applications, and with Raytheon we are pursuing an Air Force contract to develop components for hyper-velocity missiles. In addition, the Army introduced L-3 Communications and Honeywell to Liquidmetal Technologies and our ability to produce thin, lightweight and strong electronic casings. As a result, our alloys are being considered as a casing for the Common Guidance Unit, which will be used in precision munitions for all three branches of the U.S. military. Through such collaborations and the identification of new applications for Liquidmetal® alloys, we expect to continue to make meaningful progress toward product introductions in this high-margin market.

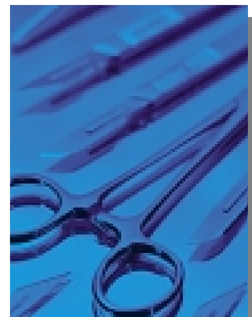
Industrial Coatings & Powders For the past 11 years, we have marketed a complete line of alloy coatings and powders to improve performance and prevent wear and corrosion in industrial equipment and machinery. Our product lines command roughly 80 percent of worldwide sales of "hard band" (wear surface) coatings for oil and gas drill pipe. We also are making significant marketing inroads into power generation facilities, especially coal powered plants, where our products enhance boiler tube performance and thus reduce costly maintenance downtime.

The coatings business contributed 35 percent of our $13.1 million in total company revenues for 2002. We have implemented an aggressive marketing program aimed at increasing coatings sales primarily by capturing added market share in the power generation and pulp

Electronic Casings

Defense Armor Tiles

Surgical Devices



Specialty Knives

and paper industries. As our Liquidmetal® bulk alloy products gain traction, however, the coatings segment will contribute a lower percentage of overall revenues—yet maintain the very favorable margins that this stable, underlying business has enjoyed in the past.

2002 Liquidmetal Technologies begins mass-producing Liquidmetal® alloy parts from its first manufacturing plant, launching the next revolution in materials technology.

LOOKING FORWARD Our business outlook literally changes every day as new contacts are made, development projects advance and word of our revolutionary technology spreads. We firmly believe that by year's end early adopters in the electronics, sports and leisure and medical sectors will have launched premium Liquidmetal® products. In doing so, they will have given themselves a valuable edge over their respective competitors and improved the desirability of their products to their end users.

To date, a core focus of the company has been to provide total manufacturing services for the customers using our alloys. We will continue to pursue this strategy. As we broaden the scope and visibility of our technology across a growing family of alloys, however, we are frequently approached about strategic transaction opportunities in the form of exclusive development agreements, licensing arrangements and joint ventures. Given the appropriate conditions, these alliances could catapult Liquidmetal® alloys into dominant positions in our targeted sectors—or accelerate our introduction into new vertical markets or processing methods. Ongoing protection and expansion of our intellectual property will be a key criterion in evaluating any such opportunities, but we remain open to all viable possibilities for accelerating the company's growth.

Everywhere we look we see plastic and metal products that could be replaced—and improved upon—by Liquidmetal Technologies. As we interact with engineers and designers in the most innovative corporations around the world, we glimpse a future filled with inventions no one has been able to pursue before. While 2002 was the year for establishing the foundations for our business, 2003 demands we prove our credibility. We know we will.

We made extraordinary progress over the past year. None of it would have been possible without our employees worldwide, our management team, our forward-thinking customers or you, our shareholders. To all, thank you for your ongoing commitment and support. Just as plastics and mass-produced steel represented revolutions in materials technology, we believe Liquidmetal® alloys are poised to be The Third Revolution™ in materials. The revolution has begun, and we are pleased that you are part of it.

Sincerely,

John Kang
President & Chief Executive Officer

Financial Review

Selected Consolidated Financial Data	10
Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Report of Independent Auditors	23
Consolidated Balance Sheets	24
Consolidated Statements of Operations and Comprehensive Loss	25
Consolidated Statements of Shareholders' Equity (Deficiency)	26
Consolidated Statements of Cash Flows	28
Notes to Consolidated Financial Statements	30
Corporate Information	54
Shareholder Information and Quarterly Stock Data	Inside Back Cover

Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with Liquidmetal Technologies' consolidated financial statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report and in our Form 10-K filing for the year ended December 31, 2002.

For the Years Ended December 31,	**2002**	2001	2000	1999	1998
(in thousands, except per share data)					
Consolidated Statements of Operations Data:					
Revenue	**$ 13,139**	$ 3,882	$ 4,200	$ 2,012	$ 3,143
Cost of sales	**8,679**	1,924	1,983	805	1,388
Gross profit	**4,460**	1,958	2,217	1,207	1,755
Operating expense:					
Selling, general and administrative	**12,767**	3,970	1,449	847	2,123
Research and development	**11,825**	2,057	455	333	278
Total operating expenses	**24,592**	6,027	1,904	1,180	2,401
Income (loss) before interest, other income, income taxes, minority interest and discontinued operations	**(20,132)**	(4,069)	313	27	(646)
Interest income (expense), net	**(603)**	(1,095)	(188)	(190)	452
Gain on sale of marketable securities held-for-sale	**832**	—	—	—	—
Income (loss) before income taxes, minority interest and discontinued operations	**(19,903)**	(5,164)	125	(163)	(194)
Income taxes	**(123)**	—	—	—	—
Minority interest in loss of consolidated subsidiary	**118**	—	—	—	—
Income (loss) from continuing operations	**(19,908)**	(5,164)	125	(163)	(194)
Loss from operations of discontinued retail golf segment, net	**—**	(5,973)	(8,938)	(7,977)	(7,052)
Gain (loss) from disposal of discontinued retail golf segment, net	**1,556**	(11,949)	—	—	—
Net loss	**$(18,352)**	$(23,086)	$(8,813)	$(8,140)	$(7,246)
Income (loss) per share from continuing operations—basic	**$ (0.51)**	$ (0.15)	$ 0.00	$ (0.01)	$ (0.01)
Income (loss) per share from continuing operations—diluted	**$ (0.51)**	$ (0.15)	$ 0.00	$ (0.01)	$ (0.01)
Weighted average common shares use to compute income (loss) per share from continuing operations—basic	**38,714**	33,323	30,233	26,788	21,505
Weighted average common shares use to compute income (loss) per share from continuing operations—diluted	**38,714**	33,323	33,285	26,788	21,505

December 31,	**2002**	2001	2000	1999	1998
(in thousands, except per share data)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents	**$ 26,003**	$ 2,230	$ 124	$ 314	$ 33
Marketable securities held-for-sale	**3,068**	—	—	—	—
Working capital (deficiency)	**26,385**	(9,572)	(3,967)	117	2,928
Total assets	**65,005**	6,680	1,945	2,043	5,557
Long-term debt and capital leases, including current portion	**93**	2,988	2,506	2,106	1,596
Shareholders' equity (deficiency)	**51,172**	(7,503)	(3,680)	(1,461)	2,033

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

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

Our revenues are derived from two principal operating segments: Liquidmetal alloy coatings and bulk Liquidmetal alloy products. Liquidmetal alloy coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used in coal-burning power plants. The historical operating information for fiscal year 2001 and years prior to 2001 contained in this section is based substantially on sales of Liquidmetal alloy coatings; however, this is a diminishing percentage of our business. In the second half of 2002, we began producing bulk Liquidmetal alloy components and products for incorporation into our customers' finished goods. Bulk Liquidmetal alloy revenue includes sales of: parts or components of electronic devices, medical products, sports and leisure goods; tooling and prototype parts for customers with products in development; bulk alloy processing equipment; and research and development revenue relating primarily to defense and medical programs. We have been focusing our initial commercialization efforts for bulk Liquidmetal alloys primarily on applications for products with high unit volumes that are sold in major industries. We expect that these new sources of revenue will continue to significantly change the size and character of our revenue mix.

The cost of sales for our Liquidmetal coatings consists primarily of the costs of outsourcing our manufacturing to third parties. We expect that our cost of sales will increase significantly from historical results as we further develop our bulk Liquidmetal alloy business. Although we plan to continue outsourcing the manufacturing of our coatings, we will internally manufacture many products derived from our bulk Liquidmetal alloys and expect to incur continued capital expenses as we expand our manufacturing capabilities.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

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

Research and development expenses represent salaries, related benefits expense, stock-based compensation, expenses incurred for the design and testing of new processing methods, and other expenses related to the research and development of Liquidmetal alloys. Costs associated with research and development activities are expensed as incurred. We plan to enhance our competitive position by improving our existing technologies and developing advances in amorphous alloy technologies. We believe that our research and development efforts will focus on the discovery of new alloy compositions, the development of improved processing technology, and the identification of new applications for our alloys. Our historical operations, prior to 2002, included our coatings business and our retail golf operation conducted through our majority owned Liquidmetal Golf subsidiary. On September 29, 2001, our board of directors and the board of directors of Liquidmetal Golf voted to discontinue the retail golf operations of Liquidmetal Golf in order to conform our operations to our business strategy. Pursuant to Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* we reclassified our consolidated financial statements to reflect the discontinuation of Liquidmetal Golf's retail golf operations. The revenue, costs and expenses, assets and liabilities, and cash flows of the retail golf business were segregated in our Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Loss, and Consolidated Statements of Cash Flows. The net operating results, net assets, and net cash flows of the retail golf business were reported as discontinued operations in our annual consolidated financial statements and in the consolidated financial statements included in this report. On April 30, 2002, management terminated the operations of the retail golf segment by means of completing the liquidation of the retail golf assets and liabilities.

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

Results of Operations

Comparison of the years ended December 31, 2002 and 2001

Revenue. Revenue increased to $13.1 million in the twelve months ended December 31, 2002 from $3.9 million in the twelve months ended December 31, 2001. This increase was primarily due to increased sales related to our bulk Liquidmetal alloys. Included in sales related to our bulk Liquidmetal alloys were revenue derived from sales of parts and prototypes made from our alloys, furnace equipment sales, revenue recognized from research and development contracts with the U.S. Department of Defense related to our bulk Liquidmetal alloys, and revenue recognized from the delivery of our first production products manufactured from our bulk Liquidmetal alloys. Additionally, revenue was derived from sales of our Liquidmetal coatings. Revenue from the sales and prototyping of parts manufactured from our bulk Liquidmetal alloys increased by $3.8 million over 2001. Revenue from the sales of Liquidmetal coatings products increased $1.0 million. Additionally, revenue

of furnace equipment increased $1.8 million as a result of the purchase of a 51% interest in Dongyang Yudoro ("Dongyang"), a South Korean furnace equipment company, and revenue from our research and development contracts, including contracts with the Department of Defense, increased $2.6 million.

Cost of Sales. Cost of sales increased to $8.7 million, or 66% of revenue, in the twelve months ended December 31, 2002 from $1.9 million, or 50% of revenue, in the twelve months ended December 31, 2001. This increase was primarily a result of costs to manufacture products made from our bulk Liquidmetal alloys and the cost of furnace equipment sold in the twelve months ended December 31, 2002. The increase in cost of sales as a percentage of revenue was also the result of increased costs required to manufacture products made from our bulk Liquidmetal alloys and costs to manufacture the furnace equipment sold in the twelve months ended December 31, 2002. Our Liquidmetal coatings products are produced by third parties and sold wholesale to various industries. The cost of sales for these coating products is generally fixed. However, the cost to manufacture parts from our bulk Liquidmetal alloys is variable and differs based on the part design. As expected, cost of sales as a percentage of revenue has continued to increased as our revenue mix has shifted more toward the bulk alloy business, although we believe that anticipated higher manufacturing volumes and an expected greater mix of high-margin products in the future will cause this measure to improve over time.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased to $12.8 million, or 97% of revenue, in the twelve months ended December 31, 2002 from $4.0 million, or 102% of revenue, in the twelve months ended December 31, 2001. This increase was primarily a result of increased wages of $3.2 million, increased professional fees, consultant fees, and contract services of $1.3 million, increased travel expenses of $0.6 million, increased property rent of $0.6 million, increased insurance expenses of $0.5 million, increased product warranty expense of $0.6 million, increased bad debt expense of $0.4 million, and $0.2 of stock compensation expense incurred in the twelve months ended December 31, 2002. These and other increases in selling, general and administrative expenses represent the continued additions to our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

Research and Development Expenses. Research and development expenses increased to $11.8 million, or 89% of revenue, in the twelve months ended December 31, 2002 from $2.1 million, or 53% of revenue, in the twelve months ended December 31, 2001. This increase was partially a result of expenses related to the continued research and development of new Liquidmetal alloys and related processing capabilities, including the hiring of additional research employees, developing new manufacturing techniques, and contracting with consultants to advance the development of Liquidmetal alloys. Salaries and wages increased $2.5 million, professional fees, consultant fees, and contract services increased $2.0 million, laboratory and prototyping expenses increased $2.6 million, and travel related expenses increased $0.4 million. The increase in research and development expenses in the twelve months ended December 31, 2002 also included $0.2 million in accelerated depreciation attributable to the acceleration of the estimated useful lives of certain capitalized research and development equipment and an increase in stock-based compensation expense of $1.0 million primarily triggered by modifications made to accelerate the remaining vesting periods of stock options in connection with the hiring of certain consultants as employees in March 2002.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Interest (Expense) Income, Net. Interest expense, net was at ($0.6) million, or 5.0% of revenue, in the twelve months ended December 31, 2002 and was ($1.1) million, or 28% of revenue, in the twelve months ended December 31, 2001. The interest expense, net was primarily due to the amortization of the fair value of warrants granted in connection with subordinated promissory notes we issued in February 2001. In the twelve months ended December 31, 2002, these subordinated promissory notes were paid, requiring the unamortized fair value of the warrants granted in connection with these subordinated promissory notes to be expensed fully in the twelve months ended December 31, 2002 in an amount totaling $0.5 million. Also in the twelve months ended December 31, 2002, we earned $0.5 million in interest income from the investment of the net proceeds of our initial public offering.

Gain from Sale of Investment. In December 2002 we sold 30% of the shares of Growell Metal, Inc. that were purchased in July 2002. We recognized an $0.8 million gain on the sale of these shares.

Comparison of the years ended December 31, 2001 and 2000

Revenue. Revenue decreased to $3.9 million in 2001 from $4.2 million in 2000. This decrease was primarily due to the absence in 2001 of some non-recurring sales that occurred in 2000. These non-recurring sales were the result of a recall of defective drill pipe that was manufactured overseas by third parties, and as a result of this recall, there was a need to coat the replacement pipe. This decrease in revenue was partially offset by a $0.2 million increase in revenue during 2001 primarily resulting from increased drilling activities as a result of higher crude oil prices.

Cost of Sales. Cost of sales decreased to $1.9 million, or 50% of revenue, in 2001 from $2.0 million, or 47% of revenue, in 2000. The decrease in cost of sales reflects the corresponding decline in sales volume over the same period. The increase in cost of sales as a percentage of revenue was the result of a change in our sales mix that included greater sales to the oil drilling industry, which carries a slightly lower gross profit margin than sales to other industries.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased to $4.0 million, or 102% of revenue, in 2001 from $1.4 million, or 35% of revenue, in 2000. This increase was primarily a result of increases in wages, stock-based compensation, professional fees, and travel expenses of $1.2, $0.1, $0.6, and $0.4 million, respectively. These expenses represented the continued additions to our corporate infrastructure required to prepare for and support the anticipated growth of our bulk Liquidmetal alloy business.

Research and Development Expenses. Research and development expenses increased to $2.1 million, or 53% of revenue, in 2001 from $0.5 million, or 11% of revenue, in 2000. This increase was partially a result of expenses related to the continued research and development of new Liquidmetal alloys and related processing capabilities. This included the hiring of additional research employees, developing new manufacturing techniques, and contracting with consultants to advance the development of our alloys. The increase in research and development expenses in the year ended December 31, 2001 also included $0.3 million of stock-based compensation related to options granted to consultants who performed services for us during 2001.

Other (Expense) Income, Net. Other expense, net increased to ($1.1) million, or 28% of revenue, in 2001 from ($0.2) million, or 4% of revenue, in 2000. This increase was primarily due to the amortization of the fair value of warrants granted in connection with subordinated promissory notes we issued in February 2001.

Quarterly Results

The following information presents our unaudited quarterly operating results for 2002 and 2001. The data has been prepared by Liquidmetal Technologies on a basis consistent with the Consolidated Financial Statements included elsewhere in this report, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof. These operating results are not necessarily indicative of our future performance.

For the Three Months Ended	**12/31/02**	9/30/02	6/30/02	3/31/02
(in thousands, except per share data)				
Consolidated Statements of Operations Data:				
Revenue	**$ 5,877**	$ 3,655	$ 2,144	$ 1,463
Cost of sales	**4,286**	2,524	1,187	682
Gross profit	**1,591**	1,131	957	781
Operating expense:				
Selling, general, and administrative	**3,726**	3,912	2,860	2,269
Research and development	**4,817**	2,652	1,660	2,696
Total operating expenses	**8,543**	6,564	4,520	4,965
Loss before interest, other income, income taxes, minority interest and discontinued operations	**(6,952)**	(5,433)	(3,563)	(4,184)
Interest income (expense), net	**113**	291	(695)	(312)
Gain on sale of marketable securities held-for-sale	**832**	—	—	—
Loss before income taxes, minority interest and discontinued operations	**(6,007)**	(5,142)	(4,258)	(4,496)
Income taxes	**(123)**	—	—	—
Minority interest in (loss) income of consolidated subsidiary	**204**	(76)	(10)	—
Income (loss) from continuing operations	**(5,926)**	(5,218)	(4,268)	(4,496)
Gain (loss) from disposal of discontinued retail golf segment, net	**(418)**	1,466	1,038	(530)
Net loss	**$(6,344)**	$(3,752)	$(3,230)	$(5,026)
Loss per share from continuing operations—basic and diluted	**$ (0.14)**	$ (0.13)	$ (0.11)	$ (0.13)
Weighted average common shares used to compute loss per share from continuing operations—basic and diluted	**40,995**	40,993	37,697	35,080

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

For the Three Months Ended	**12/31/01**	9/30/01	6/30/01	3/31/01
(in thousands, except per share data)				
Consolidated Statements of Operations Data:				
Revenue	**$ 874**	$ 1,112	$ 1,022	$ 874
Cost of sales	**402**	549	531	442
Gross profit	**472**	563	491	432
Operating expense:				
Selling, general, and administrative	**1,837**	1,084	634	415
Research and development	**1,171**	364	270	252
Total operating expenses	**3,008**	1,448	904	667
Loss before interest and discontinued operations	**(2,536)**	(885)	(413)	(235)
Interest expense, net	**(314)**	(294)	(299)	(188)
Loss from continuing operations	**(2,850)**	(1,179)	(712)	(423)
Loss from operations of discontinued retail golf segment, net	**—**	(1,835)	(2,251)	(1,887)
Gain (Income loss) from disposal of discontinued retail golf segment, net	**5,837**	(17,786)	—	—
Net loss	**$2,987**	$(20,800)	$(2,963)	$(2,310)
Income (loss) per share from continuing operations—basic and diluted	**$ (0.08)**	$ (0.03)	$ (0.02)	$ (0.01)
Weighted average common shares used to compute loss per share from continuing operations—basic and diluted	**34,994**	34,055	33,047	31,193

Liquidity and Capital Resources

Our operating activities, including our discontinued retail golf operations, used cash of $19.3 million for the twelve months ended December 31, 2002 and $12.1 million for the twelve months ended December 31, 2001. Cash used in operating activities for the twelve months ended December 31, 2002 resulted from net cash used by discontinued operations of $2.5 million and net cash used by continuing operations of $16.9 million. Cash used in operating activities for the twelve months ended December 31, 2001 resulted from net cash used by discontinued operations of $8.9 million and net cash used by continuing operations of $3.2 million. We had working capital of $26.4 million as of December 31, 2002. Cash used by continuing operations in the twelve months ended December 31, 2002 resulted primarily from operating losses from continuing operations of $19.9 million.

Our investing activities used cash of $24.3 million for the twelve months ended December 31, 2002 primarily for the acquisition of machinery and equipment and for the construction and development of our South Korean manufacturing facility totaling $21.8 million. The remaining $2.5 million used for the purchase of property and equipment during the twelve months ended December 31, 2002 related primarily to the purchase of furniture and furnishings, computer equipment, and software. Included in the investing activities for the twelve months ended December 31, 2002 was the investment of $2.0 million in the common stock of Growell Metal, Inc., a South Korean metals processing company. We intend to source a portion of the production of our Liquidmetal alloy ingots through Growell Metal, Inc. to increase the supply and availability of the Liquidmetal alloy ingots used in our manufacturing operations in Korea. We sold 30% of our investment in Growell Metal, Inc. as of December 31, 2002 for $1.4 million. Also included in the investing activities for the twelve months ended December 31, 2002 was an investment of $0.3 million, resulting in a $0.1 million increase, net of cash received, in Dongyang, whereby we acquired 51% of the outstanding stock of Dongyang.

Dongyang manufactures furnace equipment critical to the manufacturing of our bulk Liquidmetal alloys. The acquisition of a controlling interest in Dongyang allows us to better control the manufacturing equipment supply chain relating to the manufacture of our bulk Liquidmetal alloys. We also invested $0.1 million in patents and trademarks related to our Liquidmetal alloys during the twelve months ended December 31, 2002.

Our financing activities provided $67.3 million in cash for the twelve months ended December 31, 2002 and primarily included $70.7 million, net of transaction costs paid, received from our initial public offering. Included in the financing activities is $3.5 million of cash borrowed through the issuance of debt prior to the initial public offering and $7.4 million used to repay all of our outstanding debt obligations. Also received in the twelve months ended December 31, 2002 was $0.5 million from the exercise of stock options.

We currently anticipate substantially lower capital expenditures for at least the next twelve months, given the completion of construction and purchase of manufacturing equipment for our plant in Pyongtaek, South Korea. We anticipate that our capital expenditures will be approximately $7.0 to $10.0 million in 2003 for any additional equipment requirements and for the acquisition of furniture, fixtures, and other business equipment. This amount is subject to change, however, depending upon the nature and the amount of the orders that we actually receive from customers.

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

We intend to continue to develop our manufacturing resources and capabilities. Additionally, we anticipate growth in our working capital requirements from our expanding bulk Liquidmetal alloy business. However, the amount of these requirements will depend on the nature and amount of orders we receive for the purchase of our bulk Liquidmetal alloy products. We believe the net proceeds received from our initial public offering, and proceeds from borrowings, together with anticipated cash flow from our operations, will be sufficient to fund our long-term liquidity requirements. In January 2003, we obtained approximately $5.4 million in additional financing in the form of debt collateralized by our Pyongtaek plant and some equipment contained in the Pyongtaek plant from Kookmin Bank in Korea.

We believe that our current cash and cash equivalents, together with anticipated cash flow from our operations, will be sufficient to fund our working capital and capital expenditure requirements for at least the next twelve months. However, our future capital needs will be dependent to a significant extent on our ability to generate cash flow from operations. Our projections of cash flows from operations and, consequently, future cash needs are subject to uncertainty. If our available funds and cash generated from operations are insufficient

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

to satisfy our liquidity requirements, we may need to raise additional capital to fund our working capital or capital expenditure requirements. We cannot be certain that additional capital, whether through selling additional debt or equity securities or obtaining a line of credit or other loan, will be available to us, or, if available, will be on terms acceptable to us. If we issue additional securities to raise funds, these securities may have rights, preferences, or privileges senior to those of the rights of our common stock and our stockholders may experience additional dilution.

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

Use of Proceeds

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

As of December 31, 2002, we had used approximately $46.8 million of net proceeds from the Offering. We used approximately $7.8 million of the net proceeds from the Offering to repay all outstanding promissory notes and accrued interest, $9.9 million to partially fund the construction of our manufacturing facility in South Korea, $8.1 million to purchase equipment used to manufacture Liquidmetal parts, and $0.3 million to purchase the 51% interest in Dongyang. During the third quarter of 2002, we used $2.0 million to invest in the common stock of Growell, which will supply a portion of the Liquidmetal alloy ingots used in our manufacturing operations in Korea. As of December 31, 2002, we used approximately $17.6 million of the net proceeds for working capital, excluding $1.1 million paid to Paul Azinger for amounts due under the terms of his endorsement agreement. We have invested the remaining net proceeds of this offering in short-term, investment grade, interest-bearing securities. We intend to use the remaining net proceeds of the offering for the purchase of additional equipment used to manufacture Liquidmetal parts and for working capital purposes. Additionally, management may determine to fund all or a portion of the costs of any acquisitions of complementary businesses we determine to pursue in the future with proceeds from the Offering, although there are no assurances that we will be able to successfully identify or consummate any such acquisitions.

Off-Balance Sheet Arrangements

	Payments due by period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
(in thousands, except per share data)					
Contractual Obligations					
Long-term debt	$ —	$ —	$ —	$ —	$ —
Capital lease obligation	111	26	52	33	—
Operating leases and rents	4,752	1,337	1,984	1,267	164
Purchase obligations	3,488	3,488	—	—	—
Other long-term liabilities reflected on the Balance Sheet	—	—	—	—	—
Total	$8,351	$4,851	$2,036	$1,300	$164

In January 2003, we obtained approximately $5.5 million in additional financing from Kookmin Bank in South Korea. This additional financing is in the form of debt that is collateralized by our Pyongtaek plant and some equipment contained in the Pyongtaek plant.

Critical Accounting Policies and Estimates

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

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

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

- We record an accrual for potential product warranty costs. Due to the lack of historical information for warranty expense related to bulk alloy products, management estimates product warranties as a percentage of bulk alloy product sales earned during the period. In the event in future periods the actual product warranty costs consistently exceed the estimate for product warranty costs, an adjustment would be made

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

and income would decrease in the period of such determination. Likewise, in the event we determine that actual product warranty costs would be consistently lower than the estimate for product warranty costs, an adjustment would be made and income would increase in the period of such determination.

- We record an allowance for doubtful accounts as a contra-asset to our trade receivables for potential uncollectible accounts. Management estimates the amount of potentially uncollectible accounts by reviewing significantly past due customer balances relative to historical information available for those customers. In the event, in future periods, actual uncollectible accounts exceed the estimate for uncollectible accounts, an adjustment would be made and income would decrease in the period of such determination. Likewise, in the event, in future periods, actual uncollectible accounts are lower than the estimate for uncollectible accounts, an adjustment would be made and income would increase in the period of such determination. At December 31, 2002, 42%, or $2.7 million, of trade receivables was concentrated in two customers, of which $0.7 million has been outstanding for more than 150 days. Should one or more of these customers be unable to pay the amounts to to us, we would need to increase our allowance for doubtful accounts. As of March 27, 2003, $1.7 million of the $2.7 million has been collected.
- We record valuation allowances to reduce the deferred tax assets to the amounts estimated to be recognized. While we consider taxable income in assessing the need for a valuation allowance, in the event we determine we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment would be made and income increased in the period of such determination. Likewise, in the event we determine we would not be able to realize all or part of our deferred tax assets in the future, an adjustment would be made and charged to income in the period of such determination. At December 31, 2002, we recorded a deferred tax asset valuation of $27.6 million, representing 100% of existing deferred tax assets.
- We have accounted for our retail golf business as a discontinued operation. In calculating the loss on disposal of our retail golf business, we made certain estimates with regard to the valuation of the assets and liabilities of the retail golf business. Estimates were made for the collectability of accounts receivables, the liquidation value of inventories, the liquidation of certain other operating assets, and the estimated future losses of the retail golf business through the estimated disposal date of April 30, 2002. Also included in the loss on disposal was our estimate of stock option compensation expense attributable to an endorsement contract. The estimated stock option expense was based in part on an estimated future common stock price. During the year ended December 31, 2002, we recorded a $1.6 million reduction to the estimated loss on disposal of the discontinued retail golf segment primarily due to a change in estimated value of stock-based compensation. The change in estimated value of the stock-based compensation was a result of the cumulative decrease in the fair market value of the common shares underlying the options granted to Paul Azinger of $2.1 million and a decrease of $0.3 million in the estimate of fees related to the termination of the endorsement agreement. Additionally, there was a $.01 million gain due to the reversal of the accumulated foreign exchange gains after the liquidation of Liquidmetal Golf Europe Inc., and a decrease in the estimated warranty cost of $0.1 million. These gains were partially offset by other

changes in the estimated loss on disposal that included; $0.5 million of additional operating expenses, a $0.1 million increase in the allowance for doubtful accounts and $0.5 million primarily for the reduction of the estimated disposal value of work-in-process inventory and equipment. In December 2001, we recorded a $5.6 million reduction to the estimated loss on disposal of the discontinued retail golf segment due to a change in the estimated stock option value attributable to options granted pursuant to an endorsement agreement. The change in the estimated stock option value was due to a change in the estimated fair market value of the underlying common stock prior to the Offering. It is not expected that there will be any significant changes to the loss on disposal of the discontinued retail golf segment subsequent to December 31, 2002.

New Accounting Pronouncements

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

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

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

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated With Exit or Disposal Activities.* Statement 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* SFAS No. 146 requires costs associated with exit or disposal activities to be recognized when the costs are incurred, rather than at a date of commitment to an exit or disposal plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on our financial statements.

In December 2002, SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure* was issued by the FASB. This standard amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this standard amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. We will implement SFAS No. 148 effective January 1, 2003 regarding disclosure requirements for condensed financial statements for interim periods. We have not yet determined whether we will voluntarily change to the fair value based method of accounting for stock-based employee compensation.

Independent Auditors' Report

To the Board of Directors and Shareholders of
Liquidmetal Technologies
Tampa, Florida

We have audited the accompanying consolidated balance sheets of Liquidmetal Technologies and subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive loss, of shareholders' equity (deficiency), and of cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Liquidmetal Technologies and subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Tampa, Florida
February 4, 2003

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

Consolidated Balance Sheets

December 31,	**2002**	2001
(in thousands, except share data)		
Assets		
Current Assets:		
Cash and cash equivalents	**$ 26,003**	$ 2,230
Marketable securities held-for-sale	**3,068**	—
Trade receivables, net	**6,404**	911
Inventories	**2,506**	503
Prepaid expenses and other current assets	**2,142**	967
Total current assets	**40,123**	4,611
Property, Plant and Equipment, Net	**23,505**	1,163
Intangible Assets, net	**785**	723
Goodwill	**184**	—
Other Assets	**408**	183
Total assets	**$ 65,005**	$ 6,680
Liabilities and Shareholders' Equity (Deficiency)		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 11,174**	$ 2,706
Net liabilities of discontinued operations	**1,148**	7,492
Deferred revenue	**1,397**	830
Other liabilities, current portion	**19**	167
Current portion of notes payable to shareholders	**—**	2,988
Total current liabilities	**13,738**	14,183
Other Long-Term Liabilities, Net of Current Portion	**74**	—
Total liabilities	**13,812**	14,183
Commitments and Contingencies		
Minority Interest	**21**	—
Shareholders' Equity (Deficiency):		
Preferred stock, no par value; 10,000,000 shares authorized and none outstanding at December 31, 2002 and 456,857 outstanding at December 31, 2001	**—**	5,577
Common stock, no par value; 200,000,000 shares authorized and 41,009,245 issued and outstanding at December 31, 2002 and 35,023,515 issued and outstanding at December 31, 2001	**106,554**	29,752
Paid in capital	**20,326**	22,401
Unamortized stock-based compensation	**(480)**	(6,717)
Accumulated deficit	**(76,940)**	(58,588)
Accumulated comprehensive income	**1,712**	72
Total shareholders' equity (deficiency)	**51,172**	(7,503)
Total liabilities and shareholders' equity (deficiency)	**$ 65,005**	$ 6,680

See notes to consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Loss

Years Ended December 31,	**2002**	2001	2000
(in thousands, except per share data)			
Revenue	**$ 13,139**	$ 3,882	$ 4,200
Cost of Sales	**8,679**	1,924	1,983
Gross profit	**4,460**	1,958	2,217
Operating Expenses:			
Selling, general and administrative	**12,767**	3,970	1,449
Research and development	**11,825**	2,057	455
Total expenses	**24,592**	6,027	1,904
Income (loss) Before Interest, Other Income, Income Taxes Minority Interest and Discontinued Operations	**(20,132)**	(4,069)	313
Interest expense	**(1,113)**	(1,103)	(200)
Interest income	**510**	8	12
Gain on sale of marketable securities held-for-sale	**832**	—	—
Income (Loss) Before Income Taxes, Minority Interest and Discontinued Operations	**(19,903)**	(5,164)	125
Income taxes	**(123)**	—	—
Income (Loss) Before Minority Interest and Discontinued Operations	**(20,026)**	(5,164)	125
Minority interest in loss of consolidated subsidiary	**118**	—	—
Income (Loss) From Continuing Operations	**(19,908)**	(5,164)	125
Discontinued Operations:			
Loss from operations of discontinued retail golf segment, net	**—**	(5,973)	(8,938)
Gain (loss) from disposal of discontinued retail golf segment, net	**1,556**	(11,949)	—
Net Loss	**(18,352)**	(23,086)	(8,813)
Other Comprehensive Income (Loss):			
Foreign exchange translation (loss) gain during the period	**(28)**	(24)	96
Net unrealized gain on marketable securities held-for-sale	**1,668**	—	—
Comprehensive Loss	**$(16,712)**	$(23,110)	$(8,717)
Per Common Share Basic:			
Income (loss) from continuing operations	**$ (0.51)**	$ (0.15)	$ 0.00
Income (loss) from discontinued operations	**$ 0.04**	$ (0.54)	$ (0.30)
Net loss	**$ (0.47)**	$ (0.69)	$ (0.29)
Per Common Share Diluted:			
Income (loss) from continuing operations	**$ (0.51)**	$ (0.15)	$ 0.00
Income (loss) from discontinued operations	**$ 0.04**	$ (0.54)	$ (0.27)
Net loss	**$ (0.47)**	$ (0.69)	$ (0.26)

See notes to consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity (Deficiency)

For the Years Ended December 31, 2002, 2001 and 2000	Preferred Shares	Preferred Stock	Common Shares	Common Stock	Paid in Capital	Unamortized Stock Option-Based Compensation	Accumulated Deficit	Accumulated Comprehensive Income (Loss)	Total
(in thousands, except share data)									
Balance, December 31, 1999	—	$ —	29,456,265	$ 15,227	$ 9,994	$ —	$(26,682)	$ —	$ (1,461)
Common stock issued	—	—	1,358,422	3,970	—	—	—	—	3,970
Conversion of note payable	—	—	69,355	108	—	—	—	—	108
Stock-based compensation	—	—	—	—	852	—	—	—	852
Dilution gain on common stock issued by subsidiaries	—	—	—	—	500	—	—	—	500
Conversion of note payable of subsidiaries	—	—	—	—	1,075	—	—	—	1,075
Foreign exchange translation gain (loss)	—	—	—	—	—	—	—	96	96
Other	—	—	—	—	—	—	(7)	—	(7)
Net loss	—	—	—	—	—	—	(8,813)	—	(8,813)
Balance, December 31, 2000	—	—	30,884,042	19,305	12,421	—	(35,502)	96	(3,680)
Preferred stock issued	456,857	5,665	—	—	—	—	—	—	5,665
Commission expense on sale of preferred stock	—	(88)	—	—	—	—	—	—	(88)
Common stock issued	—	—	977,034	5,477	—	—	—	—	5,477
Stock options exercised	—	—	1,822,581	2,400	—	—	—	—	2,400
Conversion of notes payable	—	—	1,339,858	2,570	—	—	—	—	2,570
Discounts on notes payable	—	—	—	—	1,692	—	—	—	1,692
Stock-based compensation	—	—	—	—	8,301	—	—	—	8,301
Unamortized stock option-based compensation	—	—	—	—	—	(6,717)	—	—	(6,717)
Dilution gain on common stock issued by subsidiaries	—	—	—	—	37	—	—	—	37
Purchase of common stock of subsidiaries	—	—	—	—	(50)	—	—	—	(50)
Foreign exchange translation gain (loss)	—	—	—	—	—	—	—	(24)	(24)
Net loss	—	—	—	—	—	—	(23,086)	—	(23,086)
Balance, December 31, 2001	456,857	5,577	35,023,515	29,752	22,401	(6,717)	(58,588)	72	(7,503)
Common stock issued	—	—	5,229,000	78,435	—	—	—	—	78,435
Transaction expenses of initial public offering including commissions	—	—	—	(7,714)	—	—	—	—	(7,714)
Stock options exercised	—	—	299,873	504	—	—	—	—	504
Conversion of preferred stock to common stock	(456,857)	(5,577)	456,857	5,577	—	—	—	—	—
Stock-based compensation	—	—	—	—	(2,075)	2,075	—	—	—
Unamortized stock option-based compensation	—	—	—	—	—	4,162	—	—	4,162
Foreign exchange translation gain (loss)	—	—	—	—	—	—	—	(28)	(28)
Net unrealized gain on marketable securities	—	—	—	—	—	—	—	1,668	1,668
Net loss	—	—	—	—	—	—	(18,352)	—	(18,352)
Balance, December 31, 2002	**—**	**$ —**	**41,009,245**	**$106,554**	**$20,326**	**$ (480)**	**$ (76,940)**	**$ 1,712**	**$ 51,172**

See notes to consolidated financial statements.

LIQUIDMETAL TECHNOLOGIES AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31,	**2002**	2001	2000
(in thousands)			
Operating Activities:			
Net loss	**$(18,352)**	$(23,086)	$(8,813)
Add loss (gain) from operations and loss on disposition of discontinued operations	**(1,556)**	17,922	8,938
Income (loss) from continuing operations	**(19,908)**	(5,164)	125
Adjustments to reconcile net loss to net cash used by operating activities:			
Gain on sale of marketable securities held-for-sale	**(832)**	—	—
Gain on sale of property and equipment	**(19)**	—	—
Minority interest	**(118)**	—	—
Bad debt expense	**366**	—	—
Warranty expense	**435**	—	—
Depreciation and amortization	**1,513**	132	131
Amortization of debt discount	**912**	780	—
Stock-based compensation	**1,670**	393	—
Changes in operating assets and liabilities:			
Accounts receivable	**(5,788)**	(126)	(374)
Inventories	**(1,803)**	(311)	(57)
Prepaid expenses and other assets	**(1,048)**	(273)	(32)
Other assets	**(217)**	—	—
Accounts payable and accrued expenses	**7,581**	1,303	363
Unearned revenue	**567**	—	—
Other liabilities	**(167)**	80	(262)
Net cash used by continuing operations	**(16,856)**	(3,186)	(106)
Net cash used by discontinued operations	**(2,456)**	(8,866)	(4,752)
Net cash used by operating activities	**(19,312)**	(12,052)	(4,858)
Investing Activities:			
Purchases of property and equipment	**(23,787)**	(1,070)	(62)
Proceeds from sale of property and equipment	**129**	—	—
Purchase of marketable securities held-for-sale	**(2,000)**	—	—
Proceeds from sale of marketable securities held-for-sale	**1,432**	—	—
Acquisition of subsidiary, net of cash received	**74**	—	—
Investment in patents and trademarks	**(144)**	(89)	(59)
Net cash used by investing activities	**(24,296)**	(1,159)	(121)

Years Ended December 31,	2002	2001	2000
(in thousands)			
Financing Activities:			
Proceeds from borrowings	**3,500**	4,000	1,250
Repayment of borrowings	**(7,400)**	(100)	(750)
Repayment of other liabilities	**(14)**	—	—
Proceeds from issuance of common stock, net of offering costs	**70,721**	3,477	3,700
Proceeds from issuance of preferred stock, net of offering costs	**—**	5,577	—
Stock options exercised	**504**	2,400	—
Dividends paid	**—**	—	(7)
Proceeds from issuance (repurchase) of common stock by subsidiaries, net	**—**	(13)	500
Net cash provided by financing activities	**67,311**	15,341	4,693
Effect of Foreign Exchange Translation	**70**	(24)	96
Net Increase (Decrease) in Cash and Cash Equivalents	**23,773**	2,106	(190)
Cash and Cash Equivalents at Beginning of Period	**2,230**	124	314
Cash and Cash Equivalents at End of Period	**$26,003**	$ 2,230	$ 124
Supplemental Cash Flow Information			
Interest paid	**$ 443**	$ 52	$ 162
Taxes paid	**$ —**	$ —	$ —

In 2001 and 2000, respectively, $2,570 and $108 in notes payable and accrued interest were converted to the Company's common stock. In 2001, Liquidmetal Golf transferred and assigned to the Company two subordinated promissory notes in exchange for the Company's common stock in the amount of $2,000.

In 2001, the Company recorded paid in capital of $1,692 comprised of discounts on notes payable.

In 2001, the Company incurred $792 of costs related to the initial public offering that had not been paid as of December 31, 2001.

In 2002, the Company entered into a lease agreement for $107 of office furniture that was recorded as a capital lease obligation.

As of December 31, 2001, the Company accrued $100 for payments to be made to Caltech in exchange for rights to certain patents (see Note 7). In 2000, the Company issued 96,774 shares of common stock in the amount of $270 to Caltech in exchange for rights to certain patents (see Note 7).

In 2002, 2001, and 2000, respectively, the Company recorded a net addition to shareholders' deficiency of $2,492, $1,191, and $852 comprised of stock compensation and discounts on convertible notes payable in the discontinued retail golf operations. In 2000, a subordinated convertible promissory note in the amount of $1,075, issued by Liquidmetal Golf was converted to Liquidmetal Golf's common stock. Additionally, in 2002, there was a $98 foreign exchange loss effect in the discontinued retail golf operations.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Description of Business

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

The Company classifies operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys. The Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal-burning power plants. Bulk Liquidmetal alloys include potential market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods, tooling and prototype sampling, and furnace equipment. In addition, such alloys are used to generate research and development services revenue for developing uses related primarily to defense and medical applications. In the twelve months ended December 31, 2001, the Company derived a majority of its revenue from the operation of its retail golf segment, which was discontinued on September 30, 2001 and is now accounted for as a discontinued operation. The retail golf segment marketed golf clubs made of the Company's bulk Liquidmetal alloys. The Company outsourced the manufacturing of the golf clubs.

2. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Liquidmetal Technologies and its wholly-owned subsidiaries, Liquidmetal Korea Co., Ltd. ("LMT Korea"), located in Korea, and Amorphous Technologies International (Asia) PTE LTD ("LMT Singapore"), located in Singapore and its majority-owned subsidiaries, Chusik Hoesa Dongyang Yudoro ("Dongyang") and Liquidmetal Golf and its subsidiaries, which included the retail golf segment, now accounted for as a discontinued operation. The Company acquired its 51% interest in Dongyang in 2002; accordingly, the results of Dongyang's operations have been included in the consolidated financial statements from the acquisition date (see Note 8). The aggregate purchase price was $333 in cash. Effective in 2001, management closed the Singapore operations, which did not result in a significant impact on the financial statements for any of the periods presented. All intercompany balances and transactions have been eliminated. A minority interest in Liquidmetal Golf is included in the consolidated financial statements as a component of the loss from operations of the discontinued retail golf segment (see Note 14).

Sales of Stock by Subsidiaries. Gains on sales of stock by Liquidmetal Golf are recognized as components of the Company's shareholders' equity (deficiency).

Revenue Recognition. On December 3, 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101") that summarizes the staff's views in applying accounting principles generally accepted in the United States of America to revenue recognition in financial statements. The Company's revenue recognition policy complies with the requirements of SAB 101. Revenue is recognized at the time the Company ships its products, as this is when title passes to the customer. Revenue is deferred and included in liabilities when the Company

receives cash in advance for services not yet performed or goods not yet delivered. Revenue from research and development contracts is recognized under the percentage of completion method.

Cash and Cash Equivalents. The Company considers all highly liquid investments with maturity dates of three months or less when purchased to be cash equivalents. The Company limits the amount of credit exposure to each individual financial institution and places its temporary cash into investments of high credit quality. There are no significant concentrations of credit risk to the Company associated with cash and cash equivalents.

Marketable Securities. The Company has conformed its investment policies to be consistent with Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and classifies all of its investment securities as held-for-sale. Held-for-sale securities are carried at fair value, with the unrealized gains and losses reported in Shareholders' Equity (Deficiency) under the caption "Accumulated Comprehensive Income (Loss)." Realized gains and losses on held-for-sale securities are included in other income. The cost of securities sold is based on the specific identification method.

Trade Receivables. The Company grants credit to its customers generally in the form of short-term trade accounts receivable. The creditworthiness of customers is evaluated prior to the sale of inventory. Two customers represent 42%, or $2,703, of total outstanding trade receivables as of December 31, 2002.

Inventories. Inventories are accounted for on the first-in, first-out basis and reported at the lower of cost or market. Inventories consist of raw materials and finished goods. The Company records write-offs for inventory obsolescence when it is deemed that there is impairment of the value of the inventories on hand.

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Additions and major renewals are capitalized. Repairs and maintenance are charged to expense as incurred. Upon disposal, the related cost and accumulated depreciation are removed from the accounts, with the resulting gain or loss included in operating income. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets, which range from two to twenty years.

Lease property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized lease assets is provided on the straight-line method over the estimated useful lives of the assets, which is five years.

Intangible Assets. Intangible assets consist of the costs incurred to purchase patent rights and costs incurred to internally develop patents and trademarks. Intangible assets are reported net of accumulated amortization. Patents and trademarks are amortized using the straight-line method over a period based on their contractual lives ranging from eleven to seventeen years.

Goodwill. Beginning January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* (See "New Accounting Pronouncements"). According to this statement, goodwill and other intangible assets are no longer subject to amortization, but instead must be reviewed annually for impairment by applying a fair value-based test. The Company's goodwill arose in 2002 as a result of its acquisition of Dongyang (see Note 18). During 2002, the Company

completed an impairment review and did not recognize any impairment of goodwill. The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. Accordingly, for 2002, the Company has forgone all related goodwill amortization expense.

Impairment of Long-lived Assets. The Company reviews long-lived assets to be held and used in operations for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may be impaired. An impairment loss is recognized when the estimated fair value of the assets is less than the carrying value of the assets.

Fair Value of Financial Instruments. The estimated fair value of amounts reported in the consolidated financial statements have been determined using available market information and valuation methodologies, as applicable. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and all other current assets and liabilities approximate their fair value because of their short term maturities at December 31, 2002 and 2001, unless otherwise stated. The fair values of non-current assets and liabilities approximate their carrying value unless otherwise stated.

Research and Development Expenses. Research and development expenses represent salaries, related benefits expense, expenses incurred for the design and testing of new processing methods and other expenses related to the research and development of Liquidmetal alloys. Development costs incurred in research and development activities are expensed as incurred.

Advertising and Promotion Expenses. Advertising and promotion expenses are expensed when incurred. Advertising and promotion expenses were $127, $62, and $11 for the years ended December 31, 2002, 2001 and 2000, respectively.

Debt Discount Amortization. Debt discounts for notes payable are amortized to interest expense, using a method that approximates the interest method over the term of the related debt instruments.

Stock-Based Compensation. As permitted under SFAS No. 123, *Accounting for Stock-Based Compensation,* the Company has elected to follow Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* which prescribes the intrinsic value method in accounting for its stock options issued to employees and directors. Stock options issued to non-employees of the Company have been accounted for in accordance with SFAS No. 123, which prescribes the fair value accounting method.

Income Taxes. Income taxes are provided under the asset and liability method as required by SFAS No. 109, *Accounting for Income Taxes.* Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect of a tax rate change on deferred taxes is recognized in operations in the period that the change in the rate is enacted. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

Translation of Foreign Currency. Upon consolidation of the Company's foreign subsidiaries into the Company's consolidated financial statements, any balances with the subsidiaries denominated in the foreign currency are translated at the exchange rate at year-end. The financial statements of LMT Singapore have been

translated based upon Singapore Dollars as the functional currency. The financial statements of LMT Korea, which include the Company's 51% owned subsidiary, Dongyang, have been translated based upon Korean Won as the functional currency. LMT Singapore's and LMT Korea's assets and liabilities were translated using the exchange rate at year end and income and expense items were translated at the average exchange rate for the year. The resulting translation adjustment was included in other comprehensive income (loss).

Earnings Per Share. Basic earnings per share ("EPS") is computed by dividing earnings (losses) attributable to common shareholders by the weighted average number of common shares outstanding for the periods. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates. These management estimates are primarily related to product warranty and the allowance for bad debt account balances.

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

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

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

Issued in October 2001, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* replaces SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.* The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, *Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business,* for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations.

Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. In 2002, the Company adopted SFAS No. 144 which did not result in a material impact to the Company's financial statements.

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

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated With Exit or Disposal Activities.* Statement 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* SFAS No. 146 requires costs associated with exit or disposal activities to be recognized when the costs are incurred, rather than at a date of commitment to an exit or disposal plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on the Company's financial statements.

In December 2002, SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure* was issued by the FASB. This standard amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this standard amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for financial

statements for fiscal years ending after December 15, 2002. The Company will implement SFAS No. 148 effective January 1, 2003 regarding disclosure requirements for condensed financial statements for interim periods. The Company has not yet determined whether they will voluntarily change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("Interpretation 45"). Interpretation 45 changes the accounting for and the disclosure of guarantees. Interpretation 45 requires that guarantees meeting the characteristics described in the Interpretation be initially recorded as fair value in contrast to FASB No. 5, which requires recording a liability when a loss is probable and reasonably estimable. The disclosure requirements of Interpretation 45 are effective for financial statements and annual periods ending after December 15, 2002. The initial recognition and initial measurement provisions of Interpretation 45 are effective on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of Interpretation 45 is not expected to have a material impact on the Company's financial statements.

3. Marketable Securities

On July 29, 2002, the Company invested $2,000 in Growell Metal, Inc. ("Growell Metal"), a metals processing company located in South Korea and publicly traded on South Korea's KOSDAQ stock market. The Company acquired 891,100 shares (or approximately 5%) of Growell Metal's outstanding common stock in this transaction. During the fourth quarter of 2002, Growell Metal's spin-off of its electronics division resulted in the creation of a new company named Growell Electronics, Inc. ("Growell Electronics"). As a result of the spin-off, 30% of the Company's 891,100 common shares of Growell Metal were exchanged for an equal number of shares in the common stock of Growell Electronics. During the year ended December 31, 2002, the Company sold its shares in Growell Electronics for approximately $1,432, which was based on the market price of the stock on the KOSDAQ stock market on the date of sale. This sale resulted in a realized gain of $832 (see Note 20). At December 31, 2002, the change in fair value of the remaining investment in Growell Metal resulted in an unrealized gain of $1,668, which is reported as other comprehensive income in the accompanying consolidated financial statements.

4. Trade receivables

Trade receivables from continuing operations were comprised of the following:

December 31,	2002	2001
Accounts receivable	**$ 6,681**	$ 941
Less: Allowance for doubtful accounts	**(277)**	(30)
Account receivable, net	**$ 6,404**	$ 911

During the year ended December 31, 2002, the Company recorded $366 of bad debt expense and wrote off $119 of customer account balances deemed to be uncollectible. During the years ended December 31, 2001 and 2000, the Company recorded $25 and $5 of bad debt expense, respectively.

5. Inventories

Inventories from continuing operations were comprised of the following:

December 31,	**2002**	2001
Raw materials	**$ 1,585**	$ 186
Work in process	**592**	—
Finished goods	**329**	317
Total inventories	**$ 2,506**	$ 503

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

December 31,	**2002**	2001
Machinery and equipment	**$11,002**	$ 234
Computer equipment	**1,342**	126
Office equipment, furnishings and improvements	**1,123**	253
Buildings	**11,084**	—
Construction in process of machinery and equipment and plant	**403**	808
Total	**24,954**	1,421
Accumulated depreciation	**(1,449)**	(258)
Total property, plant and equipment, net	**$23,505**	$1,163

Depreciation expense was classified as follows:

For the years ended December 31,	**2002**	2001	2000
Cost of sales	**$ 403**	$ —	$ —
Selling, general and administrative	**229**	69	74
Research and development	**799**	—	—
Total depreciation expense	**$1,431**	$ 69	$ 74

Additionally, during the year ended December 31, 2002, $240 of the depreciation expense was as a result of accelerated depreciation expense due to a change in the estimated useful life of certain machinery and equipment.

7. Intangible Assets

December 31,	**2002**	2001
Purchased and licensed patent rights	**$ 458**	$ 420
Internally developed patents	**622**	506
Trademarks	**56**	66
Total	**1,136**	992
Accumulated amortization	**(351)**	(269)
Total intangible assets, net	**$ 785**	$ 723

Amortization expense was $82, $63, and $57 for the years ended December 31, 2002, 2001, and 2000, respectively.

Purchased patent rights represent the exclusive right to commercialize the bulk amorphous alloy and other amorphous alloy technology acquired from California Institute of Technology ("Caltech"), a shareholder, through a license agreement with Caltech ("License Agreement"). Under the License Agreement, the Company has the exclusive right to make, use, and sell products from all of Caltech's inventions, proprietary information, know-how, and other technology relating to amorphous alloys in existence as of September 1, 2001. The Company also has an exclusive license to 8 patents and 5 patent applications held by Caltech relating to amorphous alloy technology, as well as all related foreign counterpart patents and patent applications. Of the patents currently issued to Caltech and licensed by the Company, the earliest expiration date is 2011 and the latest expiration date is 2017. Furthermore, the license agreement gives the Company the exclusive right to make, use, and sell products from substantially all amorphous alloy technology that is developed in Professor William Johnson's Caltech laboratory during the period September 1, 2001 through August 31, 2005. All fees and other amounts payable by the Company for these rights and licenses have been paid or accrued in full, and no further royalties, license fees or other amounts will be payable in the future under the License Agreements.

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

8. Goodwill

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

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

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

The difference between the purchase price of $333 and the Company's investment in 51% of the net assets of Dongyang was assigned to Goodwill in the amount of $184. The results of Dongyang's operations prior to June 28, 2002 were not significant.

9. Other Liabilities

The other liabilities balance consists entirely of a single capital lease obligation for office furniture and furnishings. All leases with an initial term greater than one year are accounted for under SFAS No. 13 *Accounting for Leases*. These leases are classified as either capital leases or operating leases, as appropriate.

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease. At December 31, 2002, the cost recorded for assets under capital leases was $107 and the accumulated amortization was $14. Future minimum lease payments for the above assets under capital leases during subsequent years are as follows.

December 31,	Minimum Payments
2003	$ 26
2004	26
2005	26
2006	26
2007	7
Thereafter	—
Total	111
Imputed interest	(18)
Total	93
Less current portion	19
Other long-term liabilities, net of current portion	$ 74

10. Product Warranty

Due to the lack of historical information for warranty expense related to bulk alloy products, management estimates product warranties as a percentage of bulk alloy product sales earned during the period. During the year ended December 31, 2002, the Company's product warranty accrual balance had the following activity:

Balance, December 31, 2001	$ —
Expense accrual	587
Warranty charges	(152)
Balance, December 31, 2002	**$ 435**

The product warranty accrual balance was included in accounts payable and accrued expenses at December 31, 2002.

11. Notes Payable to Shareholders

The notes payable as of December 31, 2002 and 2001 and the activity for the year ended December 31, 2002 is shown in the following table:

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

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

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

Kang/Salas 8.5% and Tjoa 8.5%—In conjunction with the issuance of these subordinated promissory notes, the Company issued detachable warrants for each of these notes for the purchase of 322,581 common stock shares of the Company at an exercise price of $4.65 per share (the fair value at the date of grant), as adjusted for the stock split and reverse stock split (see Note 12). The warrants expire on December 31, 2005. As of December 31, 2001, none of the detachable warrants had been exercised. The warrants are detachable from the note and therefore each warrant was allocated a portion of the proceeds, debt discount, in the amount of approximately $846, based on their estimated relative fair values at the time they were issued. The Company elected to repay the note upon the closing of the Company's initial public offering. Upon the early repayment, the amortization of the remaining unamortized debt discount of $532 was accelerated.

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

Total interest expense, including the debt discount amortization on the notes payable to shareholders, was $1,113, $1,103 and $200 for the three years ended December 31, 2002, 2001 and 2000, respectively. Included in the total interest expense is $532 of accelerated amortization of the remaining unamortized debt discount upon the early repayment of the Kang/Salas 8.5% and the Tjoa 8.5% promissory notes in May of 2002.

12. Shareholders' Equity (Deficiency)

Initial Public Offering. Pursuant to the Company's Registration Statement (Registration No. 333-73716) on Form S-1, as amended, initially filed with the Securities and Exchange Commission on November 20, 2001 and declared effective May 21, 2002, the Company closed an initial public offering of 5,000,000 registered shares of common stock on May 28, 2002, plus an additional 229,000 shares on June 10, 2002 pursuant to an overallotment option, at a price of $15.00 per share (which sale is referred to herein as the "Offering"). The Offering generated net cash proceeds for the Company during the second quarter 2002 of approximately $70,721, net of underwriting commissions of $5,490 and other transaction fees of approximately $2,224.

Stock Split. On June 29, 2001 the Company declared a ten-for-one stock split to its common shareholders of record on June 29, 2001. This stock split was effected in the form of a stock dividend. On April 4, 2002, the Company declared a one-for-3.1 reverse stock split to its common shareholders of record on April 4, 2002. The consolidated financial statements and accompanying notes have been retroactively adjusted to reflect the effects of the split and reverse split.

Preferred Stock. As of December 31, 2001, the Company received net proceeds of $5,577 from the sale of the preferred stock at a per share price of $12.40, as adjusted for the revised stock split. Upon the completion of the Offering, each share of preferred stock was converted automatically into one share of Class A common stock pursuant to the terms of the preferred stock issued.

13. Stock Compensation Plan

Under the Company's 1996 Stock Option Plan ("1996 Company Plan") the Company could grant to employees, directors or consultants options to purchase up to 12,903,226 shares of common stock as adjusted for the reverse stock split. The stock options are exercisable over a period determined by the Board of Directors or the Compensation Committee, but no longer than 10 years.

On April 4, 2002, our shareholders and board of directors adopted the 2002 Incentive Equity Plan ("2002 Equity Plan"). The 2002 Equity Plan provides for the grant of stock options to officers, employees, consultants and directors of the Company and its subsidiaries. In addition, the plan permits the granting of stock appreciation rights, with, or independently of, options, as well as stock bonuses and rights to purchase restricted stock. A total of 10,000,000 shares of our common stock may be granted under the 2002 Equity Plan. As of December 31, 2002, there are 354,487 options outstanding under the 2002 Equity Plan.

Prior to the approval of the 2002 Equity Plan, options were primarily granted under the Company's 1996 Stock Option Plan ("1996 Company Plan"). On April 4, 2002, our board of directors terminated the 1996 Company Plan. The termination will not affect any outstanding options under the 1996 Company Plan and all such options will continue to remain outstanding and be governed by the Plan. No additional options may be granted under the 1996 Company Plan. As of December 31, 2002, there were 4,761,191 options outstanding under the 1996 Company Plan.

On April 4, 2002, our shareholders and board of directors adopted the 2002 Non-employee Director Stock Option Plan ("2002 Director Plan"). Only non-employee directors are eligible for grants under the 2002 Director

Plan. A total of 1,000,000 shares of the Company's Common Stock may be granted under the 2002 Director Plan. There are 200,000 options outstanding under the 2002 Equity Plan as of December 31, 2002.

Additionally, the Company has 2,866,670 options outstanding at December 31, 2002 which were granted outside the 1996 Company Plan, 2002 Equity Plan and 2002 Director Plan. Included in these options are options granted during the period ended December 31, 2001 of 1,021,507 to Paul Azinger who was contracted to perform services for the retail golf segment. The expense pertaining to these options was recorded in the discontinued retail golf segment (see Note 14).

The Company applies APB Opinion No. 25 for options when the exercise price of options granted to employees is less than the fair value of the underlying stock on the date of grant. The Company applies SFAS No. 123 for options granted to non-employees who perform services for the Company. Stock-based compensation expense was recognized as follows for the year ended December 31, 2002:

	In accordance with		
	APB Opinion No. 25	SFAS No. 123	Total
General and administrative	$172	$ —	$ 172
Research and development	49	1,449	1,498
Total	$221	$1,449	$1,670

Stock-based compensation expense was recognized as follows for the year ended December 31, 2001:

	In accordance with		
	APB Opinion No. 25	SFAS No. 123	Total
General and administrative	$ 61	$ —	$ 61
Research and development	—	332	332
Total	$ 61	$ 332	$ 393

Had the Company determined compensation cost based on the fair value at the grant date for stock options consistent with the method of SFAS No. 123, the Company's income (loss) from continuing operations and basic and diluted income (loss) per share from continuing operations would have been as follows (in thousands, except loss per share information):

Years Ended December 31,	**2002**	2001	2000
Income (loss) from continuing operations:			
As reported	**$(19,908)**	$ (5,164)	$ 125
Pro forma	**(26,280)**	(11,411)	(7,056)
Basic and diluted income (loss) per share from continuing operations:			
As reported	**(0.51)**	(0.15)	0.00
Pro forma	**(0.68)**	(0.34)	(0.23)

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants for the years ended December 31, 2002, 2001, and 2000, respectively: expected volatility of 100% for all periods; dividend yield of 0.0% for all periods; expected option life of approximately 5 years; and a risk-free interest rate ranging from 1.8% to 6.2%.

The following table summarizes the Company's stock option transactions for the three years ended December 31, 2002:

	Number of Shares	Weighted Average Price
Options outstanding at December 31, 1999	3,112,915	$ 1.49
Granted	2,648,397	4.26
Exercised	—	—
Forfeited	—	—
Options outstanding at December 31, 2000	5,761,312	2.77
Granted	4,308,623	5.46
Exercised	(1,822,586)	1.32
Forfeited	(80,646)	1.55
Options outstanding at December 31, 2001	8,166,703	4.53
Granted	643,202	13.71
Exercised	(299,873)	1.68
Forfeited	(327,684)	4.04
Options outstanding at December 31, 2002	**8,182,348**	**$ 5.37**

The weighted average fair value of options granted during the years ended December 31, 2002, 2001, and 2000, was $10.41, $3.30, and $5.02, respectively. There were 4,345,933 options with a weighted average exercise price of $4.37 exercisable at December 31, 2002; 3,165,171 options with a weighted average exercise price of $3.83 exercisable at December 31, 2001; and 4,017,215 options with a weighted average exercise price of $2.77 exercisable at December 31, 2000.

Included in the above tables are certain options granted where their exercise prices were below the fair market value of the common stock at the measurement date ("in-the-money"). In-the-money options of 1,198,927 with a weighted average fair value of $4.27 were outstanding at December 31, 2002. In-the-money options of 1,214,411 with a weighted average fair value of $4.35 were outstanding at December 31, 2001. There were no in-the-money options at December 31, 2000.

The following table summarizes the Company's stock options outstanding and exercisable by ranges of option prices as of December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Option Price	Number of options Outstanding	Weighted Average Remaining Contract Life (Years)	Weighted Average Option Price	Number of Options Exercisable	Weighted Average Option Price
$ 0.00–$ 1.55	1,650,543	6.4	$ 1.31	790,434	$ 1.47
1.56– 3.10	571,098	6.3	2.55	554,968	2.54
3.11– 4.65	2,261,299	8.0	4.65	1,956,131	4.65
4.66– 6.20	2,711,294	8.4	6.20	906,346	6.20
6.21– 7.75	10,444	9.7	7.10	—	—
7.76– 9.30	31,574	9.2	8.94	3,226	9.30
9.31– 10.85	150,000	9.9	10.58	—	—
10.86– 12.40	344,912	8.5	12.40	134,828	12.40
12.41– 13.95	—	—	—	—	—
13.96– 15.50	451,184	9.3	15.04	—	—

14. Discontinued Operations

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

In connection with the discontinuance of the retail golf operations, the Company incurred an estimated loss on disposal of $11,949 for the year ended December 31, 2001. The estimated loss on disposal was comprised of an accrual for estimated operating losses of $1,688 during the phase-out period, $1,847 related to inventory adjustments, $4,947 of accrued stock compensation costs, $2,438 in fees to be paid to Paul Azinger prior to the termination of the endorsement agreement, $930 due to other asset write-downs and $100 in severance and other disposal expenses. As of December 31, 2002, $1,000 remained payable to Paul Azinger, representing the early termination fee on the endorsement agreement. This amount was paid in full in January 2003.

For the year ended December 31, 2002, the Company had a net gain change in estimate of $1,556 on the disposal of the discontinued retail golf segment that was primarily due to a change in estimated value of stock-based compensation. The change in estimated value of the stock-based compensation was a result of the cumulative decrease in the fair market value of the common shares underlying the options granted to Paul Azinger of $2,129 and a decrease of $250 in the estimate of fees related to the termination of the endorsement agreement. Additionally, there was a $98 gain due to the reversal of the accumulated foreign exchange gains after the liquidation of Liquidmetal Golf Europe Inc, and a decrease in the estimated warranty cost of $128. These gains were partially offset by other changes in the estimated loss on disposal that included $530 of additional operating expenses, a $57 increase in the allowance for doubtful accounts and $462 primarily for the reduction of the estimated disposal value of work-in-process inventory and equipment.

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

December 31,	**2002**	2001
Assets:		
Cash	**$ —**	$ 317
Accounts receivable, net	**—**	321
Inventories	**—**	1,468
Property and equipment, net	**—**	78
Total assets	**—**	2,184
Liabilities:		
Current liabilities	**1,148**	9,676
Total liabilities	**1,148**	9,676
Net liabilities of discontinued operations	**$ (1,148)**	$(7,492)

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

Years Ended December 31,	**2002**	2001	2000
Net sales	**$ —**	$ 3,333	$ 6,707
Cost of sales	**—**	2,185	4,683
Gross profit	**—**	1,148	2,024
Operating expenses	**—**	7,121	10,962
Loss from operations	**—**	(5,973)	(8,938)
Gain (loss) on disposal	**1,556**	(11,949)	—
Net gain (loss)	**1,556**	(17,922)	(8,938)
Foreign exchange translation gain (loss) during the period	**(98)**	2	96
Comprehensive gain (loss)	**$1,458**	$(17,920)	$(8,842)

Accounts Receivable. Liquidmetal Golf had a factoring agreement that provided for the sale and transfer of a substantial portion of the accounts receivable of the retail golf operations. Liquidmetal Golf accounted for a portion of the factored receivable balances as a sale when the factor assumed the risk of collection for certain approved accounts. For certain accounts that the factor did not assume the risk of collection, Liquidmetal Golf accounted for these factored receivables as a financing arrangement and recorded a liability for this portion of the factored receivable balances. At December 31, 2002 and 2001, Liquidmetal Golf had a payable to the factor of $48 and $79, respectively. At December 31, 2001, Liquidmetal Golf had an allowance for doubtful accounts of $1,401. At December 31, 2002, the accounts receivable balance had been written-off entirely.

Stock Compensation Plan. Historically, Liquidmetal Golf granted its own options to employees, directors and consultants under a stock option plan ("1997 Golf Plan") approved by Liquidmetal Golf's Board of Directors pursuant to which Liquidmetal Golf could have granted stock options exercisable over a period determined by the Board of Directors to purchase up to 500,000 shares of common stock of Liquidmetal Golf. In connection with the Company's plan to discontinue the retail golf operations, the Company does not intend to issue additional options under the 1997 Golf Plan.

Liquidmetal Golf applies APB Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, Liquidmetal Golf recognized compensation when the exercise price of the options was less than the fair value of the underlying stock on the date of grant. Liquidmetal Golf recognized stock compensation expense for options granted to employees of $81 and $852 for the years ended December 31, 2001 and 2000, respectively. The compensation expense for these options had been fully charged to operations as of December 31, 2001. There was no compensation expense recorded during the year ended December 31, 2002.

Additionally, Liquidmetal Technologies recorded stock option-based compensation and a cumulative addition to paid-in capital of $3,604 related to options issued in 2001 to Paul Azinger for shares of common stock of Liquidmetal Technologies. As the endorsement services related to this option grant provided a benefit to Liquidmetal Golf, the stock compensation expense was recorded by Liquidmetal Golf. Prior to the discontinuance of the retail golf operations, Liquidmetal Golf had recorded stock compensation expense of $786 for services received during 2001. Additionally, the loss on disposal during the year ended December 31, 2001 includes $4,947 of estimated stock compensation expense to be incurred prior to the planned termination of

the endorsement agreement. During the year ended December 31, 2002, a $2,129 decrease in the estimated stock compensation was recorded due to the cumulative decrease in the fair market value of the common shares underlying the options granted to Paul Azinger. At December 31, 2002, the unamortized stock compensation (a contra-equity account) balance had been fully amortized.

Had compensation cost been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, Liquidmetal Golf's net gain (loss) would have been as follows:

Years Ended December 31,	**2002**	2001	2000
As reported	**$1,556**	$(17,922)	$(8,938)
Pro forma	**1,522**	(18,154)	(9,346)

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants for the fiscal years ended December 31, 2002, 2001, and 2000: expected volatility of 100% for all periods; dividend yield of 0.0% for all periods; expected option life of approximately 5 years; and a risk-free interest rate ranging from 5.2% to 6.2%, as appropriate.

The following table summarizes Liquidmetal Golf's stock option transactions for the three years ended December 31, 2002:

	Number of Shares	Weighted Average Price
Options outstanding at December 31, 1999	391,250	$4.55
Granted	75,755	0.01
Exercised	—	—
Forfeited	(8,500)	8.00
Options outstanding at December 31, 2000	458,505	3.74
Granted	—	—
Exercised	(148,255)	0.25
Forfeited	—	—
Options outstanding at December 31, 2001	310,250	5.41
Granted	—	—
Exercised	—	—
Forfeited	(65,000)	7.50
Options outstanding at December 31, 2002	**245,250**	**$4.87**

The weighted average fair value of options granted during the year ended December 31, 2000 was $7.99. There were 222,875 options with a weighted average exercise price of $4.55 exercisable at December 31, 2002; 235,625 options with a weighted average exercise price of $4.04 exercisable at December 31, 2001; and 213,688 options with a weighted average exercise price of $2.93 exercisable at December 31, 2000.

Included in the above tables are certain options granted where their exercise prices were below the fair market value of the common stock at the grant date ("in-the-money"). In-the-money options of 131,250, 146,250, and 294,505 with weighted average fair values of $5.74, $5.74, and $6.32 were outstanding at December 31, 2002, 2001, and 2000, respectively.

The following table summarizes Liquidmetal Golf's stock options outstanding and exercisable by the different exercise prices at December 31, 2002:

Exercise Price	Number of Options Outstanding at December 31, 2002	Weighted Average Remaining Contract Life (Years)	Number of Options Exercisable at December 31, 2002
$ 0.50	131,250	4.33	131,250
$ 8.00	89,500	6.50	67,125
$16.00	22,000	5.33	22,000
$24.00	2,500	5.58	2,500
	245,250		222,875

Endorsement Agreements. The Company has entered into various endorsement agreements with professional golfers to promote Liquidmetal Golf's line of golf equipment products, whereby the Company pays the professional golfers annual compensation and win incentives based on specific performance criteria in each agreement. The expense associated with these contracts is recorded as a selling expense. The compensation incurred under these agreements was $1,137 and $60 during the years ended December 31, 2001 and 2000, excluding the stock option-based compensation expense associated with the Paul Azinger contract of $3,604 and additional fees to be paid under this contract prior to termination of $2,188 which are included in the loss from disposal of the discontinued retail golf segment. The majority of these agreements expired on December 31, 2001. The Paul Azinger agreement was due to expire on December 31, 2005; however, the Company terminated the contract on January 1, 2003.

15. Income Taxes

For all the financial statement periods presented, there was no provision for domestic income taxes. However, there was approximately $123 of tax expense related to foreign taxes incurred by Dongyang, a 51% owned subsidiary.

The significant components of deferred assets were as follows:

Years Ended December 31,	**2002**	2001	2000
Non-employee stock compensation	**$ 2,412**	$ 2,642	$ 240
Inventory reserves	**—**	941	340
Allowance for bad debt	**663**	565	136
Loss from discontinued operations	**410**	1,077	—
Loss carry forwards	**23,749**	15,300	11,369
Other	**404**	233	40
Total deferred tax asset	**27,638**	20,758	12,125
Valuation allowance	**(27,638)**	(20,758)	(12,125)
Total deferred tax asset, net	**$ —**	$ —	$ —

The following table accounts for the differences between the actual tax provision and the amounts obtained by applying the statutory U.S. Federal income tax rate of 34% to income (loss) before income taxes:

Years Ended December 31,	**2002**	2001	2000
Federal tax expense	**(34.00)%**	(34.00)%	(34.00)%
State tax expense, net	**(3.36)%**	(5.56)%	(5.37)%
Foreign income not subject to income tax	**13.73%**	—	—
Other	**1.34%**	0.28%	1.84%
Increase in valuation allowance	**22.96%**	39.28%	37.53%
Total tax provision	**0.67%**	0.00%	0.00%

As of December 31, 2002, the Company had approximately $62,800 of net operating loss ("NOL") carry forwards for U.S. federal income tax purposes. In addition, the Company has state NOL carry forwards of approximately $41,200 expiring in 2007 through 2011. The Company and Liquidmetal Golf filed on a separate company basis for both federal and state income tax purposes. Accordingly, the NOL carry forwards of one legal entity are not available to offset income of the other. At December 31, 2002, Liquidmetal Technologies, Inc. had approximately $28,300 in federal NOL carry forwards, expiring in 2004 through 2022 and approximately $17,200 in state NOL carry forwards, expiring in 2005 through 2012. Liquidmetal Golf, Inc. had approximately $34,500 of federal NOL carry forwards, expiring in 2005 through 2012 and state NOL carry forwards of $24,000 expiring in 2005 through 2012. Additionally, as of December 31, 2002, the Company also has foreign NOL carry forwards in Singapore of approximately $280, which carry forward indefinitely.

Section 382 of the Internal Revenue Code (the "IRC") imposes limitations on the use of NOL's and credits following changes in ownership as defined in the IRC. The limitation could reduce the amount of benefits that would be available to offset future taxable income each year, starting with the year of an ownership change. The Company has not completed the complex analysis required by the IRC to determine if an ownership change has occurred.

The ability to realize the tax benefits associated with deferred tax assets, which includes benefits related to NOL's , is principally dependent upon the Company's ability to generate future taxable income from operations and/or to effectuate successful tax planning strategies. The Company has provided a full valuation allowance for its net deferred tax assets due to the Company's net operating losses.

16. Segment Reporting and Geographic Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* requires companies to provide certain information about their operating segments. In April 2002, the Company began classifying operations into two reportable segments: Liquidmetal alloy industrial coatings and bulk Liquidmetal alloys. The Liquidmetal alloy industrial coatings are used primarily as a protective coating for industrial machinery and equipment, such as drill pipe used by the oil drilling industry and boiler tubes used by coal burning power plants. Bulk Liquidmetal alloys include potential market opportunities to manufacture and sell casing components for electronic devices, medical devices, sporting goods, tooling and prototyping, and furnace equipment. In addition, such alloys are used to generate research and development revenue for developing

uses related primarily to defense and medical applications. Primarily, the expenses incurred by the bulk Liquidmetal alloy segment are research and development costs and selling expenses associated with identifying and developing potential market opportunities. Bulk Liquidmetal alloy products can be distinguished from Liquidmetal alloy coatings in that the bulk Liquidmetal alloys can have significant thickness, up to approximately one inch, which allows for their use in a wider variety of applications other than a thin protective coating applied to machinery and equipment.

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

	Coatings	Bulk Alloy	Segment Totals
Year ended December 31, 2002:			
Revenue to external customers	**$4,587**	**$ 8,552**	**$ 13,139**
Gross profit (loss)	**2,171**	**2,289**	**4,460**
Income (loss) before minority interest, interest expense and discontinued operations	**1,425**	**(12,294)**	**(10,869)**
Total identifiable assets at end of period	**1,615**	**32,853**	**34,468**
Year ended December 31, 2001:			
Revenue to external customers	$3,593	$ 289	$ 3,882
Gross profit (loss)	1,714	244	1,958
Income (loss) before minority interest, interest expense and discontinued operations	915	(1,841)	(926)
Total identifiable assets at end of period	1,300	733	2,033
Year ended December 31, 2000:			
Revenue to external customers	$3,901	$ 299	$ 4,200
Gross profit (loss)	1,926	291	2,217
Income (loss) before minority interest, interest expense and discontinued operations	1,373	(137)	1,236

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

For the Years Ended December 31,	**2002**	2001	2000
Total segment income (loss) before minority interest, interest expense and discontinued operations	**$(10,869)**	$ (926)	$ 1,236
General and administrative expenses, excluded	**(9,263)**	(3,143)	(923)
Consolidated loss before interest expense, minority interest and discontinued operations	**(20,132)**	(4,069)	313
Interest expense	**(1,113)**	(1,095)	(200)
Interest income	**510**	—	12
Gain on sale of marketable securities held-for-sale	**832**	—	—
Minority interest in income of consolidated subsidiary	**118**	—	—
Income taxes	**(123)**	—	—
Loss from operations of the discontinued retail golf segment, net	**—**	(5,973)	(8,938)
Gain (loss) from disposal of discontinued retail golf segment, net	**1,556**	(11,949)	—
Consolidated Net Loss	**$(18,352)**	$(23,086)	$(8,813)

Excluded general and administrative expenses are attributable to the Company's corporate headquarters. These expenses primarily include corporate salaries, consulting, professional fees and facility costs. Research and development expenses are included in the operating costs of the segment that performed the research and development.

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

December 31,	**2002**	2001
Total segment assets	**$34,468**	$ 2,033
Cash and cash equivalents	**24,597**	1,918
Marketable securities held-for-sale	**3,068**	—
Prepaid expenses and other current assets	**493**	967
Other property, plant and equipment	**1,517**	870
Intangibles, net	**785**	723
Other assets	**77**	169
Total Consolidated Assets	**$65,005**	$ 6,680

Assets excluded from segments include assets attributable to the Company's corporate headquarters. The largest asset represents the Company's cash balances, primarily generated from the Company's stock offering.

Certain customers accounted for more than 10% of revenues from continuing operations as follows:

Year Ended December 31,	**2002**	2001	2000
Samsung	**15%**	—	—
Growell Metal, Inc.	**12%**	—	—
United States of America	**10%**	—	—
Grant Prideco	**7%**	22%	19%
Praxair/Tata	**4%**	14%	13%
Smith International	**3%**	16%	—

The revenue related to the United States of America was earned under three defense-related research and development contracts. During the years ended December 31, 2001 and 2000, revenue earned on contracts with the United States of America represented less than 1% of revenue.

During the year ended December 31, 2002, the Company had revenue on sales to companies outside of the United States of $5,700, of which $4,959 represented sales to companies located in South Korea. During the years ended December 31, 2001, and 2000, the Company did not generate significant sales to companies located outside of the United States.

Long-lived assets include net property, plant, and equipment, net intangible assets and goodwill. The Company had long-lived assets of $2,321 and $759 located in the United States at December 31, 2002 and 2001, respectively. The Company had long-lived assets of $22,154 and $808 located in Korea at December 31, 2002 and December 31, 2001, respectively.

17. Income (Loss) Per Common Share

Basic EPS is computed by dividing earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the periods. Diluted EPS reflects the potential dilution of securities that could share in the earnings. A reconciliation of the number of common shares used in calculation of basic and diluted EPS is presented below:

Years Ended December 31,	**2002**	2001	2000
Weighted average basic shares	**38,713,878**	33,323,217	30,233,065
Effect of dilutive securities:			
Stock options	**—**	—	1,752,197
Conversion of notes payable	**—**	—	1,299,298
Weighted average diluted shares	**38,713,878**	33,323,217	33,284,560

The conversion of preferred stock to common stock was not included in the computation of diluted EPS for the year ended December 31, 2001 as the inclusion would be antidilutive. Options to purchase approximately 8,182,607 shares of common stock at prices ranging from $0.78 to $15.50 per share were outstanding at December 31, 2002, but were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive. Options to purchase approximately 8,166,667 shares of common stock at prices ranging from $0.78 to $12.40 per share were outstanding at December 31, 2001, but were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive. Options to purchase approximately 3,112,903 shares of common stock at prices ranging from $0.78 to 2.33 per share were outstanding at December 31, 1999, but were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive.

Warrants to purchase 645,162 shares of common stock at $4.65 per share were outstanding at December 31, 2002 and December 31, 2001 but were not included in the computation of diluted EPS for the same period because the inclusion would have been antidilutive.

18. Commitments and Contingencies

In 1996, Liquidmetal Technologies entered into a distribution agreement (the "Distribution Agreement") whereby Liquidmetal Technologies granted a third party company exclusive rights to market and sell golf products incorporating Liquidmetal technology to Japanese sporting equipment companies.

The Company is not restricted to selling the Liquidmetal Golf clubs or other brand-name Liquidmetal Golf products to other companies under this agreement. If the Company begins to market its golf club components into Japan to finished goods manufacturers, the Company is obligated to sell its Liquidmetal inserts under this distribution agreement. The third party company paid Liquidmetal Technologies a $1,000 distribution fee as part of the Distribution Agreement. A portion of this fee is subject to refund according to a formula based on the gross profit earned by the third party under the agreement. In the twelve months ended December 31, 1999, Liquidmetal Technologies recognized $170 of the distribution fee upon the shipment of product to the third party company, which is the amount no longer subject to refund as a result of these shipments. At December 31, 2002 and 2001, $830 was unearned and recorded as deferred revenue, as the distribution agreement does not terminate until March 2006. The Company believes this deferred revenue is no longer

refundable and will be considered earned upon future shipment of products or the termination of the Distribution Agreement.

The Company has employment agreements with certain key officers and employees that provide for annual salaries and bonus compensation aggregating approximately $3,988. Additionally, the agreements provide for various severance payments to these key officers if the Company terminates any of the key officers and employees without cause, or if certain of the key officers or employees terminate their own employment upon a change of control of the Company or for other good reason, as defined in the agreements.

On December 20, 2002, the Company entered into an agreement with a third-party supplier to purchase raw materials for a total of $3,488 during 2003.

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

Operating Leases

The Company leases its offices and warehouse facilities under various lease agreements, certain of which are subject to escalations based upon increases in specified operating expenses or increases in the Consumer Price Index. Future minimum lease payments under non-cancelable operating leases during subsequent years are as follows:

December 31,	Minimum Payments
2003	$1,337
2004	1,091
2005	893
2006	874
2007	393
Thereafter	164
Total	$4,752

Rent expense was $955, $322, and $128 for the years ended December 31, 2002, 2001, and 2000, respectively.

19. 401(k) Savings Plan

The Company has a tax-qualified employee savings and retirement plan, or 401(k) plan, which covers all of its employees. Pursuant to the 401(k) plan, participants may elect to reduce their current compensation, on a pre-tax basis, by up to 15% of their taxable compensation or of the statutorily prescribed annual limit, whichever is lower, and have the amount of the reduction contributed to the 401(k) plan. The 401(k) plan permits the Company, in its sole discretion, to make additional employer contributions to the 401(k) plan. However, the Company did not make employer contributions to the 401(k) plan during any of the periods presented in the accompanying consolidated financial statements.

20. Related Party Transactions

On July 29, 2002, the Company invested $2,000 in Growell Metal, Inc. ("Growell Metal "), a metals processing company located in South Korea and publicly traded on South Korea's KOSDAQ stock market. The Company acquired 891,100 shares (or approximately 5%) of Growell Metal's outstanding common stock in this transaction. During the fourth quarter of 2002, Growell Metal's spin-off of its electronics division resulted in the creation of a new company named Growell Electronics Inc ("Growell Electronics"). As a result of the spin-off, 30% of the Company's 891,100 common shares of Growell Metal were exchanged for an equal number of shares in the common stock of Growell Electronics. During the year ended December 31, 2002, the Company sold its shares in Growell Electronics for approximately $1,432, resulting in a realized gain of $832 (See Note 3). At December 31, 2002, the change in fair value of the investment in Growell Metal resulted in an unrealized gain of $1,668, which is reported in comprehensive income in the accompanying consolidated financial statements. Currently, Growell Metal owns 92,167 shares (or approximately 0.002%) of the Company's outstanding common stock.

Under the terms of a technology transfer agreement, the Company has engaged Growell Metal to produce Liquidmetal alloy ingots ("ingots") for the Company to purchase and use as a raw material in the manufacturing of products and components made of Liquidmetal alloys. The agreement is for a two-year period beginning in February 2002. Under the terms of this cost-plus arrangement, Growell Metal is paid a processing fee plus the cost of the raw materials used to produce the ingots. During the year ended December 31, 2002, Growell Metal purchased $3,270 of raw materials from the Company's own raw material stock to use in the production of the ingots. The Company purchased $3,669 of ingots from Growell Metal during the year ended December 31, 2002. The net profit on the sale of the raw materials sold to Growell Metal is netted against the cost of the ingots purchased from Growell Metal. At December 31, 2002, the Company had a payable to Growell Metal of $90.

During the second quarter of 2002, the Company sold a machine to Growell Metal for $269 to be used in the production of ingots to be purchased by the Company. Additionally, during the year ended December 31, 2002, the Company sold $1,569 of furnace equipment to Growell Metal to produce ingots for the Company. The accumulated profit on these sales, $80, was deferred and will be amortized against cost of sales over the remaining term of the technology transfer agreement between Growell Metal and the Company. During the year ended December 31, 2002, $24 of the deferred profit was amortized into cost of sales. At December 31, 2002, the remaining deferred profit balance was $56 and the related trade receivable balance due from Growell Metal was $160.

While the Company was privately held, the Company's chairman exercised a portion of his nonqualified stock options. The Company inadvertently did not collect the federal and state income taxes at the time of the exercise. The chairman has informed the Company that he has since paid all the necessary taxes. Management believes the exposure to the Company for penalties and interest, if any, is insignificant.

Other related party transactions include subordinated promissory notes issued to certain shareholders, the related interest incurred on the notes and the repayment of such notes (see Note 11). Additionally, two of the holders of the shareholder promissory notes are directors and one such note holder is an officer of the Company.

A company managed and partially owned by one of our directors provides technical support services and computer equipment to the Company. During the year ended December 31, 2002, the Company incurred $122 of expenses and equipment purchases related to this arrangement. At December 31, 2002, the Company had an outstanding payable related to these transactions of $7.

A company partially owned and managed by an employee of the Company leases this same employee from the Company for an amount equal to the employee's salary. At December 31, 2002, a receivable of $51 was due to the Company related to this arrangement.

During 2001, certain shareholders and officers provided a total of $250 in short-term advances to Liquidmetal Korea that were fully repaid by December 31, 2001.

21. Subsequent Events

On February 4, 2003, Liquidmetal Korea received 6,500,000 in South Korean Won, or $5,488, in proceeds related to a note payable. The principal and interest is payable in equal month installments beginning eighteen months from the origination date until the maturity date on December 30, 2007. The note payable bears interest at an annual rate of 7.1%. In the event of delayed repayment, the interest rate increases to a maximum of 21%, depending on the length of time the repayment is delayed. Since this note payable is denominated in South Korean Won, the balance will fluctuate with the exchange rate between the U.S. Dollar and South Korea Won, resulting in the recognition in foreign exchange gains or losses which are included in other comprehensive income.

Corporate Information

Board of Directors

Betsy A. Atkins*
CEO,
Baja Corp.
Coral Gables, Florida

David M. Browne
President and CEO,
Family Christian Stores®, Inc.
Grand Rapids, Michigan

Jack Chitayat*
President,
Atlantic Realty Group Inc.
New York, New York

Shekhar Chitnis*
President and CEO,
Chitnis Consulting
San Clemente, California

William L. Johnson, Ph.D.
Vice Chairman of the Board,
Liquidmetal Technologies,
Mettler Professor of Engineering and
Applied Physics,
California Institute of Technology
Pasadena, California

James Kang
Chairman of the Board,
Liquidmetal Technologies
Lake Forest, California

John Kang
President and CEO,
Liquidmetal Technologies
Tampa, Florida

Lieutenant General
Jeffrey W. Oster
United States Marine Corps (Retired)

Tjoa Thian Song
Executive Director,
Greatland Company Pte. Ltd.
Singapore

Ricardo A. Salas*
CEO,
iLIANT Corporation
Tampa, Florida

Henri H. Tchen
Vice President,
Synapse Capital, LLC
Fountain Valley, California

Board service ends May 20, 2003.

Principal Officers

James Kang
Chairman

John Kang
President and CEO

William L. Johnson, Ph.D.
Vice Chairman,
Technology

Brian McDougall
Executive Vice President,
Chief Financial Officer

Neil E. Paton, Ph.D.
Executive Vice President,
Chief Technology Officer

Scott Wiggins
Executive Vice President,
Chief Strategy Officer

Technology Advisory Board

Michael F. Ashby, Ph.D.
Cambridge University

Merton C. Flemings, Ph.D.
Massachusetts Institute of Technology

William L. Johnson, Ph.D.
California Institute of Technology

William D. Nix, Ph.D.
Stanford University

Neil E. Paton, Ph.D.
Liquidmetal Technologies

Celebrating The Third Revolution™

On October 24, 2002, against a backdrop of clear blue skies and crisp fall weather, Liquidmetal Technologies dedicated its first manufacturing plant—a new 166,000-square-foot facility in Pyongtaek, South Korea—in ribbon-cutting ceremonies attended by roughly 250 company officials, area dignitaries, customers and suppliers.

The plant is strategically located near the company's initial electronics customers but provides mass-production capability for a wide array of products. With planned capacity for 49 proprietary casting machines as well as feedstock production and post-finishing operations, it is equipped to produce items ranging from electronic casing components and medical devices to sports equipment and luxury goods—all incorporating our revolutionary Liquidmetal® alloys.

Shareholder Information

Company Description

Liquidmetal® Technologies is the leading developer, manufacturer and marketer of products made from amorphous alloys. Amorphous alloys are unique materials that are characterized by a random atomic structure, in contrast to the crystalline atomic structure possessed by ordinary metals and alloys. Bulk Liquidmetal® alloys are two to three times stronger than commonly used titanium alloys, harder than tool steel, and relatively non-corrosive and wear resistant. Bulk Liquidmetal alloys can also be molded into precision net-shaped parts similar to plastics, resulting in intricate and sophisticated engineered designs. Liquidmetal Technologies is the first company to produce amorphous alloys in commercially viable bulk form, enabling significant improvements in products across a wide array of industries. The combination of a super alloy's performance coupled with unique processing advantages positions Liquidmetal® alloys for what the company believes will be ***The Third Revolution***™ in material science.

Corporate Offices

Principal Executive Offices
100 North Tampa Street
Suite 3150
Tampa, Florida 33602
(813) 314-0280
www.liquidmetal.com

Corporate Technology Center

25800 Commercentre Drive
Suite 100
Lake Forest, California 92630
(949) 206-8000

Stock Trading Symbol

Nasdaq®: LQMT

Independent Auditors

Deloitte & Touche LLP
201 East Kennedy Boulevard
Suite 1200
Tampa, Florida 33602

Transfer Agent and Registrar

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, New York 10038
(800) 937-5449

Corporate Counsel

Foley & Lardner
100 North Tampa Street
Suite 2700
Tampa, Florida 33602

Annual Report on Form 10-K

The company's Annual Report on Form 10-K for the year ended December 31, 2002 is available to shareholders via our website and upon request from our corporate offices at (813) 314-0280, ext. 225.

Annual Meeting of Shareholders

May 20, 2003 at 11 a.m. EDT
Hyatt Regency Tampa
Two Tampa City Center
Tampa, Florida

Forward-Looking Statements

The statements contained in this report that are not historical facts are "forward-looking statements." The company cautions readers of this report that a number of important factors could cause Liquidmetal Technologies' actual future results to differ materially from those expressed in any such forward-looking statements. These important factors and other factors that could affect Liquidmetal Technologies are described in the company's Annual Report on Form 10-K for the year ended December 31, 2002, which has been filed with the United States Securities and Exchange Commission. Readers of this Annual Report are referred to such filings.

Stock Price Range

2002	High Sales Price	Low Sales Price
Q1*	$ NA	$ NA
Q2	22.50	8.26
Q3	13.68	3.60
Q4	11.28	5.31

**Shares of Liquidmetal Technologies common stock began trading on the Nasdaq National Market® on May 22, 2002 under the trading symbol LQMT.*

Designed by Curran & Connors, Inc. / www.curran-connors.com

Liquidmetal® Technologies
100 N. Tampa Street, Suite 3150
Tampa, FL 33602
Phone: 813.314.0280   www.liquidmetal.com