LIQTECH INTERNATIONAL INC

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2012**

or

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

For the transition period from ________________________ to ____________________________

Commission File Number: **000-53769**

LiqTech International, Inc.
(Exact name of registrant as specified in its charter)

Nevada	**20-1431677**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Industriparken 22C, DK2750 Ballerup, Denmark	
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **+4544986000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer		Accelerated filer	
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reportingcompany	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock, par value $0.001 per share, at August 10, 2012, was 24,111,500 shares .

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Period Ended June 30, 2012

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FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report on Form 10-Q are "forward-looking statements" regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of June 30, 2012	As of December 31, 2011
Current Assets:	**(UNAUDITED)**	
Cash	$ 5,166,569	$ 1,033,057
Accounts receivable, net	4,037,126	5,299,569
Other receivables	644,502	1,528,362
Inventories	3,563,231	2,980,583
Prepaid expenses	163,067	301,375
Current deferred tax asset	41,982	17,786
Total Current Assets	13,616,477	11,160,732
Property and Equipment , net of accumulated depreciation	6,676,515	6,647,217
Other Assets:		
Other intangible assets	30,609	34,167
Other investments	145,093	6,483
Deposits	144,487	146,184
Total Other Assets	320,189	186,834
Total Assets	$ 20,613,181	$ 17,994,783

The accompanying notes are an integral part of these unaudited financial statements.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of June 30, 2012	As of December 31, 2012
Current Liabilities:	**(UNAUDITED)**	
Lines of credit	$ -	$ 1,259,936
Notes payable – current portion	-	259,396
Notes payable - related party, net of discount	-	3,328,183
Current portion of capital lease obligation	190,388	191,444
Accounts payable - trade	1,291,729	3,026,960
Accrued expenses	917,970	1,212,746
Accrued income taxes payable	81,084	3,710
Other accrued liabilities	3,994	154
Total Current Liabilities	2,485,165	9,282,529
Notes payable and long-term debt, less current portion	-	350,000
Long-term capital lease obligations, less current portion	828,740	950,351
Deferred tax liability	472,219	668,484
Total Long-Term Liabilities	1,300,959	1,968,835
Total Liabilities	3,786,124	11,251,364
Stockholders' Equity:		
Common stock; par value $0.001, 100,000,000 shares authorized, 24,111,500 and 21,600,000 shares issued and outstanding at June 30, 2012, and December 31, 2011, respectively	24,112	21,600
Additional paid-in capital	12,680,712	5,603,517
Retained earnings	5,054,675	5,284,583
Deferred compensation	(203,079)	(268,282)
Other comprehensive income, net	(755,889)	(596,011)
Note receivable from a shareholder, net of discount	-	(3,328,183)
Non-controlled interest in subsidiaries	26,526	26,195
Total Stockholders' Equity	16,827,057	6,743,419
Total Liabilities and Stockholders' Equity	$ 20,613,181	$ 17,994,783

The accompanying notes are an integral part of these unaudited financial statements.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
(UNAUDITED) CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
Net Sales	$ 3,953,335	$ 3,805,816	$ 10,295,056	$ 6,723,211
Cost of Goods Sold	3,537,168	2,630,668	7,789,205	4,868,328
Gross Profit	416,167	1,175,148	2,505,851	1,854,883
Operating Expenses:				
Selling expenses	599,459	230,874	1,259,377	635,205
General and administrative expenses	550,619	598,042	1,273,131	875,835
Research and development	152,626	134,287	379,300	247,825
Total Operating Expenses	1,302,704	963,203	2,911,808	1,758,865
Income from Operations	(886,537)	211,945	(405,957)	96,018
Other Income (Expense)				
Interest and other income	59,876	8,046	98,839	18,772
Interest (expense)	(41,372)	(73,464)	(125,888)	(79,243)
Gain (Loss) on currency transactions	65,048	(7,118)	63,599	(34,490)
Total Other Income (Expense)	83,552	(72,536)	36,550	(94,961)
Income Before Income Taxes	(802,985)	139,409	(369,407)	1,057
Income Tax Expense	(250,476)	123,888	(139,500)	97,210
Net Income (Loss)	(552,509)	15,521	(229,907)	(96,153)
Less Net Income (Loss) Attributable To Non-Controlled Interests in Subsidiaries	-	(6,718)	-	9,810
Net Income (Loss) Attributable To LiqTech	$ (552,509)	$ 22,239	$ (229,907)	$ (105,963)
Basic Earnings Per Share	$ (0.02)	$ 0.00	$ (0.01)	$ (0.01)
Weighted Average Common Shares Outstanding	24,111,500	9,308,333	23,173,137	9,308,333
Diluted Earnings Per Share	$ (0.02)	$ 0.00	$ (0.01)	$ (0.01)
Weighted Average Common Shares Outstanding Assuming Dilution	27,253,201	9,308,333	27,041,050	9,308,333

The accompanying notes are an integral part of these financial statements.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
(UNAUDITED) CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
Net Income (Loss)	$ (552,509)	$ 15,521	$ (229,907)	$ (96,153)
Currency Translation, Net of Taxes	(377,454)	85,548	(159,879)	409,439
Other Comprehensive Income (Loss)	$ (929,963)	$ 101,069	$ (389,786)	$ 313,286
Comprehensive Income (Loss) Attributable To Non-controlling Interest in Subsidiaries	-	31,281	(244)	28,830
Comprehensive Income Attributable To LiqTech International, Inc.	$ (929,963)	$ 69,788	$ (389,542)	$ 284,456

The accompanying notes are an integral part of these financial statements.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
(UNAUDITED) CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents

	For The Six Months Ended June 30,	
	2012	**2011**
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (229,907)	$ (105,963)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	715,483	773,794
Compensation from stock options	65,203	1,046
Bad debt expense	110,000	-
Change in deferred tax asset / liability	(220,461)	(61,398)
Non-controlled interest in subsidiary	-	9,810
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,036,303	(1,783,805)
(Increase) decrease in inventory	(582,648)	(328,499)
(Increase) decrease in prepaid expenses/deposits	140,005	(37,324)
Increase (decrease) in accounts payable	(1,735,228)	865,387
Increase (decrease) in accrued expenses	(213,562)	39,661
Total Adjustments	315,095	(521,328)
Net Cash Provided (Used) by Operating Activities	85,188	(627,291)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(676,632)	(744,192)
Purchase of long-term investments	(138,610)	-
Net Cash Used by Investing Activities	(815,242)	(744,192)
Cash Flows from Financing Activities:		
Payments on notes payable	(609,396)	(50,000)
Net proceeds (payments) on lines of credit	(1,259,936)	707,943
(Payments) on notes payable - related party	(3,055,150)	-
Net (Payments) Proceeds on capital lease obligation	(122,667)	11,386
Proceeds from issuance of common stock and warrants	7,079,707	-
Payments on related party notes receivable	3,055,150	-
Net Cash Provided by Financing Activities	5,087,708	669,329
Gain (loss) on Currency Translation	(224,142)	409,439
Net Increase (Decrease) in Cash and Cash Equivalents	4,133,512	(292,715)
Cash and Cash Equivalents at Beginning of Period	1,033,057	559,259
Cash and Cash Equivalents at End of Period	$ 5,166,569	$ 266,544

Supplemental Disclosures of Non-Cash Investing and Financing Activities:

For the Six Months Ended June 30, 2012

The Company recorded $65,203 in stock compensation for options granted to employees.

For the Six Months Ended June 30, 2011

The Company recorded a $280,039 capital contribution for the receipt of 400 shares of its subsidiary LiqTech International, AS with an uncontrolled interest value of $329,296.

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVERSE ACQUISITION

On August 24, 2011, pursuant to an Agreement and Plan of Merger, dated as of August 23, 2011 (the “Merger Agreement”), by and among LiqTech International, Inc. (formerly known as Blue Moose Media, Inc., “Parent”), Blue Moose Delaware Merger Sub, Inc. ("BMD Sub"), a wholly owned subsidiary of Parent and LiqTech USA, Inc. (“LiqTech USA”), BMD Sub was merged with and into LiqTech USA (the "Merger") and as a result of the Merger, LiqTech USA became a wholly owned subsidiary of Parent. Prior to the Merger there were 4,155,250 shares of the common stock, par value $0.001 per share of Parent outstanding, pursuant to the Merger each of the 17,444.75 outstanding shares of the common stock of LiqTech USA, was exchanged for 1,000 shares of Parent’s common stock, for a total of 17,444,750 shares resulting in 21,600,000 shares of Parent common stock being outstanding immediately following the Merger and warrants to acquire up to 6,500 shares of LiqTech USA’s common stock at an exercise price of $1,500 per share, were by their terms, converted into warrants to acquire up to 6,500,000 shares of Parent common stock at an exercise price of $1.50 per share.

Business and Basis of Presentation

The consolidated financial statements include the accounts of LiqTech International, Inc., "Company", “us", "we" and "our" as used in this report refer to LiqTech International, Inc. and its subsidiaries (set forth below), which engages in the development, design, production, marketing and sale of diesel particulate air and liquid filters and kiln furniture in United States of America, Canada, Europe, Asia and Brazil.

LiqTech International, Inc., a Nevada corporation organized in July 2004, formerly known as Blue Moose Media, Inc.

LiqTech USA, a Delaware corporation and a wholly-owned subsidiary of Parent formed in May 2011.

LiqTech A/S (“LiqTech AS“), a Danish corporation, incorporated on March 15, 1999, a wholly-owned subsidiary of LiqTech USA, engages in the development, design, production, marketing and sale of ceramic diesel particulate and liquid filters and kiln furniture in Europe, Asia and Brazil.

LiqTech International A/S, a Danish corporation, incorporated on January 15, 2000, formerly known as CoMeTas A/S (“LiqTech Int. DK”), a 100% owned subsidiary of LiqTech AS and LiqTech USA, engages in development, design, application, marketing and sales of membranes on ceramic diesel particulate and liquid filters and catalytic converters in Europe, Asia and Brazil. LiqTech Int. DK was a 75% owned subsidiary from March 2011 to August 24, 2011 and a 60% owned subsidiary prior to March 2011.

LiqTech NA, Inc. (“LiqTech NA“) a 100% owned subsidiary of LiqTech AS and LiqTech USA, incorporated in Delaware on July 1, 2005, engages in the production, marketing and sale of ceramic diesel particulate and liquid filters and kiln furniture in United States of America and Canada. Prior to August 2011, LiqTech AS held a 90% interest in LiqTech NA.

LiqTech Asia (“LiqTech Asia“) a 60% owned subsidiary of LiqTech AS, incorporated in South Korea on July 20, 2006, is currently a dormant subsidiary.

LiqTech Germany (“LiqTech Germany“) a 100% owned subsidiary of LiqTech AS, incorporated in Germany on December 9, 2011, engages in marketing and sale of liquid filters in Germany.

LiqTech Singapore (“LiqTech Sing“) a 95% owned subsidiary of LiqTech AS, incorporated in Singapore on January 19, 2012, engages in marketing and sale of liquid filters in Singapore and other countries in the area.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [*Continued*]

The accompanying financial statements are unaudited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at June 30, 2012 and 2011 and for the periods then ended have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2011 audited financial statements. The results of operations for the periods ended June 30, 2012 and 2011 are not necessarily indicative of the operating results for the full year.

Consolidation - The consolidated financial statements include the accounts and operations of the Company. The non-controlling interests in the net assets of the subsidiaries are recorded in equity. The non-controlling interests of the results of operations of the subsidiaries are included in the results of operations and recorded as the non-controlling interest in subsidiaries. All material intercompany transactions and accounts have been eliminated in the consolidation.

Functional Currency / Foreign Currency Translation -- The Group functional currency is the Danish Krone ("DKK") and its reporting currency is U.S. dollars for the purpose of these financial statements. The Company's consolidated balance sheet accounts are translated into U.S. dollars at the period-end exchange rates (5.9042DKK and 5.7456DKK to $1 at June 30, 2012 and at December 31, 2011, respectively) and all revenue and expenses are translated into U.S. dollars at the average exchange rates prevailing during the 2012 and 2011(5.7335DKK and 5.3621DKK to $1, respectively) in which these items arise. Translation gains and losses are deferred and accumulated as a component of other comprehensive income in stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations from transactions denominated in a currency other than the functional currency are included in the statement of operations as incurred.

Cash and Cash Equivalents -- The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company had no balances held in financial institutions in the United States in excess of federally insured amounts at June 30, 2012 and December 31, 2011.

Accounts Receivable -- Accounts receivable consist of trade receivables arising in the normal course of business. The Company establishes an allowance for doubtful accounts which reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence.

The roll forward of the allowance for doubtful accounts for the six months ended June 30, 2012 and twelve months ended December 31, 2011 is as follows:

	2012	2011
Allowance for doubtful accounts at the beginning of the period	$ 389,032	$ 452,266
Bad debt expense	110,000	208,275
Amount of receivables written off	-	(257,610)
Effect of currency translation	(14,769)	(13,899)
Allowance for doubtful accounts at the end of the period	$ 484,263	$ 389,032

Inventory -- Inventory is carried at the lower of cost or market, as determined on the first-in, first-out method.

Inventory consists of the following at June 30, 2012 and December 31, 2011:

	2012	2011
Furnace parts and supplies	$ 251,854	$ 151,412
Raw materials	507,752	920,065
Work in process	1,505,087	867,988
Finished goods	1,311,538	1,054,118
Reserve for obsolescence	(13,000)	(13,000)

Net Inventory	$ 3,563,231	$ 2,980,583

The Company’s inventory is held as collateral on the Company’s lines of credit.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [*Continued*]

Property and Equipment -- Property and equipment are stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized, upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the assets which range from three to twenty years (See Note 3).

Long-Term Investments -- Investments in non-public companies are included in long-term investments in the consolidated balance sheet and are accounted for under the cost method and equity method. For these non-quoted investments, we regularly review the assumptions underlying the operating performance and cash flow forecasts based on information requested from these privately held companies. Generally, this information may be more limited, may not be as timely as and may be less accurate than information available from publicly traded companies. Assessing each investment's carrying value requires significant judgment by management. If it is determined that there is an-other-than-temporary decline in the fair value of a non-public equity security, we write-down the investment to its fair value and record the related write-down as an investment loss in the consolidated statement of operations.

Intangible Assets -- Definite life intangible assets include patents. The Company accounts for definite life intangible assets in accordance with Financial Accounting Standards Board, (“FASB”) Accounting Standards Codification, (“ASC”) Topic 350, “Goodwill and Other Intangible Assets” and amortizes the patents on a straight line basis over the estimated useful life of two to ten years.

Revenue Recognition and Sales Incentives -- The Company accounts for revenue recognition in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), FASB ASC 605 "Revenue Recognition". The Company recognizes revenue when rights and risk of ownership have passed to the customer, when there is persuasive evidence of an arrangement, product has been shipped or delivered to the customer, the price and terms are finalized, and collections of resulting receivable is reasonably assured. Products are primarily shipped FOB shipping point at which time title passes to the customer. In some instances, the Company uses common carriers for the delivery of products. In these arrangements, sales are recognized upon delivery to the customer. The Company's revenue arrangements with its customers often include early payment discounts and such sales incentives are recorded against sales.

Advertising Cost -- Cost incurred in connection with advertising of the Company’s products is expensed as incurred. Such costs amounted to $58,649 and $16,126 for the six months ended June 30, 2012 and 2011, respectively.

Research and Development Cost -- The Company expenses research and development costs for the development of new products as incurred. Included in operating expense for the six months ended June 30, 2012 and 2011 are $379,300, and $247,825, respectively, of research and development costs.

Income Taxes -- The Company accounts for income taxes in accordance with FASB ASC Topic 740 "Accounting for Income Taxes." This statement requires an asset and liability approach for accounting for income taxes.

Earnings Per Share -- The Company calculates earnings per share in accordance with FASB ASC 260 "Earnings Per Share." Basic earnings per common share (EPS) are based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are based on shares outstanding (computed as under basic EPS) and potentially dilutive common shares. Potential common shares included in the diluted earnings per share calculation include in-the-money stock options that have been granted but have not been exercised.

Stock Options -- The Company has stock option plans that provide for stock-based employee compensation, including the granting of stock options, to certain key employees and directors. The plans are more fully described in Note 13. During the years presented in the accompanying consolidated financial statements, the Company has granted options under its stock option plans. The Company accounts for options in accordance with the provisions of FASB ASC Topic 718, "Compensation – Stock Compensation." Non-cash compensation costs of $65,203 and $1,046 have been recognized for the vesting of options granted to directors and employees with an associated recognized tax benefit of $0 and $0 for the six months ended June 30, 2012 and 2011, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [*Continued*]

Fair Value of Financial Instruments -- The Company accounts for fair value measurements for financial assets and financial liabilities in accordance with FASB ASC Topic 820, "Fair Value Measurement." The authoritative guidance, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as the exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, accounts receivable, prepaid expenses, investments, accounts payable, accrued expenses, capital lease obligations and notes payable approximates their recorded values due to their short-term maturities.

Accounting Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Recent Accounting Pronouncements

In July 2012, the FASB issued amended standards to simplify how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. These amended standards are effective for us beginning in the fourth quarter of 2012; however, early adoption is permitted. We do not expect these new standards to significantly impact our consolidated condensed financial statements.

Other recent accounting pronouncements issued by the FASB did not or are not believed by management to have a material impact on the Company's present or future financial statements.

NOTE 2 - RELATED PARTY TRANSACTIONS

Notes Receivable From Related Parties - - During June 2012, the Company collected the 19,500,000 DKK note receivable from a shareholder resulting from the purchase of common shares and previously classified as equity in the accompanying financial statements. The note was discounted as the note does not accrue interest. During the six months ended June 30, 2012 the Company recorded interest income of $65,178 as a result of amortization of the discount.

Notes Payable From a Related Party -- During June, 2012, the Company paid the 19,500,000 DKK note payable to current and former shareholders of LiqTech AS in connection with the LiqTech AS's reverse acquisition of LiqTech USA, concurrently with the Merger. The note was discounted as the note does not accrue interest. During the six months ended June 30, 2012 the Company recorded interest income of $65,178 as a result of amortization of the discount.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2012 and December 31, 2011:

	Useful Life	2012	2011
Production equipment	3 – 10	$ 10,637,299	$ 10,025,051
Lab equipment	3 – 10	340,355	349,750
Computer equipment	3 – 5	249,877	236,155
Vehicles	3	10,281	10,565
Furniture and fixtures	5	57,294	47,898
Buildings	20	-	-
Leasehold improvements	10	769,821	443,448
		12,064,927	11,112,867
Less Accumulated Depreciation		(5,388,412)	(4,465,650)
Net Property and Equipment		$ 6,676,515	$ 6,647,217

Depreciation expense amounted to $711,925 and $757,293, for the six months ended June 30, 2012 and 2011, respectively. The Company's property and equipment is held as collateral on the lines of credit.

NOTE 4 - INVESTMENTS

The following tables summarize Level 1, 2 and 3 financial assets and financial (liabilities) by their classification in the Statement of Financial Position:

As of June 30, 2012	Level 1	Level 2	Level 3
Investments	-	-	145,093
Total	-	-	145,093

As of December 31, 2011	Level 1	Level 2	Level 3
Investments	-	-	6,483
Total	-	-	6,483

At June 30, 2012 our total investment of $145,093 consist of an investment of $100,675 in I.F.T S.R.l in Italy to strength our exposure in the Italian market, an investment of $6,309 in LEA Technology in France to strength our exposure in the French market and an investment of $38,109 in Bio Filtration Technology, a Danish company with biofuel and manure concentration.

At December 31, 2011 our investment of $6,483 consist of an investment in LEA in France Technology to strength our exposure in the French market.

NOTE 5 – DEFINITE-LIFE INTANGIBLE ASSETS

At June 30, 2012 and December 31, 2011, definite-life intangible assets, net of accumulated amortization, consist of patents on the Company's products of $30,609 and $34,167, respectively. The patents are recorded at cost and amortized over two to ten years. Amortization expense for the six months ended June 30, 2012 and 2011 was $3,558 and $16,501 respectively.

Expected future amortization expenses for the following years are as follows:

Year ending December 31,		
2012	$	2,654
2013		5,309
2014		5,309
2015		5,309
2016		5,309
Thereafter		6,719
	$	30,609

NOTE 6 – LINES OF CREDIT

LiqTech AS has a DKK 6,000,000 (approximately $1,016,226 at June 30, 2012) standby line of credit with a bank, subject to certain borrowing base limitations. Outstanding borrowings are due on demand. There was $0 and $882,003 outstanding as of June 30, 2012 and December 31, 2011, respectively. Interest is charged quarterly at 3.85% per annum at June 30, 2012 and the line is secured by certain of the Company's receivables, inventory and equipment. At June 30, 2012, the line had been paid down to $0 outstanding, with $1,016,226 available on the line of credit.

LiqTech Int. DK has a DKK 3,000,000 (approximately $508,113 at June 30, 2012) standby line of credit with a bank, subject to certain borrowing base limitations. Outstanding borrowing is due on demand. There was $0 and $377,933 outstanding as of June 30, 2012 and December 31, 2011, respectively. Interest is charged quarterly at 3.85% per annum at June 30, 2012 and the line is secured by certain of the Company's receivables, inventory and equipment. At June 30, 2012, the line had been paid down to $0 outstanding, with $508,113 available on the line of credit.

NOTE 7 – NOTES PAYABLE

In September 2011 LiqTech AS entered into a note payable agreement with a financial institution, whereby LiqTech AS borrowed $475,000. The note payable was paid off during March 2012.

NOTE 8 – LEASES

Operating Leases - The Company leases office and production facilities under operating lease agreements expiring in August, 2012, February 2017 and August 2018. Some of these lease agreements have an option to extend.

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2012 are as follows:

Year ending December 31,		Lease Payments
2012	$	293,310
2013	$	641,353
2014	$	686,427
2015	$	704,076
2016	$	722,197
Thereafter	$	771,029
Total Minimum Lease Payments	$	3,818,392

Lease expense charged to operations was $352,195 and $213,305 for the six months ended June 30, 2012 and 2011, respectively.

Capital Lease - The Company leases equipment on various capital leases calling for monthly payments of $1,990, $2,793, $11,132, $4,314 and $655 expiring through April 2017. At June 30, 2012 and December 31, 2011, the Company recorded,in property and equipment, equipment on capital lease of $1,505,148 and $1,546,696, respectively, with related accumulated depreciation of $522,670 and $430,070, respectively.

During the six months ended June 30, 2012 and 2011, depreciation expense for equipment on capital lease amounted to $107,253 and $84,539, respectively, and has been included in depreciation expense. During the six months ended June 30, 2012 and 2011, interest expense on capital lease obligation amounted to $34,300 and $32,410, respectively.

Future minimum capital lease payments are as follows for the periods ended December 31:

	As of June 30, 2012
2012	$ 154,483
2013	242,754
2014	238,302
2015	207,879
2016	201,235
Thereafter	129,215
Total minimum lease payments	1,173,868
Less amount representing interest	(154,740)
Total present value of minimum lease payments	1,019,128
Less current portion	(190,388)
Long-term lease payments	$ 828,740

NOTE 9 - AGREEMENTS AND COMMITMENTS

401(k) Profit Sharing Plan – LiqTech NA has a 401(k) profit sharing plan and trust covering certain eligible employees. The amount LiqTech NA contributes is discretionary. For the six months ending June 30, 2012 and 2011, matching contributions were expensed and totaled $11,789 and $9,005, respectively.

NOTE 10 – INCOME TAXES

The Company accounts for income taxes in accordance with FASB ASC Topic 740, "Accounting for Income Taxes"; which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carry forwards. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot be determined.

The temporary differences, tax credits and carry forwards gave rise to the following deferred tax asset (liabilities) at June 30, 2012 and December 31, 2011:

	2012	**2011**
Vacation accrual	$ 13,234	$ 13,234
Reserve for sales returns	6,182	-
Reserve for obsolete inventory	22,566	4,552
Net current tax assets	$ 41,982	$ 17,786
Business tax credit carryover	-	-
Net operating loss carryover	542,099	130,118
Excess of book over tax depreciation	(1,014,318)	(798,602)
Net deferred tax liability	$ (472,219)	$ (668,484)

In accordance with prevailing accounting guidance, the Company is required to recognize and disclose any income tax uncertainties. The guidance provides a two-step approach to recognizing and measuring tax benefits and liabilities when realization of the tax position is uncertain. The first step is to determine whether the tax position meets the "more-likely-than-not" condition for recognition and the second step is to determine the amount to be recognized based on the cumulative probability that exceeds 50%.

The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which can difficult to determine and can only be estimated. Management estimates that it is more likely than not that the Company will generate adequate net profits to use the deferred tax assets; management has estimated that all of the deferred tax will be realized and consequently, a valuation allowance was not recorded.

As of June 30, 2012, the Company had net operating loss carryovers of $1,414,122 for U.S. Federal purposes expiring in 2032.

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the Company's effective rate is as follows at June 30, 2012 and 2011:

		2012		2011
Computed tax at expected statutory rate	$	(125,599)	$	359
State and local income taxes, net of federal benefits		660		19,983
Non-deductible expenses		297		76,185
Non-US income taxed at different rates		(4,633)		683
Manufacturing and other tax credits		(8,210)		-
Other items		(2,015)		-
Income tax expense	$	(139,500)	$	97,210

The components of income tax expense (benefit) from continuing operations for the years ended June 30, 2012 and 2011 consisted of the following:

		2012		2011
Current income tax expense:				
Danish	$	79,780	$	-
Federal		-		60,317
State		-		19,983
Current tax expense	$	79,780	$	80,300
Deferred tax expense (benefit) arising from:				
Excess of tax over financial accounting depreciation	$	218,830	$	-
Net operating loss carryover		(413,378)		16,910
Allowance for doubtful accounts		(6,182)		-
Reserve for obsolete inventory		(18,550)		-
Deferred tax expense	$	(219,280)	$	16,910
Income Tax Expense (Benefit)		(139,500)		97,210

Deferred income tax expense/(benefit) results primarily from the reversal of temporary timing differences between tax and financial statement income.

The Company files Danish,U.S. federal, and Minnesota state income tax returns, and LiqTech AS and LiqTech International AS are generally no longer subject to tax examinations for years prior to 2007 for their Danish tax returns. LiqTech NA is generally no longer subject to tax examinations for years prior to 2008 for U.S. federal and U.S. state tax returns.

NOTE 11 - EARNINGS PER SHARE

The following data shows the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of potential dilutive common stock for the three and six months ended June 30, 2012 and 2011:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
Net Income (Loss) attributable to LiqTech International Inc.	$ (552,509)	$ 22,239	$ (229,907)	$ (105,963)
Weighted average number of common shares used in basic earnings per share	24,111,500	9,308,333	23,173,137	9,308,333
Effect of dilutive securities, stock options and warrants	3,141,701	-	3,867,913	-
Weighted average number of common shares and potentially dilutive securities	$ 27,253,201	$ 9,308,333	$ 27,041,050	$ 9,308,333

For the three and six months ended June 30, 2012, the Company had 1,801,131 and 301,131 options outstanding to purchase common stock of the Company at $3.00 to $3.60 per share and the Company had 125,575 and 125,575 options outstanding to purchase common stock of the Company at $4.06 per share, which were not included in the loss per share computation because their effect would be anti-dilutive.

The weighted average common shares outstanding used in the calculation of earning per shares for the three and six months ended June 30, 2011 reflects the 9,308,333 issued to the former shareholders of LiqTech AS in connection with the reverse acquisition.

NOTE 12 - STOCKHOLDERS' EQUITY

Common Stock – The Company has authorized 100,000,000 shares of common stock, $0.001 par value. As of June 30, 2012 and 2011, respectively, there were 24,111,500 and 9,308,333 common shares issued and outstanding.

Voting

Holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders, including the election of directors, and do not have any right to cumulate votes in the election of directors.

Dividends

Subject to the rights and preferences of the holders of any series of preferred stock which may at the time be outstanding, holders of common stock are entitled to receive ratably such dividends as our Board of Directors from time to time may declare out of funds legally available.

Liquidation Rights

In the event of any liquidation, dissolution or winding-up of our affairs, after payment of all of our debts and liabilities and subject to the rights and preferences of the holders of any outstanding shares of any series of our preferred stock, the holders of common stock will be entitled to share ratably in the distribution of any of our remaining assets.

Other Matters

Holders of common stock have no conversion, preemptive or other subscription rights, and there are no redemption rights or sinking fund provisions with respect to the common stock. All of the issued and outstanding shares of common stock on the date of this report are validly issued, fully paid and non-assessable.

Preferred Stock

Our Board of Directors has the authority to issue preferred stock in one or more classes or series and to fix the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any class or series, without further vote or action by the stockholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock.

Common Stock Offering

On March 2, 2012, we completed the initial closing of a registered public offering of our common stock. As part of the initial closing, we issued 2,511,500 shares of our common stock in a registered direct placement of our shares at a per share price of $3.25. The proceeds net of offering cost received from the initial closing are approximately $7.4 million.

Common Stock Purchase Warrants

We have outstanding warrants to purchase 6,625,575 shares of common stock. 6,500,000 warrants are exercisable for cash at a price of $1.50 per share of common stock and will expire on December 31, 2016 and 125,575 warrants are exercisable for cash at a price of $4.0625 per share of common stock and will expire on March 7, 2017. The exercise price of the warrants and the number of shares underlying the warrants are subject to adjustment for stock dividends, subdivisions of the outstanding shares of common stock and combinations of the outstanding shares of common stock. While the warrants remain outstanding, we are required to keep reserved from our authorized and unissued shares of common stock a sufficient number of shares to provide for the issuance of the shares underlying the warrants.

Stock Options – In August 2011, the Company's Board of Directors adopted a Stock Option Plan (the "Plan"). Under the terms and conditions of the Plan, the board is empowered to grant stock options to employees, officers, and directors of the Companies. At June 30, 2012, 2,274,130 options were granted under the Plan

The Company recognizes compensation costs for stock option awards to employees based on their grant-date fair value. The value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average assumptions used to estimate the fair values of the stock options granted using the Black-Scholes option-pricing model are as follows:

	LiqTech International, Inc.
Expected term (Years)	3.0-3.5
Volatility	0.07%-52.69%
Risk free interest rate	2.33%
Dividend yield	0%

The Company recognized employee stock based compensation expense of $65,203 and $1,046 for the six months ended June 30, 2012 and 2011, respectively. At June 30, 2012 the Company had approximately $203,079 of unrecognized compensation cost related to non-vested options expected to be recognized through December 31, 2013.

A summary of the status of the options outstanding under the Company's stock option plans at June 30, 2012 is presented below:

Options Outstanding			Options Exercisable	
	Weighted Average	Weighted		Weighted

Range of Exercise Prices			Number Outstanding	Remaining Contractual Life (years)		Average Exercise Price	Number Exercisable		Average Exercise Price
$1.50			500,000	2.65	$	1.5	166,667	$	1.5
$3.00	-	$3.60	1,774,130	2.65	$	3.05	591,376	$	3.05
$1.50	-	$3.60	2,274,130	2.65	$	2.71	758,043	$	2.71

A summary of the status of the options granted under the Company's stock option plans at June 30, 2012, and changes during the year is presented below:

	June 30, 2012					
	Shares		Weighted Average Exercise Price	Average Remaining Life		Intrinsic Value
Outstanding at beginning of period	2,060,000	$	2.65	2.24	$	2,341,400
Granted	214,130		3.28	2.73		-
Exercised	-		-	-		-
Forfeited	-		-	-		-
Expired	-		-	-		-
Outstanding at end of period	2,274,130	$	2.71	2.65	$	500,000
Vested and expected to vest	2,274,130	$	2.71	2.65	$	500,000
Exercisable at end of period	758,043	$	2.71	2.65	$	166,667

At December 31, 2011, the Company had, 2,060,000 non-vested options with a weighted average exercise price of $2.65. At June 30, 2012 the Company had 1,516,087 non-vested options with a weighted average exercise price of $2.71 and with a weighted average grant date fair value of $0.18, resulting in unrecognized compensation expense of $203,079, which is expected to be expensed over a weighted-average period of 1.50 years.

The total intrinsic value of options exercised during the six months ended June 30, 2012 was $0. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at June 30, 2012 (for outstanding options), less the applicable exercise price.

NOTE 13 - SIGNIFICANT CUSTOMERS / CONCENTRATION

The Company had four customers who accounted for 18%, 11%, 9% and 5% of total sales at June 30, 2012. The Company had four significant customers who accounted for 14%, 13%, 11% and 10% of total sales at June 30, 2011.

The Company sells filters throughout the world, and sales by geographical region are as follows for the three and six months ended June 30, 2012 and 2011:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
United States and Canada	1,566,935	1,413,315	3,464,606	2,390,478
South America	57,374	5,789	258,978	16,289
Asia	275,256	528,385	819,815	892,598
Europe	2,053,770	1,858,327	5,751,657	3,423,846
	3,953,335	3,805,816	10,295,056	6,723,211

The Company’s sales by product line are as follows for the three and six months ended June 30, 2012 and 2011:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Ceramic diesel particulate	2,519,393	3,200,516	7,856,959	5,593,989
Liquid filters	1,384,691	532,685	2,286,618	1,029,918
Kiln furniture	49,251	72,615	151,479	99,304
	3,953,335	3,805,816	10,295,056	6,723,211

NOTE 14 – SUBSEQUENT EVENT

The Company’s management reviewed material events through August 13, 2012 and there were no material subsequent events.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and t *he related notes included elsewhere in this quarterly report. In addition, the following discussion should be read in conjunction with our Annual Report on Form 10-K filed on March 29, 2012, and the financial statements and notes thereto. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.*

Overview

We are a clean technology company that provides state-of-the-art technologies for gas and liquid purification by manufacturing ceramic silicon carbide filters. For more than a decade, we have developed and manufactured products of re-crystallized silicon carbide. We specialize in three business areas: diesel particulate filters for the control of soot exhaust particles from diesel engines, ceramic membranes for liquid filtration and kiln furniture for the refractory industry. Using nanotechnology, we develop proprietary products using patented silicon carbide technology. Our products are based on unique silicon carbide membranes which facilitate new applications and improve existing technologies. We market our products from our offices in the United States and Denmark, and through local representatives in Italy, Germany, France, Korea, Brazil and Singapore. The products are shipped directly to customers from our production facilities in the United States and Denmark.

The terms "LiqTech", "we", "our", "us", the "Company" or any derivative thereof, as used herein refer to LiqTech International, Inc., a Nevada corporation, together with its direct and indirect wholly-owned subsidiaries, including LiqTech USA, Inc., a Delaware corporation ("LiqTech USA"), which owns all of the outstanding equity interest in LiqTech A/S, a Danish limited company, organized under the Danish Act on Limited Companies of the Kingdom of Denmark ("LiqTech Denmark"), LiqTech International A/S (formerly known as Cometas A/S), a Danish limited company, organized under the Danish Act on Limited Companies of the Kingdom of Denmark ("LiqTech Denmark International") and LiqTech NA, Inc., a Delaware corporation ("LiqTech Delaware"). Collectively, LiqTech USA, LiqTech Denmark, LiqTech Denmark International and LiqTech Delaware are referred to herein as our "Subsidiaries".

We conduct operations in the Kingdom of Denmark and the United States. Our Danish operations are conducted by LiqTech Denmark and LiqTech Denmark International located in the Copenhagen, Denmark area and our U.S. operations are conducted by LiqTech Delaware located in White Bear Lake, Minnesota. In October and December 2011, the Company opened sales offices in France and Germany and in January 2012, we opened a sales office in Singapore.

Reverse Acquisition

Prior to August 24, 2011, Blue Moose was a "shell" company with no business or operations. On August 24, 2011, pursuant to the Merger Agreement by and among Blue Moose, BMD Sub and LiqTech USA, BMD Sub was merged with and into LiqTech USA and, as a result of the merger, LiqTech USA became a wholly owned subsidiary of Blue Moose. Pursuant to the Merger, (a) each of the 17,444.75 outstanding shares of the common stock of LiqTech USA was exchanged for 1,000 shares of our common stock, for a total of 17,444,750 shares of our common stock resulting in 21,600,000 shares of our common stock being outstanding immediately following the merger and (b) warrants to acquire up to 6,500 shares of LiqTech USA's common stock at a price of $1,500 per share, were by their terms, converted into warrants to acquire up to 6,500,000 shares of our common stock at a price of $1.50 per share.

LiqTech USA owns all of the outstanding equity interests in LiqTech Denmark, LiqTech Denmark International and LiqTech Delaware. In June and July 2011, LiqTech USA entered into agreements to acquire (i) all of the outstanding equity interests in LiqTech Denmark and (ii) all of the outstanding equity interests in LiqTech Denmark International and LiqTech Delaware not owned by LiqTech Denmark, directly from the holders of such equity interests (the "LiqTech Acquisition Agreements"). In exchange for such equity interests, LiqTech USA paid to such holders in the aggregate (i) $4,637,315 in cash, (ii) promissory notes in the principal amount of DKK 19,500,000 (which was equal to $3,765,351 based upon the currency exchange rate of $1.00 = DKK 5.1788 as of August 22, 2011) and as of June 30, 2012, these promissory notes have been paid off in full and (iii) 9,308.333 shares of LiqTech USA's common stock.

Prior to completion of the merger, LiqTech USA completed a private placement offering of 63 units at $100,000 per unit, each such unit consisting of 40 shares of LiqTech USA's common stock and 20 warrants to purchase LiqTech USA common stock, and received $4,800,000 in cash and a promissory note for $1,500,000 payable on September 7, 2011. Thereafter, in August 2011, LiqTech USA closed the transactions contemplated by the LiqTech Acquisition Agreements.

As a result of the merger, Blue Moose changed its management and reconstituted its board of directors. As of the effective time of the merger, Gordon Tattarsall, the president, the chief financial officer and the sole director of Blue Moose, resigned as president and chief financial officer. As Blue Moose's sole director, Mr. Tattarsall appointed Aldo Petersen as a director of Blue Moose. The Directors then appointed Lasse Andreassen and Soren Degn as the officers of Blue Moose, and Lasse Andreassen, Paul Burgon, John Nemelka and Michael Sonneland as directors of Blue Moose. However, in accordance with the rules and regulations of the SEC, the other new directors did not take office until September 5, 2011, which is ten days after we filed an Information Statement pursuant to Rule 14f-1 of the Securities and Exchange Act of 1934, as amended, and mailed that statement to our stockholders of record. In addition, at the effective time of the merger, Mr. Tattarsall resigned as a director of Blue Moose effective as of September 5, 2011.

Our Products

We manufacture and sell (i) diesel particulate filters for the control of soot exhaust particles from diesel engines; (ii) ceramic membranes for the filtration of liquid and (iii) to a much lesser extent, kiln furniture to support ceramics during the firing process.

Diesel Particulate Filters

We offer our diesel particulate filters ("DPF") for exhaust emission control solutions to the verified retrofit and OEM market through our direct sales force. DPF sales are generally made to distributors specializing in sales to end users. We use a proprietary nano washcoat to provide catalytic coating for anything from diesel particulate filters to catalytic converters. We have developed a robust silicon carbide diesel particulate filter that is especially useful for vehicles that produce a high soot load, and, if properly maintained, should last as long as the vehicle's engine. Our DPFs are ideal for off-road vehicles because of their strength, chemical non-reactive nature, temperature resilience and thermal conductivity. Our DPF products are sold worldwide, under the LiqTech brand names.

For the six months ended June 30, 2012 and 2011, our sales of DPFs were 7,856,959 and $5,593,989, respectively.

Ceramic Silicon Carbide Membranes for Liquid Filtration

Under the "LiqTech" and "CoMeTas" brand names, we manufacture and sell ceramic silicon carbide membranes for liquid filtration using our patented silicon carbide technology ("SiC Filters") that currently focus on hydrocarbon production-derived contaminated water, which we refer to herein as "produced water" and pre-filtration for reverse osmosis. Our SiC Filters have been used in the following applications by our clients:

- Produced water;
- Pre-filtration of reverse osmosis drinking water;

and for use in:

- Industrial applications;
- Drinking water;
- Waste water treatment;
- Ballast water.

Our SiC Filters are sold through our direct sales force under the LiqTech and CoMeTas brand names.

For the year ended December 31, 2010 we received $434,957 of grants from governmental entities. In 2011 we received a $2 million grant from The Danish National Advanced Technology Foundation to develop a SiC-based membrane that can perform reverse osmosis. If successful, we believe this will be the first inorganic reverse osmosis membrane ever developed. The goal is to produce clean drinking water from sea water.

We believe increased government regulation on the treatment of produced water may increase our sales of SiC membranes. Existing technology may have difficulty meeting any increased requirements because the hydro-cyclone technology currently used in most treatments of produced water is not effective at removing suspended solids and is prone to clogging.

For the six months ended June 30, 2012 and 2011, our sales of liquid filters were $2,286,618 and $1,029,918, respectively.

Kiln Furniture

Kiln furniture refers to all items used in a kiln to support ceramics that creates additional space to maximize the number of items for each firing. Our high-quality SiC kiln furniture is thinner (allowing more items to be added for each firing), withstands higher heat, lasts longer and reduces the firing time (reducing energy costs) as compared to cordierite, mullite and oxide bonded kiln furniture.

We intend to produce kiln furniture as a means to maximize the efficiency of our manufacturing process and not as one of our primary products.

We began selling kiln furniture in 2011 and our sales for the six months ended June 30, 2012 and 2011 were $151,479 and $99,304, respectively.

Our Manufacturing

We currently manufacture our products in facilities located in Ballerup and Gentofte, Denmark and White Bear Lake, Minnesota. The main raw materials that we use in our manufacturing processes are silicon carbide, platinum and palladium. We purchase these commodities from various sources generally based upon availability and price. There is a limited supply of silicon carbide available to us. As other industries develop products utilizing silicon carbide, we may not be able to obtain adequate supplies of silicon carbide required for the manufacture of our existing and planned future water filtration products. Any increased demand for silicon carbide, platinum or palladium could increase the price we must pay to obtain it and could adversely affect our profitability. However, our management believes that we could obtain satisfactory substitutes for these materials should they become unavailable.

Prior to our entry into the new subcontract agreement with Scandinavian Brake Systems, as discussed below, our manufacturing facilities operated at peak capacity. We currently have a subcontract agreement for production capacity with a subcontractor located in Tennessee. We have also recently entered into a new subcontract agreement with Scandinavian Brake Systems to utilize the production capacity of their Notox division. The new subcontract arrangement, which extends until the end of 2014, is expected to significantly increase our production capacity.

We have plans to expand our production capacity in both Denmark and Minnesota, primarily through additional investment in equipment relating to our liquid filtration products.

Our Sales

Our products are sold primarily to large industrial customers that use our products for gas and liquid filtration. To date, most of our sales have been in the transportation sector, and we are seeking to broaden our sales into other areas such as produced water in the oil and gas market, desalination market and other water purification markets. For the six months ended June 30, 2012, our four largest customers accounted for approximately 18%, 11%, 9% and 5% respectively, of our net sales (approximately 47% in total). For the six months ended June 30, 2011, our four largest customers accounted for approximately 14%, 13%, 11% and 10%, respectively, of our net sales (approximately 48% in total). We plan to actively market our existing products to new customers as we increase our production capacity. We currently have 16 full-time salesmen or distribution agents. We promote our products through direct contact to potential customers and by meeting potential customers in trade fairs and exhibitions.

Government Regulation

We do not believe that we are subject to any special governmental regulations affecting our products in the countries in which we have operations, except that in Minnesota, we are required to comply with the Minnesota Air Pollution standards related to the use of our incinerator located in our Minnesota facilities. We are subject to numerous health and safety laws and regulations. In the United States, these laws and regulations include the Federal Occupation Safety and Health Act and comparable state legislation. We are also subject to similar requirements in other countries in which we have extensive operations, including Denmark, where we are subject to various regulations. These regulations are frequently changing, and it is impossible to predict the effect of such laws and regulations on us in the future. We actively seek to maintain a safe, healthy and environmentally friendly workplace for all of our employees and those who work with us.

Research and Development

We currently have five full-time employees spending a majority of their time on research and development. For the six months ended June 30, 2012 and 2011, we spent $379,300 and $247,825, respectively, on research and development.

Competition

Our products compete with other filters that are made using both ceramic and plastic membranes. Most of our competitors are large industrial companies. However, we believe our patented technology allows us to produce high quality, low cost products that give us an advantage over many of our competitors, many of which have greater financial, technological, manufacturing and personnel resources. We intend to continue to devote resources to improving our products in order to maintain our existing customers and to add new customers.

Recent Developments

Letter of Intent with Pirelli & C. Eco Technology S.p.A.

On February 29, 2012, the Company announced that it had entered into a non-binding Letter of Intent ("LOI") with Pirelli & C. Eco Technology S.p.A ("Pirelli"). The LOI defined the intent of the parties to explore a strategic partnership to produce Diesel Particulate Filters ("DPF") for the automotive OEM market and contemplated the Company's purchase of certain Pirelli DPF factory assets and a direct purchase of a certain amount of the Company's stock by Pirelli. At this time, the Company and Pirelli have mutually decided to limit the scope of discussions to a commercial relationship. The Company currently believes that the Company and Pirelli should be able to consummate a commercial relationship within the coming quarters, although no assurance can be given.

Subcontract with Scandinavian Brake Systems

We have recently entered into a new subcontract agreement with Scandinavian Brake Systems to utilize the production capacity of their Notox division. The new subcontract arrangement, which extends until the end of 2014, is expected to significantly increase our production capacity. We believe that the additional production capacity provided under this subcontract will allow us to meet our capacity requirements until the end of the subcontract period.

Opening of Singapore Office

On January 17, 2012, we announced the establishment of a representative office in Singapore. The new Singapore office will service the South East Asian markets covering our entire product portfolio.

March 2012 Registered Offering of Common Stock

On March 2, 2012, we completed the closing of a registered public offering of our common stock. As part of the closing, we issued 2,511,500 shares of our common stock in a registered direct placement of our shares at a per share price of $3.25. The net proceeds to us from the closing were approximately $7.4 million. We intend to use the net proceeds from the offering for the development and marketing of our products, the engineering, development and testing of our membranes, and the opening of local sales offices in certain countries outside of the U.S. and Denmark. Pending application of such proceeds, we expect to invest the proceeds in short-term, interest-bearing, investment-grade marketable securities or money market obligations. Sunrise Securities Corp. acted as the exclusive placement agent for this transaction. As part of the compensation for the placement agent, we also issued to the placement agent and certain of its agents for $100, warrants to purchase an aggregate of 125,575 shares of our common stock (equal to 5% of the shares of common stock sold by the placement agent and its agents in the offering). The warrants have an exercise price equal to $4.06 (or 125% of the offering price of the shares sold in the offering) and may be exercised on a cashless basis. The warrants are exercisable for a period of five years commencing after February 13, 2012, which was the effective date of the registration statement related to the offering. The warrants are subject to a lock-up restriction for 180 days pursuant to FINRA Rule 5110(g). The warrants are not redeemable by us.

Results of Operations

The following table sets forth our revenues, expenses and net income for the six months ended June 30, 2012 and 2011. The financial information below is derived from our unaudited condensed consolidated financial statements included elsewhere in this report.

	Three months ended June 30,					
					Period to period change	
	2012	As a % of Sales	2011	As a % of Sales	Difference	%
NET SALES	$ 3,953,335	100%	$ 3,805,816	100%	$ 147,519	3.9
Cost of goods sold	3,537,168	89.5	2,630,668	69.1	906,500	34.5
Gross Profit	**416,167**	10.5	**1,175,148**	30.9	**(758,981)**	(64.6)
OPERATING EXPENSES:						
Selling and Marketing	599,459	15.2	230,874	6.1	368,585	159.6
General and Administrative	550,619	13.9	598,042	15.7	(47,423)	(7.9)
Research and Development	152,626	3.9	134,287	3.5	18,339	13.7
Total Operating Expenses	**1,302,704**	33.0	**963,203**	25.3	**339,501**	35.2
Income (loss) from Operating	**(886,537)**	(22.4)	**211,945**	5.6	**(1,098,482)**	(518.3)
Interest and Other Income	59,876	1.5	8,046	0.2	51,830	644.2
Interest (Expense)	(41,372)	(1.2)	(73,464)	(1.9)	32,092	(43.7)
Gain (loss) on Currency Transactions	65,048	1.6	(7,118)	(0.2)	72,166	(1013.9)
Gain (Loss) on Sale of Fixed Assets	-	-	0	-	-	-
Total Other Income (Expense)	83,552	2.1	(72,536)	(1.9)	156,088	(215.2)
Income Before Income Taxes	**(802,985)**	(20.3)	**139,409**	3.7	**(942,394)**	(676.0)
Income Taxes Expense	(250,476)	(6.3)	123,888	3.3	(374,364)	(302.2)
Net Income	**(552,509)**	(14.0)	**15,521**	0.4	**(568,030)**	(3,659.8)
Less Net income attributable to the Non-controlled interest in Subsidiaries	-	-	(6,718)	(0.2)	6,718	(100.0)
Net Income attributable to LiqTech	**$ (552,509)**	(14.0)	**$ 22,239**	**0.6**	**$ (574,748)**	(2,584.4)

	Six months ended June 30,					
					Period to period change	
	2012	As a % of Sales	2011	As a % of Sales	Difference	%
NET SALES	$ 10,295,056	100.0%	$ 6,723,211	100.0%	$ 3,571,845	53.1
Cost of goods sold	7,789,205	75.7	4,868,328	72.4	2,920,877	60.0
Gross Profit	**2,505,851**	24.3	**1,854,883**	27.6	**650,968**	35.1
OPERATING EXPENSES:						
Selling and Marketing	1,259,377	12.2	635,205	9.4	624,172	98.3
General and Administrative	1,273,131	12.4	875,835	13.0	397,296	45.4
Research and Development	379,300	3.7	247,825	3.7	131,475	53.1
Total Operating Expenses	**2,911,808**	28.3	**1,758,865**	26.2	**1,152,943**	65.6
Income (loss) from Operating	**(405,957)**	(3.9)	**96,018**	1.4	**(501,975)**	(522.8)
Interest and Other Income	98,839	1.0	18,772	0.3	80,067	426.5
Interest (Expense)	(125,888)	(1.2)	(79,243)	(1.2)	(46,645)	58.9
Gain (loss) on Currency Transactions	63,599	0.6	(34,490)	(0.5)	98,089	(284.4)
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-	-
Total Other Income (Expense)	36,550	0.4	(94,961)	(1.4)	131,511	(138.5)
Income Before Income Taxes	**(369,407)**	(3.6)	**1,057**	0	**(370,464)**	(35048.6)
Income Taxes Expense	(139,500)	(1.4)	97,210	1.4	(236,710)	(243.5)
Net Income	**(229,907)**	(2.2)	**(96,153)**	(1.4)	**(133,754)**	139.1
Less Net income attributable to the Non-controlled interest in Subsidiaries	-	-	9,810	0	(9,810)	(100.0)
Net Income attributable to LiqTech	**$ (229,907)**	(2.2)	**$ (105,963)**	**(1.6)**	**$ (123,944)**	117.0

Comparison of the three month periods ended June 30, 2012 and June 30, 2011

Revenues

Net sales for the three month period ended June 30, 2012 were $3,953,335 compared to $3,805,816 for the same period in 2011, representing an increase of $147,519, or 3.9%. The increase in sales consist of a decrease in sales of DPFs and kiln furniture of $618,123 and $23,364 respectively and an increase in sales of liquid filters of $852,006. The decrease in demand for our DPFs is mainly due to a postponement in mandates in the US market, but we have also seen a lower activity in our other markets in the quarter. The increase in demand for our liquid filters and kiln furniture is due to an increase in worldwide investment.

Gross profit

Gross profit for the three month period ended June 30, 2012 was $416,167 compared to $1,175,148 for the same period in 2011 representing a decrease of $758,981 or 64.6%. The decrease was due to an increase in cost of goods sold during the period ended June 30, 2012.

Expenses

Total operating expenses for the three month period ended June 30, 2012 were $1,302,704, an increase of $339,501, or 35.2%, compared to $963,203 for the same period in 2011. This increase in operating expenses is attributable to a decrease in general and administrative expenses of $47,423 or 7.9%, an increase in research and development expenses of $18,339 or 13.7% and an increase in selling expenses of $368.585 or 159.6% compared to the same period in 2011.

Selling expenses for the three month period ended June 30, 2012 were $599,459 compared to $230,874 for the same period in 2011, representing an increase of $368,585 or 159.6%. This increase is attributable to an increase in costs in general and our increase in investment in our sales resources and investment in new markets primarily in Germany and Singapore. While we believe that our increased investment in sales will produce attractive returns for the Company and our shareholders, the results from such investments may take several quarters to be realized.

General and administrative expenses for the three month period ended June 30, 2012 were $550,619 compared to $598,042 for the same period in 2011, representing a decrease of $47,423, or 7.9%. Due to the reverse acquisition in August 2011 we are comparing the public LiqTech for the three month period ending June 30, 2012 with the private LiqTech for the three month period ending June 30, 2011. This make the periods difficult to compare due to public company expenses and the Company's growth strategy, but the level for the three months ended June 30, 2012 is approximately what we expect for comparable periods going forward. Included in the three month period ending June 30, 2012 is an additional $32,602 of non-cash compensation expense for options granted to employees and management which were not a part of the costs for three month period ended June 30, 2011.

Research and development expenses for the three month period ended June 30, 2012 were $152,626 compared to $134,287 for the same period in 2011, representing an increase of $18,339 or 13.7%. This increase is attributable to investment in new products and improvements for existing products..

Net Income

The net loss for the three month period ended June 30, 2012 was $552,509 compared to a net income of $22,239 for the same period in 2011, representing a decrease of $574,748. This decrease was primarily attributable to a decrease of $758,981 in our gross profit, and an increase of $339,501 in operating expenses partially offset by a decrease in other expenses of $156,088 and a decrease in income taxes expenses of $374,364. The largest contributor to the increase in operating expenses was an increase in selling expenses of $368,585 or 159.6%, compared to the same period in 2011.

Comparison of the six month periods ended June 30, 2012 and June 30, 2011

Revenues

Net sales for the six month period ended June 30, 2012 were $10,295,056 compared to $ 6,723,211 for the same period in 2011, representing an increase of $3,571,845, or 53.1%. The increase in demand for our products resulted in sales of DPFs of $7,856,969, sales of liquid filters of $2,286,618 and sales of kiln furniture of $151,479. The increase in demand for our DPFs is mainly due to the adoption of the Low Emission Zone in London and a general increase in our sales activities in first quarter, partially offset by a postponement in emission mandates in the US market in the second quarter. The increase in demand for our Liquid filters and Kiln furniture is due to an increase in worldwide sales investments.

Gross profit

Gross profit for the six month period ended June 30, 2012 was $2,505,851 compared to $ 1,854,883 for the same period in 2011 representing an increase of $650,968 or 35.1%. The increase in gross profit is mainly due to the increase in sales for the period.

Expenses

Total operating expenses for the six month period ended June 30, 2012 were $2,911,808, an increase of $1,152,943, or 65.6%, compared to $1,758,865 for the same period in 2011. This increase in operating expenses are attributable to an increase in general and administrative expenses of $397,296 or 45.4%, an increase in research and development expenses of $131,475 or 53.1%, and an increase in selling expenses of $624,172 or 98.3% compared to the same period in 2011.

Selling expenses for the six month period ended June 30, 2012 were $1,259,377 compared to $ 635,205 for the same period in 2011, representing an increase of $624,172 or 98.3 %. This increase is attributable to an increase in costs in general and our increase in investment in our sales resources and as well as investment in new markets primarily in Germany and Singapore.

General and administrative expenses for the six month period ended June 30, 2012 were $1,273,131 compared to $875,835 for the same period in 2011, representing an increase of $397,296 or 45.4%. This increase is mainly attributable to an increase in public company expenses. During the period ended June 30, 2012, the Company added an additional $110,000 to its bad debt reserve compared to the same period in 2011. Furthermore, we have included an additional $65,603 of non-cash compensation expense for options granted to employees and management which were not a part of the costs for six months period ended June 30, 2011.

Research and development expenses for the six month period ended June 30, 2012 were $379,300 compared to $247,825 for the same period in 2011, representing an increase of $131,475 or 53.1%. This increase is attributable to an increase in new product development and investment in existing products.

Net Income

The net loss for the six month period ended June 30, 2012 was $229,907 compared to $105,963 for the same period in 2011, representing an increase of $123,944. This increase was primarily attributable to an increase of $650,968 in our gross profit, offset by an increase of $1,153,943 in operating expenses. The largest contributors to the increase in operating expenses were an increase in selling expenses of $624,172 or 98.3%, general and administrative expenses of $397,296, or 45.4% and research and development expenses of $131,475 or 53.1%, compared to the same period in 2011.

Liquidity and Capital Resources

We have historically satisfied our capital and liquidity requirements through internally generated cash from operations and our available lines of credit. At June 30, 2012, we had cash of $5,166,569 and working capital of $11,131,312and at December 31, 2011 we had cash of $1,033,057 and working capital of $1,878,203. At June 30, 2012, our working capital increased by $9,253,109 compared to December 31, 2011.

On March 2, 2012, we completed the closing of a registered public offering of our common stock. As part of the closing, we issued 2,511,500 shares of our common stock in a registered direct placement of our shares at a per share price of $3.25. The net proceeds to us from the initial closing were approximately $7.4 million. We intend to use the net proceeds from the offering for the development and marketing of our products, the engineering, development and testing of our membranes, and the opening of local sales offices in certain countries outside of the U.S. and Denmark. Pending application of such proceeds, we expect to invest the proceeds in short-term, interest-bearing, investment-grade marketable securities or money market obligations.

LiqTech AS has a DKK 6,000,000 (approximately $1,016,226 at June 30, 2012) standby line of credit with a bank, subject to certain borrowing base limitations. Outstanding borrowings are due on demand. There was $0 and $882,003 outstanding as of June 30, 2012 and December 31, 2011, respectively. Interest is charged quarterly at 3.85% per annum at June 30, 2012 and the line is secured by certain of the Company's receivables, inventory and equipment. At June 30, 2012, the line had been paid down to $0 outstanding, with $1,016,226 available on the line of credit.

LiqTech Int. DK has a DKK 3,000,000 (approximately $508,113 at June 30, 2012) standby line of credit with a bank, subject to certain borrowing base limitations. Outstanding borrowing is due on demand. There was $0 and $377,933 outstanding as of June 30, 2012 and December 31, 2011, respectively. Interest is charged quarterly at 3.85% per annum at June 30, 2012 and the line is secured by certain of the Company's receivables, inventory and equipment. At June 30, 2012, the line had been paid down to $0 outstanding, with $508,113 available on the line of credit.

In general, lines of credit in Denmark are due on demand. We do not believe that any of our lines of credit will be called but, if they were called, we believe that we could refinance with other lenders in Denmark with similar terms.

The Company had a DKK 19,500,000 (approximately $3,765,351) note receivable, net of a discount of $65,718 as of December 31, 2011, from David Nemelka, a significant shareholder and a relative of one of our directors, resulting from the purchase of Common Stock and classified as equity in the accompanying financial statements. The note was discounted $120,600 as the note does not accrue interest and is payable on June 30, 2012. During the year ended December 31, 2011 the Company recorded interest income of $54,882 as a result of amortization of the discount. This note receivable was fully paid off on June 25, 2012.

As of December 31, 2011, the Company had a DKK 19,500,000 (approximately $3,765,351) note payable, net of a discount of $65,718, to current and former stockholders of LiqTech Denmark in connection with LiqTech Denmark's reverse acquisition of our subsidiary LiqTech USA concurrently with the Merger. The note was discounted $120,600 as the note does not accrue interest and is payable on June 30, 2012. During the year ended December 31, 2011, our recorded interest expense was $54,822 as a result of amortization of the discount. El Salto ApS, controlled by Lasse Andreassen, had a receivable of DKK 13,000,000 ($2,262,601), APE Invest ApS, controlled by Aldo Petersen, had a receivable of DKK 1,900,000 ($330,688), Laksya Ventures, Inc., controlled by Neil Persh, had a receivable of DKK 1,900,000 ($330,688) and SHD Invest ApS, controlled by Soren Degn, had a receivable of DKK 492,000 ($85,631). This note payable was fully paid off on June 25, 2012.

Cash Flows

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. Cash from operations for the six months ended June 30, 2012 was $85,188, an increase of $712,479 compared to the six months ended June 30, 2011 mainly due to a changes in current assets and currents liabilities of $889,450, when comparing the two periods.

Changes in assets and liabilities as of June 30, 2012 compared to December 31, 2011 included the following:

Accounts receivable decreased by $1,262,443 due to a decrease in sales during the six months ended June 30, 2012 compared to the six months ended December 31, 2011 and a decrease in accounts payable of $1,735,231 due to the lower activity level in the six months ended June 30, 2012 compared to the six months ended December 31, 2011.

Cash used for investing activities increased during the six months ended June 30, 2012, compared to the same period in 2011. This increase is primarily attributable to approximately $68,000 or a 9% decrease in investment in production equipment offset against an $138,610 increase in investment in the purchase of long-term investments. We have and will continue to invest in additional production equipment when necessary in order to meet the continuing demand for our products.

The increase of $4,418,379 in cash provided by financing activities in the six months ended June 30, 2012, compared to the same period in 2011 was primarily due to the approximately $7.4 million in net cash received in connection with the March 2012 registered offering of 2,511,500 common shares during the reporting period.

Significant Accounting Policies

Our critical accounting policies and estimates are described in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 29, 2012. We believe there have been no new critical accounting policies or material changes to our existing critical accounting policies and estimates during the three and six months ended June 30, 2012 compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Critical Accounting Estimates

The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on the results that we report in our consolidated financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Our most critical accounting estimates include:

- the assessment of collectability of accounts receivable, which impacts operating expenses when and if we record bad debt or adjust the allowance for doubtful accounts;
- the assessment of recoverability of long-lived assets, which impacts gross margin or operating expenses when and if we record asset impairments or accelerate their depreciation;
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions), which impact our provision for taxes;
- the valuation of inventory, which impacts gross margin;
- the recognition and measurement of loss contingencies, which impact gross margin or operating expenses when we recognize a loss contingency, revise the estimate for a loss contingency, or record an asset impairment.

We discuss these policies further below, as well as the estimates and judgments involved.

Accounts Receivable/ Allowance for Doubtful Accounts / Bad Debt

We assess the collectability of accounts receivable on an ongoing basis and establish an allowance for doubtful accounts when collection is no longer reasonably assured. In establishing the allowance, factors we consider include known troubled accounts, historical experience, age, and other currently available evidence.

Long-Lived Assets

We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of the asset grouping to our estimate of the related total future undiscounted net cash flows. If an asset grouping’s carrying value is not recoverable through the related undiscounted cash flows, the asset grouping is considered to be impaired. The impairment is measured by comparing the difference between the asset grouping’s carrying value and its fair value. Long-lived assets such as goodwill, intangible assets, and property, plant and equipment are considered non-financial assets, and are recorded at fair value only if an impairment charge is recognized.

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our ceramic filter manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific filter manufacturing tools and building improvements. If we determine that the useful lives of assets are shorter than we had originally estimated, we accelerate the rate of depreciation over the assets' new, shorter useful lives. During the six months ended June 30, 2012 and 2011, no impairment charge of long-lived assets has been recorded.

Income Taxes

We must make estimates and judgments in determining the provision for taxes for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities that arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes in these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover the deferred tax assets recorded on our consolidated balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely. Recovery of a portion of our deferred tax assets is impacted by management's plans and methods of allocating research and development costs to the underlying reporting units.

The calculation of our tax liabilities involves uncertainties in the application of complex tax regulations in Denmark and the United States. When a tax position is determined uncertain, we recognize liabilities based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If we determine that a tax position will more likely than not be sustained on audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. If uncertainties arise we re-evaluate the tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Inventory

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The estimate of future demand is compared to work-in-process and finished goods inventory levels to determine the amount, if any, of obsolete or excess inventory.

The estimated future demand is included in the development of our short-term manufacturing plans to enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, acceptance of the product by the customer and the various environmental authorities, competitor’s products, as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand, and we fail to reduce manufacturing output accordingly, we could be required to write off inventory, which would negatively impact our gross margin.

In order to determine what costs can be included in the valuation of inventory, we must determine normal capacity at our manufacturing and assembly and test facilities, based on historical production, compared to total available capacity. If the factory production is below the established normal capacity level, a portion of our manufacturing overhead costs would not be included in the cost of inventory, and therefore would be recognized as cost of sales in that period, which would negatively impact our gross margin. We refer to these costs as excess capacity charges. Over the past two years we have experienced no excess capacity charges as we have had to outsource the firing of certain kiln furniture products to meet demand generally.

Loss Contingencies and Litigation

We are subject to various legal and administrative proceedings and asserted and potential claims, accruals related to product warranties and potential asset impairments (loss contingencies) that arise in the ordinary course of business. An estimated loss from such contingencies is recognized as a charge to income if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a loss contingency is required if there is at least a reasonable possibility that a loss has been incurred. The outcomes of legal and administrative proceedings and claims, and the estimation of product warranties and asset impairments, are subject to significant uncertainty. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. With respect to estimating the losses associated with repairing and replacing parts in connection with product warranty, we make judgments with respect to customer claim rates. Current warranty estimates are immaterial for accrual or further disclosure. At least quarterly, we review the status of each significant matter, and we may revise our estimates. These revisions could have a material impact on our results of operations and financial position.

Recent Enacted Accounting Standards

For a description of accounting changes and recent accounting standards, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see “Note 1: Recently Enacted Accounting Standards” in the accompanying Financial Statements.

Off Balance Sheet Arrangements

We are not aware of any material transactions which are not disclosed in our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of both of our president and chief financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (the “Exchange Act”) Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the “Evaluation Date”), Based upon that evaluation, both of our President and Chief Financial Officer concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our President and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description	Location
1.1	Placement Agency Agreement, dated March 2, 2012, by and between LiqTech International, Inc. and Sunrise Securities Corp.	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 8, 2012
2.1	Agreement and Plan of Merger dated as of August 23, 2011 by and among Blue Moose Media, Inc., LiqTech USA, Inc. and BMD Sub	Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3(i) to the Company's Registration Statement on Form 10 (SEC Accession No. 0001078782-09-001287) as filed with the SEC on August 19, 2009
3.2	Certificate of Amendment to the Articles of Incorporation	Incorporated by reference to Exhibit A to the Company's Information Statement on Schedule 14C as filed with the SEC on September 20, 2011
3.3	Bylaws	Incorporated by reference to Exhibit 3(ii) to the Company's Registration Statement on Form 10 (SEC Accession No. 0001078782-09-001287) as filed with the SEC on August 19, 2009
4.1	Form of Common Stock Certificate	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012

4.2	Form of Warrant issued to Investors in the Private Placement	Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the SEC on August 25, 2011
4.3	Form of Warrant issued to Sunrise Securities Corp.	Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 8, 2012
10.1	Form of Securities Purchase Agreement by and between LiqTech USA, Inc. and each of the investors in the Private Placement	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on August 25, 2011
10.2	Employment Agreement dated July 29, 2011 between LiqTech A/S and Lasse Andreassen	Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011 (translated in English)
101	Employment Agreement dated November 16, 2005 between LiqTech NA, Inc. and Donald S. Debelak	Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011
10.4	Addendum to Employment Agreement, dated December 15, 2011, between LiqTech NA, Inc. and Donald S. Debelak	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.5	Employment Agreement, dated July 29, 2011, between LiqTech International Inc. and Soren Degn (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.6	Lease Agreements for 1800 - 1810 Buerkle Road, White Bear Lake, Minnesota 55110	Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011
10.7	Lease Agreement for 1800 - 1816 Buerkle Road, White Bear Lake, Minnesota 55110	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.8	Lease Agreement for Grusbakken 12, DK-2820 Gentofte Denmark	Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.9	Lease Agreement for Industriparken 22C, 2750 Ballerup, Denmark	Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.10	DKK 6,000,000 Line of Credit Agreement, between LiqTech A/S and Sydbank A/S	Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in

English)

10.11	DKK 3,000,000 Line of Credit Agreement, between LiqTech A/S and Sydbank A/S	Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.12	Note Payable Agreement between LiqTech A/S and Sydbank A/S, for the principal amount of $475,000 USD	Incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q as filed with the SEC on November 15, 2011 (translated in English)
10.13	Form of Guarantee in respect of obligations of LiqTech A/S (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.14	Form of Guarantee in respect of obligations of LiqTech International A/S (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.15	Form of Guarantee in respect of obligations of LiqTech NA, Inc. (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.16	Form of Promissory Note payable to certain related parties	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.17	Business Mortgage of LiqTech A/S (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.18	Business Mortgage of LiqTech International A/S (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
21	List of Subsidiaries	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
31.1	Certifications of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002	Furnished, not filed herewith

32.2	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002	Furnished, not filed herewith
101. INS	XBRL Instance Document	Provided herewith
101. CAL	XBRL Taxonomy Extension Calculation Link base Document	Provided herewith
101. DEF	XBRL Taxonomy Extension Definition Link base Document	Provided herewith
101. LAB	XBRL Taxonomy Label Link base Document	Provided herewith
101. PRE	XBRL Extension Presentation Link base Document	Provided herewith
101. SCH	XBRL Taxonomy Extension Scheme Document	Provided herewith

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized,

LiqTech International, Inc.

Dated: August 14, 2012

/s/ Lasse Andreassen

Lasse Andreassen, Chief Executive Officer
(Principal Executive Officer)

Dated: August 14, 2012

/s/ Soren Degn

Soren Degn, Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302

I, Lasse Andreassen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three months ended June 30, 2012 of Liqtech International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2012

By: */s/ Lasse Andreassen*
Name: Lasse Andreassen
Title: Chief Executive Officer, Principal Executive Officer and Director

EXHIBIT 31.2

OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302

I, Soren Degn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three months ended June 30, 2012 of Liqtech International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2012

By: */s/ Soren Degn*
Name: Soren Degn
Title: Chief Financial Officer and Principal Financial and Accounting Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Liqtech International, Inc. (the " Company ") on Form 10-Q for the three months ended June 30, 2012 as filed with the U.S. Securities and Exchange Commission on the date hereof (the " Report "), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: August 14, 2012	By:	*/s/ Lasse Andreassen*
	Name:	Lasse Andreassen
	Title:	Chief Executive Officer, Principal Executive Officer and Director

A signed original of this written statement required by Section 906, or other document authentications, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Liqtech International, Inc. (the " Company ") on Form 10-Q for the three months ended June 30, 2012 as filed with the U.S. Securities and Exchange Commission on the date hereof (the " Report "), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: August 14, 2012

By: */s/ Soren Degn*
Name: Soren Degn
Title: Chief Financial Officer and Principal Financial and Accounting Officer

A signed original of this written statement required by Section 906, or other document authentications, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.