MATERIAL TECHNOLOGIES INC /CA/
Form 10QSB/A
November 19, 2007

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

Form 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _______________ to _______________.

Commission file number 333-23617

Material Technologies, Inc.
(Exact name of small business issuer as specified in its charter)

Delaware	**95-4622822**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11661 San Vicente Boulevard, Suite 707	
Los Angeles, CA	**90049**
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (310) 208-5589

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of November 16, 2007, there were 353,220,225 shares issued, and 133,393,960 shares outstanding, of our Series A common stock and 600,000 shares of Series B common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one): Yes [_] No [X]

MATERIAL TECHNOLOGIES, INC.

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PART I FINANCIAL INFORMATION

This Quarterly Report includes forward-looking statements within the meaning of the Securities Act of 1933 (the "Act") and the Securities Exchange Act of 1934 (the “Exchange Act”). These statements are based on management’s beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning our possible or assumed future results of operations set forth under the heading “Management’s Discussion and Analysis of Financial Condition or Plan of Operation.” Forward-looking statements also include statements in which words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate,” “consider” or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Our future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

Item 1. Financial Statements.

MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)

CONSOLIDATED BALANCE SHEET

		SEPTEMBER 30, 2007
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$	987,284
Marketable securities held for trading		453,181
Marketable securities held for sale		120,000
Investment in certificate of deposits and commercial paper		1,107,681
Accounts receivable		101,920
Inventories		69,266
Prepaid expenses and other current assets		33,315
Total current assets		2,872,647
Property and equipment, net		50,043
Intangible assets, net		3,109
Deposit		2,348
	$	2,928,147
		==============

Continued . . .

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Accounts payable and accrued expenses	$	395,202
Current portion of research and development sponsorship payable		25,000
Related party payable		37,500
Notes payable		66,355
Total current liabilities		524,057
Accrued legal settlenent		480,000
Research and development sponsorship payable, net of current portion		753,112
Notes payable, long-term		209,288
Convertible debentures and accrued interest payable, net of discount of $1,282,669		1,633,776
Derivative and warrant liabilities		30,571,217
Total liabilities		34,171,450
Minority interest in consolidated subsidiary		825
Commitments and contingencies		
Stockholders' deficit:		
Class A preferred stock, $0.001 par value, liquidation preference of $720 per share; 350,000 shares authorized; 337 shares issued and outstanding		-
Class B preferred stock, $0.001 par value, liquidation preference of $10,000 per share; 15 shares authorized; none issued and outstanding		-
Class C preferred stock, $0.001 par value, liquidation preference of $0.001 per share; 25,000,000 shares authorized; 1,517 shares issued and outstanding		1
Class D preferred stock, $0.001 par value, liquidation preference of $0.001 per share; 20,000,000 shares authorized; 0 shares issued and outstanding		-
Class E convertible preferred stock, $0.001 par value, no liquidation preference; 60,000 shares authorized; 55,000 shares issued and		

outstanding	55
Class A Common Stock, $0.001 par value, 1,699,400,000 shares authorized; 353,143,925 shares issued; 133,317,660 shares outstanding	133,318
Class B Common Stock, $0.001 par value, 600,000 shares authorized, issued and outstanding	600
Warrants subscribed	10,000
Additional paid-in-capital	451,253,901
Deferred Compensation	(158,424,658)
Deficit accumulated during the development stage	(324,148,013)
Treasury stock (14,967 shares at cost)	(69,332)
Total stockholders' deficit	(31,244,128)
	$ 2,928,147
	==============

See accompanying notes to these unaudited consolidated financial statements

MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006	From October 21, 1983 (Inception) through September 30, 2007
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Unaudited) (Restated)	(Unaudited) (Restated)
Revenues:					
Research and development	$ -	$ -	$ -	$ 28,846	$ 5,392,085
Revenue from bridge testing	80,000	-	146,745		263,452
Other	-	-	-	-	274,125
Total revenues	80,000	-	146,745	28,846	5,929,662

Costs and expenses:					
Research and development	21,266	258,122	3,533,343	700,247	20,394,366
General and administrative	20,133,368	2,752,551	82,608,673	6,165,472	287,545,971
Total costs and expenses	20,154,634	3,010,673	86,142,016	6,865,719	307,940,337
Loss from operations	(20,074,634)	(3,010,673)	(85,995,271)	(6,836,873)	(302,010,675)
Other income (expense):					
Gain on modification of convertible debt	-	-	-	-	586,245
Modification of research and develop- ment sponsorship agreement	-	-	-	-	(5,963,120)
Loss on subcription receivable					(1,368,555)
Interest expense	(423,510)	(933,707)	(2,014,161)	(1,357,635)	(11,380,322)
Other-than-temporary impairment of marketable securities available for sale	(2,310,000)	-	(10,254,000)	(1,791,300)	(20,039,947)
Net unrealized and realized loss of marketable securities	(335)	-	(612,553)	(127)	(6,024,218)
Change in fair value of investments derivative liability	-	162,444	-	162,444	(210,953)
Change in fair value of derivative and warrant liabilities	(8,414,694)	635,532	14,505,323	6,455,345	23,129,795
Loss on settlement of lawsuits	-	-	-	-	(1,267,244)
Interest income	19,304	10,450	35,270	30,698	441,973
Other	-	-	-	7,008	(25,992)
Other income (expense)	(11,129,235)	(125,281)	1,659,879	3,506,433	(22,122,338)
Loss before provision for income taxes	(31,203,869)	(3,135,954)	(84,335,392)	(3,330,440)	(324,133,013)
Provision for income taxes	-	-	(800)	(800)	(15,000)

Net loss	$ (31,203,869)	$ (3,135,954)	$ (84,336,192)	$ (3,331,240)	$ (324,148,013)
	==========	==========	==========	==========	============
Per share data:					
Basic and diluted net loss per share	$ (0.25)	$ (4.28)	$ (0.83)	$ (5.39)	
	==========	==========	==========	==========	
Weighted average Class A common shares outstanding - basic and diluted	124,276,444	732,811	101,671,169	618,068	
	==========	==========	==========	==========	

See accompanying notes to the unaudited consolidated financial statements

MATERIAL TECHNOLOGIES, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the Three Months Ended September 30,		For the Six Months Ended September 30,		From October 21, 1983 (Inception) through
	2007	2006	2007	2006	September 30, 2007
	(Unaudited) (Restated)	(Unaudited) (Restated)	(Unaudited) (Restated)	(Unaudited) (Restated)	(Unaudited) (Restated)
Net loss	$ (31,203,869)	$ (3,135,954)	$ (84,336,192)	$ (3,331,240)	$ (324,148,013)
Other comprehensive loss:					
Temporary increase (decrease) in market value of securities available for sale	-	(20,451)	-	(74,727)	-
Reclassification to other-than-temporary impairment of marketable securities					

available for sale		-		-		-		-		-
		-		(20,451)		-		(74,727)		-
Net comprehensive loss	$	(31,203,869)	$	(3,156,405)	$	(84,336,192)	$	(3,405,967)	$	(324,148,013)
		==========		==========		==========		==========		============

MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,				From October 21, 1983 (Inception) through September 30, 2007	
	2007		2006			
	(Unaudited)		(Unaudited) (Restated)		(Unaudited) (Restated)	
Cash flows from operating activities:						
Net loss	$	(84,336,192)	$	(3,331,240)	$	(324,148,013)
Adjustments to reconcile net loss to net cash used in in operating activities:						

Gain on modification of convertible debt		-	(586,245)
Impairment loss	19,294,877	1,913,445	21,429,030
Loss on charge off of subscription receivables	-	-	1,368,555
Issuance of common stock for services	19,519,168	3,038,835	216,846,886
Issuance of common stock for modification of			-
research and development sponsorship agreement	-	-	7,738,400
Change in fair value of derivative and warrant liabilities	(14,505,323)	(6,617,789)	(20,894,595)
Net realized loss on marketable securities	612,553	127	4,522,058
Other-than-temporary impairment of marketable			
securities available for sale	10,254,000	1,791,300	20,039,947
Shares issued for officer's compensation	45,000,000	-	45,000,000
Legal fees incurred for note payable		-	1,456,142
Accrued interest expense added to principal	-	554,506	1,166,114
Amortization of discount on convertible debentures	1,765,110	763,595	9,830,174
Change in fair value of investments derivative liability	-	-	3,223,323
Accrued interest income added to principal	-	(15,758)	(303,821)
Depreciation and amortization	6,605	6,306	226,808
Other non-cash adjustments		(7,008)	(114,730)
(Increase) decrease in trade receivables	14,787	70,825	(152,248)
(Increase) decrease in inventories	(69,266)	-	(69,266)
(Increase) decrease in prepaid expenses and other			-
current assets	7,659	306,250	241,007
Increase in deposits		-	(2,348)
(Decrease) increase in accounts payable and accrued			-
expenses	(14,942)	1,431	2,563,612
Net cash used in operating activities	(2,450,964)	(1,525,175)	(10,619,210)
Cash flows from investing activities:			
Proceeds from the sale of marketable securities	137,174	174,885	3,458,476
Purchase of marketable securities	(302,038)	(5,653)	(2,206,379)

Investment in certificate of deposits and commerical paper	(1,650,000)		(1,650,000)
Redemptions of certificate of deposits and commercial paper	400,000		400,000
Payment received on officer loans	-	-	876,255
Funds advanced to officers	-	-	(549,379)
Purchase of property and equipment	(50,469)	(2,827)	(323,042)
Investment in joint ventures	-	-	(102,069)
Proceeds from foreclosure	-	-	44,450
Proceeds from the sale of property and equipment	-	9,000	19,250
Proceeds from acquisition of subsidiaries	600,000		600,000
Payment for license agreement	-	-	(6,250)
Net cash provided by investing activities	(865,333)	175,405	561,312

Cash flow from financing activities:			
Proceeds from the sale of common stock and warrants	4,079,935	913,692	8,964,257
Proceeds from convertible debentures and other notes payable	200,000	1,066,470	2,047,766
Proceeds from the sale of preferred stock	-	-	473,005
Costs incurred in offerings	-	(22,530)	(487,341)
Capital contributions	-	-	301,068
Purchase of treasury stock	(55,650)	(21,403)	(143,573)
Principal reduction on notes payable	(50,000)	(25,000)	(100,000)
Advances to officers		(5,000)	(5,000)
Payment on proposed reorganization	-	-	(5,000)
Net cash provided by financing activities	4,174,285	1,906,229	11,045,182

Net change in cash and cash equivalents	857,988	556,459	987,284
Cash and cash equivalents, beginning of period	129,296	47,345	-
Cash and cash equivalents, end of period	$ 987,284	$ 603,804	$ 987,284
	============	============	===============
Supplemental disclosure of cash flow information:			
Interest paid during the period	$ 2,669	$ 2,461	
	============	============	
Income taxes paid during the period	$ 800	$ 800	
	============	============	

Supplemental disclosures of non-cash investing and financing activities:

<u>2007</u>

During 2007, the Company issued 50,000 shares its Class E Series convertible preferred stock in exchange for recieiving all of the outstanding shares of Stress Analysis Technologies, Inc. ("SATI") The Company valued the acquisition at $975,000 and charged off $875,000 as it deemed the intangible assets acquired to be fully impaired. In connection with this transaction, the Company issued an additional 5,000 preferred shares valued at $97,500 for fees in connection with the purchase. The $97,500 was was charged to equity.

During 2007, the Company issued 13,912,500 shares its common stock in the acquisition of two subsidiaries. The assets acquired included $500,000 cash and licenses originally valued at $18,880,875. The Company charged of the full costs assigned to the licenses as being impaired.

During 2007, the Company issued 10,000,000 shares its common stock in exchange for 3,000,000 shares in a company whose shares are traded on the OTO exchange. pink sheets). The Company valued the shares received at $13,832,000 (see Note 3 to the financial statements).

During 2007, the Company issued 10,800,000 shares in escrow pursuant to an agreement it has with its convertible debenture holders. During 2007, 10,050,000 shares of Class A common stock was issued to certain debenture holders in the conversion of $1,005,000 of indebtedness. In addition, for services rendered by certain debenture holders, the amount due on the debentures was increased by $1,100,000.

During 2007, the Company acquired all of the outstanding shares of Bridge Concept Inc, a corporation wholy owned by its chief engineer.
In consideration for the shares received in Bridge, the Company issued 1,500,000 of its common stock and $37,500 which was
paid in October 2007. The Company treated the acqusition as a related party transaction and valued the entire acquisition at $39,000. The $39,000 was assigned to the intellectial property of Bridge which was charged off to operations as being impaired at September 30, 2007.

During 2007, the Company issued 2,352,249 shares of its common stock pursuant to anti-dilution provisions in two agreements.

<u>2006</u>

During the nine months ended September 30, 2006, the Company issued 3,416 shares of its Class A common stock in connection with a legal settlment. The shares were valued at $1,024,777.

The Company issued 4,733 shares of its Class A common stock through the conversion of 1,420,000 shares of Class D preferred stock.

Duirng the nine months ended September 30, 2006, the Company issued 83,333 shares in exchange for promisory notes with face values
totaling $1,649,600.
The notes bear interest at 6% per annum and are due in one year.
During the nine months ended September 30, 2006, the Company received $316,163
and the related 2,000,000 shares were cancelled. The $999,600 promissory note matures in November 2006.

During the nine months ended September 30, 2006, the Company issued 3,333 shares of its common stock in exchange for the cancellation of its obligation to pay royalties on future sales to Advances Technology Center (See Note 8). The 3,333 shares were valued at $40,000.

During the nine months ended September 30, 2006, the Company issued 8,333 shares of its common stock in exchange for the cancellation of $100,000 of indebtedness due on a convertible debenture.
During the nine month period, the Company agreed to increase the obligation to the debtholder from $1,331,860 to $2,000,000.

The increase in the amount due pertained to services rendered by the debt holder and for other consideration and was charged to interest expense during
the period.

During the nine months ended September 30, 2006, the Company issued 21,500 shares of its common stock in the conversion of indebtedness amounting to $450,697 in accordance with the conversion rates stipulated in the various arrangements.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months and Nine Months Ended September 30, 2007 and 2006

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Organization

Material Technologies, Inc. (the "Company") was organized on October 21, 1983, under the laws of the state of Delaware.

The Company is in the development stage, as defined in Statement of Financial Accounting Standards ("SFAS") No. 7, *Accounting and Reporting by Development Stage Enterprises* , with its principal activity being research and development in the area of metal fatigue technology with the intent of future commercial application.

On January 22, 2003, the Company formed Matech International, Inc., a Nevada corporation ("International"). International was formed as a wholly owned subsidiary of the Company to advertise, market and sell the Company's videoscope technology which is presently utilized in the inspection of stress and crack points in turbine engines on the wings of airplanes. At the present time, there is no activity in International and the Company does not anticipate nor reasonably foresee any business activity in International in the near future.

On March 13, 2003, the Company formed Matech Aerospace, Inc., a Nevada corporation ("Aerospace"). Aerospace was formed as a wholly owned subsidiary of the Company to advertise, market and sell all manufacturing and marketing rights to the Company's products and technologies in all commercial markets within the United States. During 2003, Aerospace sold shares of its common stock to investors. As of September 30, 2007, the Company holds a 99% interest in Aerospace. At the present time, there is no activity in Aerospace and the Company does not anticipate nor reasonably foresee any business activity in Aerospace in the near future.

On August 18, 2006, the Company acquired 100% of the issued and outstanding stock of Materials Monitoring Technologies, Inc., ("Monitoring") which was organized in the State of Florida on August 1, 2006. On the acquisition date, Monitoring had $500,000 in cash, a license to utilize patented technology relating to the structural health monitoring of bridges and railroads, and an agreement with a consultant to provide services associated with the development, application, and testing of the licensed technology through August 2007 (see Note 4). As Monitoring had no customers, expenses, or operations, the acquisition of Monitoring was treated as an acquisition of assets of $500,000 in cash and $2,134,153 for intellectual property for 125,436 shares (pre-split) of common stock. The $2,134,153 was charged to operations as the value of the intellectual properties was deemed by management to be impaired.

On January 26, 2007, the Company acquired 100% of the issued and outstanding stock of Stress Analysis Technologies, Inc. (“SATI”), which was organized in the State of Florida on October 19, 2006. In consideration for the SATI shares received, the Company issued 50,000 shares of

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION, continued

its Class E convertible preferred stock which has a stipulated value of $975,000 (see Note 9). On the acquisition date, SATI had $100,000 in cash and a license to utilize patented technology relating to the structural monitoring of bridges. Under the terms of the license, royalties and fees are due on revenue generated through the utilization of the licensed technology. The license expires on January 23, 2023. As SATI had no customers, expenses, or operations, the acquisition of SATI was treated as an acquisition of assets of $100,000 in cash and $875,000 was charged to operations as management deemed the underlying value of the license to be impaired.

On April 30, 2007, the Company acquired 100% of the issued and outstanding stock of Damage Assessment Technologies, Inc., (“DATI”) which was organized in the State of Florida on April 23, 2007. On the acquisition date, DATI had $250,000 in cash, a license to utilize patented technology relating to the damage assessment, and an agreement with a consultant to provide services associated with the development, application, and testing of the licensed technology through August 2007 (see Note 5). As DATI had no customers, expenses, or operations, the acquisition of DATI was treated as an acquisition of assets of $250,000 in cash and $11,000,000 of intellectual property for 7,500,000 shares of common stock. The $11,000,000 value assigned to the intellectual properties was deemed impaired by management and charged to operations.

On June 28, 2007, the Company acquired 100% of the issued and outstanding stock of Non-Destructive Assessment Technologies, Inc., (“NDATI”) which was organized in the State of Florida on May 24, 2007. On the acquisition date, NDATI had $250,000 in cash, a license to utilize patented technology relating to the damage assessment, and an agreement with a consultant to provide services associated with the development, application, and testing of the licensed technology through August 2007 (see Note 4). As NDATI had no customers, expenses, or operations, the acquisition of NDATI was treated as an acquisition of assets of $250,000 in cash and $7,380,876 of intellectual property for 6,412,500 shares of common stock. The $7,380,876 assigned to the intellectual properties was deemed impaired by management and charged to operations.

On September 28, 2007, the Company acquired from its chief engineer 100% of the issued and outstanding stock of Bridge Testing Concepts, Inc. (“BTCI”), which was organized in the State of California on July 30, 2007. On the date of acquisition, BTCI's sole asset consisted of technology relating to the testing of fatigue on bridges. In consideration for the shares of BTCI, the Company issued 1,500,000 shares of its common stock and paid $37,500 in October 2007. The Company treated the acquisition as a related party transaction and valued the shares at par. The total purchase price of $39,000 was assigned to the intellectual property received. Management deemed the value of the technology to be impaired and charged the $39,000 to operations.

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION, continued

Unless otherwise noted, common stock refers to the Company’s Class A common stock.

Effective November 8, 2006, the Company declared a 1-for-300 reverse split of the Company’s Class A common stock. All share amounts and per share amounts have been adjusted throughout the financial statements for this reverse stock split.

Basis of Presentation

The accompanying interim consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These interim consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the consolidated balance sheets, consolidated operating results and consolidated cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Operating results for the three months and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 or for any other interim period during such year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-KSB for the year ended December 31, 2006.

Going Concern

The Company's consolidated financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company has sustained operating losses since its inception (October 21, 1983). In addition, the Company has used substantial amounts of working capital in its operations. Further, at September 30, 2007, deficit accumulated during the development stage amounted to approximately $324,148,013.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months and Nine Months Ended September 30, 2007 and 2006

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION, continued

In view of these matters, realization of a major portion of the assets in the accompanying consolidated balance sheet is dependent upon the Company’s ability to meet its financing requirements and the success of its future operations. During 2007, the Company received approximately $4,000,000 (net of offering costs) through the issuance of 10,650,000 shares of its common stock and exercise of warrants and received $600,000 through the acquisitions of three wholly owned subsidiaries as discussed above. The Company plans to continue raising funds through the sale of its common stock through private offerings which management expects to continue throughout 2007. The Company has commenced to market its current technologies while continuing to develop new methods and applications.

Management believes that these sources of funds and current liquid assets will allow the Company to continue as a going concern through the end of 2007. The Company will need to raise additional debt and/or equity capital to finance future activities beyond 2007. However, no assurances can be made that current or anticipated future sources of funds will enable the Company to finance future periods’ operations. In light of these circumstances, substantial doubt exists about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

Restatement of Financial Statements

In valuing previous periods' non-cash security transactions, the Company utilized discounts to the respective share’s trading prices which it has determined are without foundation. In addition, the Company has also adjusted its derivative liabilities to fair value. Therefore, it has restated its 2005, 2006 and prior 2007 financial statements eliminating all discounts. The net effect of the restatements was to increase is accumulated deficit at June 30, 2007 from $100,909,477 to $292,944,478 (see Note 12).

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months and Nine Months Ended September 30, 2007 and 2006

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying financial statements include the accounts and transactions of Material Technologies, Inc., its wholly owned subsidiaries, Matech International, Inc. ("International"), Materials Monitoring Technologies, Inc. ("Monitoring"), Stress Analysis Technologies, Inc. ("SATI"), Damage Assessment Technologies, Inc. ("DATI"), Non-Destructive Assessment Technologies, Inc. ("NDATI"), Bridge Testing Concepts, Inc. ("BTCI") and its substantially owned subsidiary Matech Aerospace, Inc., ("Aerospace"). Intercompany transactions and balances have been eliminated in consolidation. The minority owners' interests in a subsidiary have been reflected as minority interest in the accompanying consolidated balance sheet.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the fair value of marketable securities, the value of shares issued for non-cash consideration, and the recoverability of deferred tax assets. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statements of cash flows, the Company considers cash equivalents to include highly liquid investments with original maturities of three months or less.

Investments

Marketable securities purchased with the intent of selling them in the near term are classified as trading securities. Trading securities are initially recorded at cost and are adjusted to their fair value, with the change in fair value during the period included in earnings as unrealized gains or losses. Realized gains or losses on dispositions are based upon the net proceeds and the adjusted book value of the securities sold, using the specific identification method, and are recorded as realized gains or losses in the consolidated statements of operations. Marketable securities that are not classified as trading securities are classified as available-for-sale securities. Available-for-sale securities are initially recorded at cost. Available-for-sale securities with quoted market prices are adjusted to their fair value. Any change in fair value during the period is excluded from earnings and recorded, net of tax, as a component of accumulated other comprehensive income (loss). Any decline in value of available-for-sale securities below cost that is considered to be "other than temporary" is recorded as a reduction of the cost basis of the security and is included in the statement of operations as an impairment loss.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Non-marketable securities consist of equity securities for which there are no quoted market prices. Such investments are initially recorded at their cost. In the case of non-marketable securities acquired with the Company's common stock, the Company values the securities at a significant discount to the stated per share cost based upon the Company's historical experience with similar transactions as to the amount ultimately realized from the sale of the shares. Such investments will be reduced if the Company receives indications that a permanent decline in value has occurred. At such time as quoted market prices become available, the net cost basis of these securities will be reclassified to the appropriate category of marketable securities. Until that time, the securities will be recorded at their net cost basis, subject to an impairment analysis (see Note 3).

Accounts Receivable

Accounts receivable are reported at the customers' outstanding balances less any allowance for doubtful accounts. The Company does not accrue interest on overdue accounts receivable.

The allowance for doubtful accounts is charged to income in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers. As of September, 2007, management believes all accounts receivable are collectible. Accordingly, no allowance for doubtful accounts is included in the accompanying consolidated balance sheet.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months and Nine Months Ended September 30, 2007 and 2006

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Lived Assets

The Company accounts for its long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. As of September 30, 2007, the Company does not believe there has been any impairment of its long-lived assets.

Intangible Assets

Intangible assets consist of patents, license agreements and website design costs and are recorded at cost. Patents and license agreements are amortized over 17 years and website design costs are amortized over five years. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* the carrying values of intangible assets are evaluated for impairment annually or whenever events or changes in circumstances indicate that the historical cost carrying value may no longer be appropriate. As of September 30, 2007, the Company deemed all of its acquired licenses to be impaired and have charged the total cost assigned of $19,294,875 to operations.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, *Accounting for Income Taxes*. Under SFAS No. 109, deferred tax assets and liabilities are recognized for future tax benefits or consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be realized through future operations.

MATERIAL TECHNOLOGIES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Convertible Debentures

If the conversion feature of conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to EITF Issue No. 98-5 ("EITF 98-05"), *Accounting for Convertible Securities with Beneficial Conversion Features or Contingency Adjustable Conversion Ratio*, and EITF Issue No. 00-27, *Application of EITF Issue No. 98-5 to Certain Convertible Instruments*. In those circumstances, the convertible debt will be recorded net of the discount related to the BCF. The Company amortizes the discount to interest expense over the life of the debt using the effective interest method.

Derivative Financial Instruments

In the case of non-conventional convertible debt, the Company bifurcates its embedded derivative instruments and records them under the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.* The Company's derivative financial instruments consist of embedded derivatives related to the non-conventional notes ("Notes") entered into with Golden Gate Investors ("GGI") and Palisades Capital, LLC or its registered assigns ("Palisades") (see Note 7). These embedded derivatives include the conversion features, liquidated damages related to registration rights, warrants issued and default provisions. The accounting treatment of derivative financial instruments requires that the Company record the derivatives and related warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, the Company will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income.

MATERIAL TECHNOLOGIES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months and Nine Months Ended September 30, 2007 and 2006

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable, accrued expenses, notes payable and convertible debentures. Pursuant to SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, the Company is required to estimate the fair value of all financial instruments at the balance sheet date. The Company cannot determine the estimated fair value of the convertible debentures as instruments similar to the convertible debentures could not be found. Other than this item, the Company considers the carrying values of its financial instruments in the financial statements to approximate their fair values.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements*, as revised by SAB No. 104. As such, the Company recognizes revenue when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable and collectibility is probable. Sales are recorded net of sales discounts.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Research and Development

The Company expenses research and development costs as incurred.

Basic & Diluted Net Loss per Share

The Company adopted the provisions of SFAS No. 128, *Earnings Per Share* ("EPS"). SFAS No. 128 provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the nine months ended September 30, 2007 and 2006, basic and diluted loss per share are the same. Since the calculation of diluted per share amounts would result in an anti-dilutive calculation that is not permitted and therefore not included. If such shares were included in diluted EPS, they would have resulted in weighted-average common shares of 139,822,286 and 119,148,830, for the three and nine months ended September 30, 2007 and 1,146,667 and 1,033,333 for the three and nine months ended September 30, 2006. Such amounts include shares potentially issuable pursuant to shares held in escrow (see Note 9), convertible debentures (see Note 7), and outstanding options and warrants (see Note 9).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Issuance of Stock for Non-Cash Consideration

All issuances of the Company's stock for non-cash consideration have been assigned a per share amount equaling either the market value of the shares issued or the value of consideration received, whichever is more readily determinable. The majority of the non-cash consideration received pertains to services rendered by consultants and others and has been valued at the market value of the shares on the dates issued.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of EITF 96-18, *Accounting for Equity Instruments That are Issued to Other Than*

Employees for Acquiring, or in Conjunction with Selling, Goods or Services and EITF 00-18, *Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees*. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. In accordance with EITF 00-18, an asset acquired in exchange for the issuance of fully vested, nonforfeitable equity instruments should not be presented or classified as an offset to equity on the grantor's balance sheet once the equity instrument is granted for accounting purposes. Accordingly, the Company records the fair value of the fully vested non-forfeitable common stock issued for future consulting services as prepaid services in its consolidated balance sheet.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Stock-Based Compensation

The Company adopted SFAS No. 123 (Revised 2004), Share Based Payment (“SFAS No. 123R”), under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board (“APB”) Opinion No. 25, Accounting for Stock Issued to Employees, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, the Company accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

As of September 30, 2007, the Company had no options outstanding.

Concentrations of Credit Risk

The Company maintains its cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $100,000. From time to time, the Company's cash balances exceed the amount insured by the FDIC. Management believes the risk of loss of cash balances in excess of the insured limit to be low.

During the nine months ended September 30, 2007, the Company's revenues were generated from three customers. During the nine months ended September 30, 2006, the Company's revenues were generated from one customer.

MATERIAL TECHNOLOGIES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months and Nine Months Ended September 30, 2007 and 2006

NOTE 3 INVESTMENTS

Rocket City

In April 2007, the Company issued 10,000,000 shares of its common stock in exchange for 3,000,000 common shares of Rocket City Automotive Group, Inc. In August 2007, Rocket City declared a 40:1 reverse stock split. The Company initially valued the 3,000,000 shares received at $10,374,000. As of September 30, 2007, the market value of the 175,000 (post-split) shares of Rocket City amounted to $120,000. The Company deemed the $10,254,000 decline in value to be permanent and has charged the full amount to operations. The Company and Rocket City agreed in November 2007 to rescind the transaction.

Birchington

In 2005, the Company entered into two agreements (the "Birchington Agreements") with Birchington Investments Limited ("Birchington"), a corporation organized under the laws of the British Virgin Islands. The Company reviewed the recorded value of the Birchington shares for impairment as of December 31, 2006, pursuant to EITF 03-1 and determined that the Company's investment in Birchington had no value. During the nine months ended September 30, 2007, there has been no change to the status of this investment.

Mutual Funds

As of September 30, 2007, the Company's investments in open-end mutual funds approximate their cost of $300,000. The Company considers its investments in this account as being held for trading. During the nine month period ending September 30, 2007, the Company purchased $302,038 and sold $137,174 of this investment with no gain or loss.

Bond

In May 2007, the Company purchased a bond with a face value of $150,000. The bond matures on October 1, 2007 and bears interest at an annual rate of 5.25%. The Company considers its investment as being held for trading. During the nine-months ended September 30, 2007, the Company accrued $2,999 on this investment which was credited to operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Three Months and Nine Months Ended September 30, 2007 and 2006

NOTE 3 INVESTMENTS, continued

Investments as of September 30, 2007 are as follows:

	Adjusted Cost	Unrealized Loss	Fair Value
Marketable trading securities	$453,181	-	$ 453,181