

MATERIAL TECHNOLOGIES INC /CA/  
Form 10-Q  
May 20, 2008

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

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2008**

☐ 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**

(State or other jurisdiction of  
incorporation or organization)

**95-4622822**

(I.R.S. Employer  
Identification No.)

**11661 San Vicente Boulevard, Suite 707**

**Los Angeles, CA**

(Address of principal executive offices)

**90049**

(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 ☒ 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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>



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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of May 12, 2008, there were 194,459,421 shares of our Class A common stock issued and 176,330,406 shares outstanding.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

**MATERIAL TECHNOLOGIES, INC.**

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**PART I FINANCIAL INFORMATION**

This Quarterly Report includes forward-looking statements within the meaning of 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 and Results of Operations.” 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)**

**CONDENSED CONSOLIDATED BALANCE SHEET**

	<b>March 31, 2008</b>
	<b>(Unaudited)</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 533,373
Investment in certificate of deposits and commercial paper	717,539
Accounts receivable	24,290
Inventories	77,006
Prepaid expenses and other current assets	15,404
	<hr/>
Total current assets	1,367,612
Property and equipment, net	94,673
Intangible assets, net	2,571
Deposit	2,348
	<hr/>
	\$ 1,467,204
	=====

Continued . . .

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**MATERIAL TECHNOLOGIES, INC.**  
**(A Development Stage Company)**

**CONDENSED CONSOLIDATED BALANCE SHEET - Continued**

	<b>March 31, 2008</b>
	<b>(Unaudited)</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 437,859
Current portion of research and development sponsorship payable	25,000
Notes payable	67,167
Convertible debentures and accrued interest payable, net of discount	2,942,292
	<hr/>
Total current liabilities	3,472,318
	<hr/>
Accrued legal settlement	250,000
Research and development sponsorship payable, net of current portion	774,215
Notes payable, long-term	217,767
Derivative and warrant liabilities	402,447
	<hr/>
	1,644,429
	<hr/>
Total liabilities	5,116,747
	<hr/>
Minority interest in consolidated subsidiary	825
	<hr/>
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 as of March 31, 2008	-
Class B preferred stock, \$0.001 par value, liquidation preference of \$10,000 per share; 15 shares authorized; none issued and outstanding as of March 31, 2008	-
Class C preferred stock, \$0.001 par value, liquidation preference of	

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\$0.001 per share; 25,000,000 shares authorized; 1,517 shares issued and outstanding as of March 31, 2008	1
Class D preferred stock, \$0.001 par value, liquidation preference of \$0.001 per share; 20,000,000 shares authorized; none shares issued and outstanding as of March 31, 2008	-
Class E convertible preferred stock, \$0.001 par value, no liquidation preference; 60,000 shares authorized; 55,000 shares issued and outstanding as of March 31, 2008	55
Class A Common Stock, \$0.001 par value, 600,000,000 shares authorized; 192,381,821 shares issued and 173,213,056 shares outstanding at March 31, 2008	173,213
Class B Common Stock, \$0.001 par value, 600,000 shares authorized, issued and outstanding as of March 31, 2008	600
Warrants subscribed	10,000
Additional paid-in-capital	321,754,896
Deficit accumulated during the development stage	(325,494,410)
Treasury stock (92,977 shares at cost at March 31, 2008)	(94,723)
Total stockholders' deficit	(3,650,368)
	<hr/>
	\$ 1,467,204
	=====

See accompanying notes to the condensed consolidated financial statements



**MATERIAL TECHNOLOGIES,  
INC.  
(A Development Stage Company)**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended March 31,		From October 21, 1983 (Inception) through March 31, 2008
	2007	2008	
	(Unaudited) (Restated)	(Unaudited)	(Unaudited)
Revenues:			
Research and development	\$ -	\$ -	\$ 5,392,085
Revenue from bridge testing	43,967	1,090	319,714
Other	-	-	274,125
	<u>43,967</u>	<u>1,090</u>	<u>5,985,924</u>
Total revenues	<u>43,967</u>	<u>1,090</u>	<u>5,985,924</u>
Costs and expenses:			
Research and development	217,501	158,993	20,721,982
General and administrative	21,459,164	20,328,325	323,823,566
Modification of research and development sponsorship agreement	-	-	5,963,120
Loss on settlement of lawsuits	-	-	1,267,244
	<u>21,676,665</u>	<u>20,487,318</u>	<u>351,775,912</u>
Total costs and expenses	<u>21,676,665</u>	<u>20,487,318</u>	<u>351,775,912</u>
Loss from operations	<u>(21,632,698)</u>	<u>(20,486,228)</u>	<u>(345,789,988)</u>
Other income (expense):			
Gain on modification of convertible debt	-	-	586,245
Loss on subscription receivables			(1,368,555)
Interest expense	(978,235)	(370,991)	(12,111,184)
Other-than-temporary impairment of marketable			

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securities available for sale		-	(9,785,947)
Net unrealized and realized loss of marketable securities	(8)	(8)	(9,398,226)
Change in fair value of investments derivative liability	-	-	(210,953)
Change in fair value of derivative and warrant liabilities	15,977,420	8,559,576	52,146,665
Interest income	3,372	12,443	479,325
Other	-	-	(25,992)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Other income (expense), net	15,002,549	8,201,020	20,311,378
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Loss before provision for income taxes	(6,630,149)	(12,285,208)	(325,478,610)
Provision for income taxes	(800)	(800)	(15,800)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net loss	\$ (6,630,949)	\$ (12,286,008)	\$ (325,494,410)
	=====	=====	=====
Per share data:			
Basic and diluted net loss per share	\$ (0.08)	\$ (0.09)	
	=====	=====	
Weighted average Class A common shares			
outstanding - basic and diluted	79,013,719	138,561,659	
	=====	=====	

See accompanying notes to the condensed consolidated financial statements

**MATERIAL TECHNOLOGIES, INC.**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	For the Three Months Ended March 31,		From October 21, 1983 (Inception) through March 31, 2008
	2007	2008	
	(Unaudited) (Restated)	(Unaudited)	(Unaudited)
Net loss	\$ (6,630,949)	\$ (12,286,008)	\$ (325,494,410)
Other comprehensive loss:			
Temporary increase (decrease) in market value of securities available for sale	-	-	-
Reclassification to other-than-temporary impairment of marketable securities available for sale	-	-	-
	-	-	-
Net comprehensive loss	\$ (6,630,949)	\$ (12,286,008)	\$ (325,494,410)

See accompanying notes to the condensed consolidated financial statements

**MATERIAL TECHNOLOGIES, INC.**  
**(A Development Stage Company)**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Three Months Ended March 31,		From October 21, 1983 (Inception) through March 31, 2008
	2007	2008	
	(Unaudited) (Restated)	(Unaudited)	(Unaudited)
Cash flows from operating activities:			
Net loss	\$ (6,630,949)	\$ (12,286,008)	\$ (325,494,410)
Adjustments to reconcile net loss to net cash used in in operating activities:			
Gain on modification of convertible debt	-	-	(586,245)
Impairment loss	875,000		21,391,528
Loss on charge off of subscription receivables	-		1,368,555
Issuance of common stock for services	5,326,015	4,580,400	211,065,240
Increase in debt for services and fees	-		4,456,625
Officer's stock based compensation	15,000,000	15,000,000	81,575,342
Issuance of common stock for modification of research and development sponsorship agreement	-		7,738,400
Change in fair value of derivative and warrant liabilities			(41,351,889)
Net realized and unrealized loss on marketable securities	-		7,895,705
Other-than-temporary impairment of marketable securities available for sale	-		9,785,946
Legal fees incurred for note payable			1,456,142
Accrued interest expense added to principal	78,122	130,984	1,625,989
Amortization of discount on convertible debentures	899,130	339,725	10,446,002
Change in fair value of investments derivative liability	(15,977,420)	(8,559,576)	(5,336,253)
Accrued interest income added to principal	(1,029)	(2,407)	(307,405)

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Depreciation and amortization	974	5,310	233,094
Other non-cash adjustments	-		(114,730)
(Increase) decrease in trade receivables	83,563	84,371	(74,618)
(Increase) decrease in inventories	-	(14,790)	(77,006)
(Increase) decrease in prepaid expenses and other			-
current assets	-	32,500	275,073
Increase in deposits	-		(2,348)
(Decrease) increase in accounts payable and accrued expenses	(33,796)	(161,759)	2,347,136
	<hr/>	<hr/>	<hr/>
Net cash used in operating activities	(380,390)	(851,250)	(11,684,127)
	<hr/>	<hr/>	<hr/>
Cash flows from investing activities:			
Proceeds from the sale of marketable securities	95,007	300,000	3,758,476
Purchase of marketable securities	(1,517)	-	(2,206,379)
Investment in certificate of deposits and commercial paper	-	(565,000)	(1,965,000)
Maturities of certificate of deposits and commercial paper	-	858,922	1,258,922
Payment received on officer loans	-	-	876,255
Funds advanced to officers	-	-	(549,379)
Proceeds received in acquisition of consolidated subsidiaries			600,000
Purchase of property and equipment	-	(17,167)	(373,419)
Investment in joint ventures	-	-	(102,069)
Proceeds from foreclosure	-	-	44,450