

MATERIAL TECHNOLOGIES INC /CA/
Form 10KSB/A
July 29, 2008

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

Form 10-KSB /A
(AMENDMENT NO. 1)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 33-23617

Material Technologies, Inc.
(Name of small business issuer in its charter)

Delaware 95-4622822
(State or other (I.R.S.
jurisdiction of Employer
incorporation Identification
or organization) No.)

11661 San
Vicente 90049
Boulevard, (Zip Code)
Suite 707
Los Angeles,
California
(Address of
principal
executive
offices)

Issuer's telephone number: (310) 208-5589

Securities registered under Section 12(g) of the Exchange Act:

Common stock, par value \$0.001
(Title of class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

For the year ended December 31, 2007, our revenue was \$201,917.

As of July 22, 2008, the number of shares of Class A common stock outstanding was 186,828,995. As of July 21, 2008, the aggregate market value of our common stock held by non-affiliates was approximately \$1,568,784.97 (based upon 156,878,497 shares at \$ 0.01 per share).

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference: (i) Registration Statement on Form S-1, filed April 30, 1997; (ii) Annual Report on Form 10-KSB for the fiscal year December 31, 2000, filed March 30, 2001; (iii) Annual Report on Form 10-KSB for the fiscal year December 31, 2003, filed April 9, 2004; (iv) Current Report on Form 8-K, filed August 24, 2006; (v) Current Report on Form 8-K, filed November 8, 2006; (vi) Current Report on Form 8-K, filed February 6, 2007; (vii) Registration Statement on Form S-1, filed January 19, 1996; (viii) Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2005, filed November 14, 2005; (ix) Current Report on Form 8-K/A, filed January 5, 2006; (x) Current Report on Form 8-K, filed May 17, 2006; (xi) Current Report on Form 8-K, filed June 8, 2006; (xii) Current Report on Form 8-K/A, filed June 15, 2006; (xiii) Registration Statement on Form SB-2, filed June 15, 2006; (xiv) Current Report on Form 8-K, filed June 9, 2006; (xv) Current Report on Form 8-K, filed November 2, 2006; (xvi) Current Report on Form 8-K, filed November 28, 2006; (xvii) Current Report on Form 8-K, filed January 3, 2007; and (xviii) Annual Report on Form 10-KSB for the fiscal year December 31, 2006, filed April 3, 2007, are incorporated in Part III, Item 13.

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

TABLE OF CONTENTS

<u>ITEM DESCRIPTION OF BUSINESS</u> <u>1</u>	<u>1</u>
<u>ITEM DESCRIPTION OF PROPERTY</u> <u>2</u>	<u>7</u>
<u>ITEM LEGAL PROCEEDINGS</u> <u>3</u>	<u>7</u>
<u>ITEM SUBMISSION OF MATTERS TO A VOTE OF SECURITY</u> <u>4 HOLDERS</u>	<u>9</u>
<u>ITEM MARKET FOR COMMON EQUITY AND RELATED</u> <u>5 STOCKHOLDER MATTERS</u>	<u>9</u>
<u>ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF</u> <u>6 FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>12</u>
<u>ITEM FINANCIAL STATEMENTS</u> <u>7</u>	<u>19</u>
<u>ITEM CHANGES IN AND DISAGREEMENTS WITH</u> <u>8 ACCOUNTANTS ON ACCOUNTING AND FINANCIAL</u> <u>DISCLOSURE</u>	<u>19</u>
<u>ITEM CONTROLS AND PROCEDURES</u> <u>8A</u>	<u>20</u>
<u>ITEM OTHER INFORMATION</u> <u>8B</u>	<u>23</u>
<u>ITEM DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND</u> <u>9 CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A)</u> <u>OF THE EXCHANGE ACT</u>	<u>23</u>
<u>ITEM EXECUTIVE COMPENSATION</u> <u>10</u>	<u>26</u>
<u>ITEM SECURITY OWNERSHIP OF CERTAIN BENEFICIAL</u> <u>11 OWNERS AND MANAGEMENT AND RELATED</u> <u>STOCKHOLDER MATTERS</u>	<u>28</u>
<u>ITEM CERTAIN RELATIONSHIPS AND RELATED</u> <u>12 TRANSACTIONS</u>	<u>29</u>
<u>ITEM EXHIBITS</u> <u>13</u>	<u>30</u>

<u>ITEM PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>35</u>
<u>14</u>	

<u>SIGNATURES</u>	<u>36</u>
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Table of Contents

PART I

ITEM 1 – DESCRIPTION OF BUSINESS.

Development of Business

We were formed as a Delaware corporation on March 4, 1997. We are the successor to the business of Material Technology, Inc., a Delaware corporation, also doing business as Tensiodyne Scientific, Inc. Material Technology, Inc. was the successor to the business of Tensiodyne Corporation that began developing the Fatigue Fuse in 1983. Our two predecessors, Tensiodyne Corporation and Material Technology, Inc. were engaged in developing and testing our Fatigue Fuse and, beginning in 1993, developing our Electrochemical Fatigue Sensor.

Our Business

Over the last several years, we were engaged in research and development of metal fatigue detection, measurement, and monitoring technologies. We have now developed several monitoring devices for metal fatigue detection and measurement. We are currently marketing our technology.

Our efforts have been dedicated to developing devices and systems that indicate the true status of fatigue damage in a metal component. We have developed two products. The first is a small, simple device that continuously integrates the effect of fatigue loading in a structural member, called a Fatigue Fuse. The second is an instrument that detects very small growing fatigue cracks in metals, the Electrochemical Fatigue Sensor. The Electrochemical Fatigue Sensor has demonstrated in the laboratory that it can detect cracks as small as 10 microns (0.0004 inches), which we believe is smaller than any other practical crack detection technology. The Company holds the patents on the Fatigue Fuse and the license on the technology on the Electrochemical Fatigue Sensor from the University of Pennsylvania and licenses both of those technologies to us.

We have completed the technology to the point where we are now performing real world bridge inspections.

On September 25, 2007, the Federal Highway Administration (FHA) has signed a \$347,500 contract with us to purchase equipment and training as part of their Steel Bridge Testing Program. They will use our EFS system in the laboratory and on actual bridges to find growing fatigue cracks. Following the completion of this program, the FHA will recommend technologies for use on bridges for specific bridge problems.

Our on-call contract with the Pennsylvania Department of Transportation (PennDOT) is continuing to produce good results. Since May 2007, we have used the EFS on 12 bridges in Pennsylvania, totaling over \$100,000 so far. We anticipate further work orders to be issued for the next inspection season. We have also received interest from several inspection companies in Pennsylvania to purchase EFS equipment, as well as training and licensing, in order to execute these further work orders, with licensing fees payable to us for each bridge inspected. One such company has

Table of Contents

already been trained at their cost to help us execute on-call contracts in 2008.

We completed a contract with Massachusetts (MassHighway) for \$24,290. We then met with MassHighway representatives who hired us to conduct additional bridge inspections during 2008.

New York State contracted with us to provide EFS inspection services on a high profile fracture critical bridge for \$9,630. As a result of this initial inspection for the New York State Department of Transportation, we will be performing a follow up inspection. Additionally, they are evaluating purchase of equipment, training for their engineers, and licensing in 2008.

We have completed an inspection of a fracture critical bridge in West Sacramento, California, and are also in the process of analyzing and reporting the results. At the same time we have met with several high-ranking state and national officials in California, with more meetings planned, all discussing the use of EFS across the state.

We have also formed a strategic alignment with a California-based independent testing laboratory called Smith Emery Company. Smith Emery Company is over 100 years old and has over 400 employees in California as well as an office in China. They perform weld testing, building façade testing, and metallurgical failure analysis. Engineers and technicians have already been trained at their cost to execute contracts in the western U.S. region.

We have signed a contract with the Canadian National Railway to inspect a bridge in Wisconsin. The Canadian National Railway owns a number of bridges in the United States.

We have completed and sent PennDOT a report on the nine bridges we inspected in Pennsylvania. We hope to meet with PennDOT in the near future to discuss the use of EFS on their remaining steel bridges.

We met with the U.S. Army Corps of Engineers to present at the U.S. Secretary of Defense's office on May 1 and 2, 2008. The U.S. Army Corps of Engineers owns all of the bridges over U.S. federal waterways.

We have scheduled inspections in 2008 for the following entities so far:

- Virginia Department of Transportation
 - Canadian National Railway
- Alabama Department of Transportation
 - MassHighway
- New York Department of Transportation

We have been hired to perform inspections with the following entities which have not yet been scheduled:

- New Jersey Department of Transportation
 - PennDOT

Table of Contents

- Union Pacific Railroad
- URS Engineers

Our Technologies

The Fatigue Fuse

The Fatigue Fuse is designed to be affixed to a structure to give warnings at pre-selected percentages of the fatigue life that have been used up (i.e., how close to failure the structure has progressed). It warns against a condition of widespread generalized cracking due to fatigue.

The Fatigue Fuse is a thin piece of metal similar to the material being monitored. It consists of a series of parallel metal strips connected to a common base, much as fingers are attached to a hand. Each “finger” has a different geometric pattern, called “notches,” defining its boundaries. Each finger incorporates an application-specific notch near the base. By applying the laws of physics and fracture mechanics to determine the geometric contour of each notch, the fatigue life of each finger is finite and predictable. When the fatigue life of a finger (Fuse) is reached, the Fuse breaks.

By implementing different geometry for each finger notch in the array, different increments of fatigue life are observable. Typically, notches will be designed to facilitate observing increments of fatigue life of 10% to 20%. By mechanically attaching or bonding these devices to different areas of the structural member of concern, the Fuse undergoes the same fatigue history (strain cycles) as the structural member. Therefore, breakage of a Fuse indicates that an increment of fatigue life has been reached for the structural member. The notch and the size and shape of the notch concentrate energy on each finger. The Fuse is intimately attached to the structural member of interest. Therefore, the Fuse experiences the same strain and wear history as the member. Methods are available for remote indication of Fuse fracturing.

In a new structure, we generally assume there is no fatigue and can thus design the Fatigue Fuse for 100% of its life potential. But in an existing structure, one that has experienced loading and wear, we must determine the fatigue status of that structural member so we can design the Fatigue Fuse to monitor the remaining fatigue life potential.

We believe that the Fatigue Fuse is of value in monitoring aircraft, ships, bridges, conveyor systems, mining equipment, cranes, etc. Little special training is needed to qualify individuals to report any broken segments of the Fatigue Fuse to the appropriate engineering authority for necessary action. The success of the device is contingent upon our successful marketing of the Fatigue Fuse, and no assurance can be given that we will be able to overcome the obstacles relating to introducing a new product to the market. To implement our ability to produce and market the Fatigue Fuse, we need substantial additional capital and no assurance can be given that this needed capital will be available.

The Electrochemical Fatigue Sensor (EFS”)

The EFS is a device that employs the principle of electrochemical/mechanical interaction of

Table of Contents

metals under repeated loading to find growing cracks. It is an instrument that detects very small cracks and has the potential to determine crack growth rates. The Electrochemical Fatigue Sensor has demonstrated in the laboratory that it can detect cracks as small as 10 microns (0.0004 inches), which we believe is smaller than any other practical technology. We believe that nothing comparable to this instrument currently exists in materials technology. We have inspected approximately 33 bridges to date using this technology.

The EFS functions by treating the location of interest (the target) associated with the structural member as an electrode of an electrochemical cell (similar to a battery). By imposing a constant voltage-equivalent circuit as the control mechanism for the electrochemical reaction at the target surface, current flows as a function of stress action. The EFS is always a dynamic process; therefore stress action is required, e.g., to measure a bridge structural member it is necessary that cyclic loads be imposed, such as normal traffic on the bridge would do. The results are a specific set of current waveforms and amplitudes that characterize and indicate fatigue damage i.e., growing fatigue cracks.

Status of our Technologies

Currently, our primary focus is on the commercialization of the EFS.

Status of the EFS

From May 2007 through June 2008, we have successfully used EFS on 23 highway and railroad bridges. We are now actively marketing the EFS for bridges.

Status of the Fatigue Fuse

To date, certain organizations have included our Fatigue Fuse in test programs. We have already completed the tests for welded steel civil bridge members conducted at the University of Rhode Island. In 1996, Westland Helicopter, a British firm, tested the Fatigue Fuse on helicopters. That test was successful with the legs of the Fatigue Fuses failing in sequence as predicted. At the present time, we are applying Fatigue Fuses to several portable aluminum bridges for the U.S. Army.

The Fatigue Fuse has been at this stage for the past several years as we have not had the necessary financial resources to finalize our development and commence marketing. At the present time we have elected to defer future development of the Fatigue Fuse and apply our resources to pursue the EFS technology.

Commercial Markets for our Products and Technologies

Our technology is applicable to many market sectors such as bridges and aerospace as well as ships, cranes, railways, power plants, nuclear facilities, chemical plants, mining equipment, piping systems, and heavy iron.

Table of Contents

Application of Our Technologies For Bridges

Our EFS and Fatigue Fuse products primarily address the detection of fatigue in structures such as bridges. In the United States alone, there are more than 610,000 bridges of which over 260,000 are rated by the Federal Highway Administration as requiring major repair, rehabilitation, or replacement. Our EFS and Fatigue Fuse products can be effectively used as fatigue detection devices for all metal bridges located within the United States. Our detection devices also address maintenance problems associated with bridge structures.

Although there are normal business imperatives, the bridge market is essentially macro-economically and government policy driven. In our opinion, only technology can provide the solution. The need for increased spending accelerates significantly each year as infrastructure ages. The Federal government has mandated bridge repair and detection through the passage of the Intermodal Surface Transportation and Efficiency Act in 1991 and again in the \$200 billion, 1998 Transportation Equity Act. We have completed several contracts to install our fatigue detection products on bridge structures within the United States, and are in negotiations for several others.

Our Patent Protections

We are the owner and/or assignee of eight patents as follows:

Title	USPTO No.
Devise for Monitoring Fatigue Life	4,590,804
Method of Making a Device for Monitoring Fatigue Life	4,639,997
Metal Fatigue Detector	5,237,875
Device for Monitoring the Fatigue Life of a Structural Member and a Method of Making Same	5,319,982
Device for Monitoring the Fatigue Life of a Structural Member and a Method of Making Same	5,425,274
Methods and Devices for Electro Chemically Determining Metal Fatigue Status	5,419,201

Table of Contents

Apparatus for and Method for Interrogating a Fatigue Fuse	Provisional
Indicator for Fatigue Fuse	Provisional

Our Patents are Encumbered

The patents described in the preceding section are pledged as collateral to secure the repayment of loans extended to us or indebtedness that we currently owe. On August 30, 1986, we entered into a funding agreement with the Advanced Technology Center, whereby ATC paid \$45,000 to us for the purchase of a royalty of 3% of future gross sales and 6% of sublicensing revenue. The royalty is limited to the \$45,000 plus an 11% annual rate of return. The payment of future royalties was secured by equipment we used in the development of technology as specified in the funding agreement, however, no lien against our equipment or our patents in favor of ATC vested until we generated royalties from product sales.

On May 4, 1987, we entered into a funding agreement with ATC whereby ATC provided \$63,775 to us for the purchase of a royalty of an additional 3% of future gross sales and 6% of sublicensing revenue. The agreement was amended August 28, 1987, and as amended, the royalty cannot exceed the lesser of (1) the amount of the advance plus a 26% annual rate of return or, (2) total royalties earned for a term of 17 years. As with our first agreement with ATC, no lien or encumbrance against our assets, including our patents, vested in favor of ATC until we generated royalties from product sales.

On September 28, 2006, we entered into an agreement with Ben Franklin Technology, the successor to ATC, to give Ben Franklin 3,334 shares of our common stock, valued at \$40,000, in exchange for a general release of the above liabilities.

On May 27, 1994, we borrowed \$25,000 from Sherman Baker, one of our shareholders. We gave Mr. Baker a promissory note due May 31, 2002 and we pledged our patents as collateral to secure the repayment of this note. As of December 31, 2007, there is a first priority security interest in our patents as collateral for the repayment of the amounts we owe to Mr. Baker. As additional consideration for this loan, we granted to Mr. Baker a 1% royalty interest in the Fatigue Fuse and a 0.5% royalty interest in the Electrochemical Fatigue Sensor. We are in default of the repayment terms of the note held by Mr. Baker, and at December 31, 2007, we owe Mr. Baker \$56,761 in principal and accrued interest. Mr. Baker has not taken any action to foreclose his interest in the collateral and we are in discussions with Mr. Baker, with the expectation that we will cure any default in the note he holds and avoid any foreclosure of his security interest held in our patents. We believe that although we have not yet cured our defaults on the loans to Mr. Baker, our current communications with him suggest that Mr. Baker does not have the present intention of foreclosing on the patents as collateral or the pursuit of legal action against us to collect the balance due under our note.

Distribution of our Products

Subject to available financing, we have and continue to exhibit the Electrochemical Fatigue Sensor, and to a lesser extent the Fatigue Fuse, at various trade shows and intend to also market

Table of Contents

our products directly to end users including certain state regulatory agencies charged with overseeing bridge maintenance, companies engaged in manufacturing and maintaining large ships and tankers, and the military. Although we intend to undertake marketing, dependent on the availability of funds, within and without the United States, no assurance can be given that any such marketing activities will be implemented.

Competition

Other technologies exist which identify cracks which may be the result of fatigue damage. Single cracks larger than a minimum size can be found by nondestructive inspection methods such as dye penetrant, radiography, eddy current, acoustic emission, and ultrasonics. Tracking of load and strain history, to subsequently estimate fatigue damage by computer processing, is possible with recording instruments such as strain gauges and counting accelerometers. These methods have been used for over 40 years and also offer the advantage of having been accepted in the market, whereas our products remain largely unproven. Companies marketing these alternate technologies include Magnaflux Corporation, Kraut-Kramer-Branson, Dunegan-Endevco, and Micro Measurements. These companies have more substantial assets, greater experience, and more resources than us, including, but not limited to, established distribution channels and an established customer base. The familiarity and loyalty to these technologies may be difficult to dislodge. Because we are still in the development stage, we are unable to predict whether our technologies will be successfully developed and commercially attractive in potential markets.

Employees

We have six full-time employees. In addition, we retain consultants on an independent contractor basis for specialized work.

ITEM 2 – DESCRIPTION OF PROPERTY

We lease an office at 11661 San Vicente Blvd., Suite 707, Los Angeles, California, 90049. The space consists of 830 square feet and will be adequate for our current and foreseeable needs. The total rent is payable at \$2,582 per month on a month-to-month basis. Either party may cancel the lease on 30 days notice.

ITEM 3 – LEGAL PROCEEDINGS

Stephen Beck

In July 2002, we settled a lawsuit related to a contract dispute with Mr. Stephen Beck. In March 2006, Mr. Beck filed a lawsuit against us alleging breach of contract related to the lawsuit settlement and sought approximately \$135,000 in damages, plus the issuance of 12,989 shares of our common stock plus interest.

In December 2006, we entered into a settlement and release agreement, as well as irrevocable escrow instructions, to settle the lawsuit Mr. Beck filed in March 2006. As consideration under

Table of Contents

the settlement, we issued 5,000,000 shares of our common stock to Mr. Beck, with the shares to be held by an escrow agent and distributed to Mr. Beck monthly with a trading limit equal to 8% of the previous month's trading volume of our common stock, until Mr. Beck has received a total of \$800,000. As we have guaranteed this debt to Mr. Beck in the amount of \$800,000, we have recorded a liability as of December 31, 2007 for this amount. As Mr. Beck receives proceeds from the sale of his shares into the market and 7.5% (net of any expenses incurred by us) of any cash raised by us from the sale of equity, we will reduce our guarantee by that amount. We have paid a total of \$285,182 to Mr. Beck in cash as part of the settlement. Mr. Beck also had anti-dilution rights on those shares to maintain his percentage ownership through September 27, 2008. We issued another 5,000,000 shares to Mr. Beck to be held in escrow until the conditions are met with respect to the anti-dilution shares. As of the date of this Report, we have issued a total of 1,393,617 shares of common stock to Mr. Beck pursuant to the anti-dilution provision in the settlement arrangement. In or about February 2008, Mr. Beck reached the \$800,000 guarantee from the sale of our common stock and the cash received from us for 7.5% of the capital we raised. Therefore, as of the date of this Report, we have no further liability to Mr. Beck.

On September 12, 2007, we filed a complaint for declaratory relief against Mr. Beck in the Superior Court of the State of California, County of Los Angeles, Central Judicial District, seeking a judicial determination as to the respective rights and duties of us and Mr. Beck with respect to certain terms and conditions of the settlement agreement and escrow instructions.

On October 1, 2007, Mr. Beck served us with a Motion for Enforcement of Settlement and Entry of Judgment (Motion"). Mr. Beck's motion was denied.

On February 7, 2008, we filed a first amended complaint in our action against Mr. Beck for declaratory relief which now also seeks to have the settlement agreement and escrow instructions rescinded. On March 6, 2008, Mr. Beck filed a cross-complaint against us and Robert M. Bernstein, our President and a Director, for breach of contract, specific performance, declaratory relief, conversion, intentional interference with contract (against Mr. Bernstein only) and, in the alternative, equitable restitution.

Gem Advisors, Inc., GEM Global Emerging Markets, and Global Emerging Markets of North America, Inc.

On June 15, 2005, we filed a Complaint in the Los Angeles Superior Court, State of California, case number BC336689, against Gem Advisors, Inc., GEM Global Emerging Markets, and Global Emerging Markets of North America, Inc., seeking a declaration regarding certain agreements we entered into with the parties. We did not seek monetary damages. On November 16, 2005, Gem Advisors, Inc. filed an Answer and Cross-Complaint, seeking approximately \$1.9 million in damages arising out of finders fees for certain transactions. On November 30, 2005, default judgments were entered against the other defendants who failed to respond to our Complaint. In September 2006, this case was dismissed as to all parties because the parties thought they could agree on the terms of a written settlement agreement. However, the parties failed to reach a settlement and no formal settlement agreement was ever executed.

Table of Contents

On November 30, 2007, Gem Advisors, Inc. filed a lawsuit against us, Robert M. Bernstein, and Lawrence I. Washor (who represented us in the lawsuit against Gem Advisors, Inc. filed on June 15, 2005), for breach of contract (settlement), breach of contract (for transfer to Gem Advisors, Inc. of 585,000 shares we held in another company), breach of covenant of good faith and fair dealing, and fraud and deceit – promise made without intention to perform (the only cause of action asserted against Robert M. Bernstein and Lawrence I. Washor). Gem Advisors, Inc. is seeking damages in excess of \$250,000. On April 10, 2008, the Court dismissed Lawrence I. Washor from the lawsuit.

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5 – MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is quoted on the OTC Bulletin Board under the symbol MTTG. The following table sets forth the high and low bid prices per share of common stock for the last two fiscal years. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	High	Low
Fiscal year ended December 31, 2006:		
First quarter	\$0.29	\$0.09
Second quarter	\$0.35	\$0.08
Third quarter	\$0.10	\$0.03
Fourth quarter	\$13.80	\$0.03
Fiscal year ended December 31, 2007:		
First quarter	\$3.70	\$0.41
Second quarter	\$1.65	\$1.01
Third quarter	\$1.97	\$0.55
Fourth quarter	\$0.75	\$0.40

The closing price of our common stock on July 21, 2008 was \$0.01.

Holders

As of the date of this Report, we had 186,828,995 shares of our Class A common stock issued and outstanding and held by approximately 1,727 holders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent for our Class A common stock is Interwest Transfer Company, Inc., 1981 East 4800 South, Suite 100, Salt Lake City, Utah 84117.

Table of Contents

Dividends

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant.

Securities Authorized for Issuance under Equity Compensation Plans

On April 18, 2006, our Board of Directors approved the 2006 Non-Qualified Stock Grant and Option Plan (the 2006 Plan”) with 100,000 shares of our common stock available for issuance under the plan. The plan offers selected employees, directors, and consultants an opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. As of the date of this Report, we have issued all 100,000 shares of common stock under the plan.

On December 1, 2006, our Board of Directors approved the 2006/2007 Non-Qualified Company Stock Grant and Option Plan (the 2006/2007 Plan”) with 3,000,000 shares of our common stock available for issuance under the plan. The plan offers selected employees, directors, and consultants an opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. As of the date of this Report, we have not issued any options or shares of common stock under the 2006/2007 Plan.

On April 22, 2008, our Board of Directors approved the 2008 Incentive and Nonstatutory Stock Option Plan (the “2008 Plan”) with 100,000,000 shares of our common stock available for issuance under the plan. On May 23, 2008, our Board of Directors amended the 2008 Plan increasing the number of shares of our common stock available for issuance under the plan to 400,000,000. The 2008 Plan offers selected employees, directors, and consultants an opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. As of the date of this Report, we have issued all 400,000,000 stock options to employees under the 2008 Plan.

Recent Sales of Unregistered Securities

On September 28, 2007, we issued 400,000 shares of common stock to an employee subject to vesting, which were ultimately forfeited due to the employee’s termination.

On October 2, 2007, we issued 76,300 shares of common stock to one entity in consideration for services.

On October 8, 2007, we issued 1,430,400 shares of common stock to three entities and one individual under Regulation S in consideration for prior investments.

On October 8, 2007, we sold 770,000 shares of common stock to one entity at \$0.65 per share for total gross proceeds of \$505,000 under Regulation S.

Table of Contents

On October 12, 2007, we issued 4,000,000 shares of common stock to an entity in exchange for certain of their shares. However, the exchange was cancelled and each side returned the other's shares.

On December 3, 2007, we sold 2,027,900 shares of common stock to 42 individuals and entities at \$0.24 per share for total gross proceeds of \$486,696.

On December 6, 2007, we sold 62,500 shares of common stock to one entity at \$0.40 per share for total gross proceeds of \$25,000 under Regulation S.

On December 10, 2007, we issued 250,000 shares to one individual in exchange for services.

On January 9, 2008, we issued 425,000 shares of common stock to one individual in exchange for consulting services.

On January 14, 2008, we issued a total of 7,000,000 shares of common stock to two entities for investor relations services.

On January 21, 2008, we issued 425,000 shares of common stock to one individual in exchange for services.

On February 19, 2008, we issued 200,000 shares of common stock to one individual in exchange for services.

On February 25, 2008, we issued 150,000 shares of common stock to one individual in exchange for consulting services.

On February 27, 2008, we issued 150,000 shares of common stock to one individual in exchange for consulting services.

On February 27, 2008, we issued 200,000 shares of common stock to one individual in exchange for consulting services.

On February 27, 2008, we issued 25,000 shares of common stock to one individual in exchange for consulting services.

On April 9, 2008, we issued options to purchase a total of 15,390,546 shares of Class A common stock to two individuals at an exercise price of \$0.025 per share.

On April 9, 2008, we issued options to purchase a total of 48,000 shares of Class B common stock to two individuals at an exercise price of \$0.50 per share.

On April 11, 2008, we issued 77,600 shares of common stock to four individuals under Regulation S for total gross proceeds of \$18,624.

Table of Contents

On July 11, 2008, we issued a total of 8,577,907 shares of common stock to two entities pursuant to their conversion of Series E Convertible Preferred Stock.

Unless otherwise indicated, we relied on the exemption from registration relating to offerings that do not involve any public offering pursuant to Section 4(2) under the Securities Act of 1933 (the "Act") and/or Rule 506 of Regulation D of the Act. We believe that each investor had adequate access to information about us through the investor's relationship with us.

ITEM 6 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Disclaimer Regarding Forward Looking Statements

Our Management's Discussion and Analysis contains not only statements that are historical facts, but also statements that are forward-looking (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements are, by their very nature, uncertain and risky. These risks and uncertainties include international, national and local general economic and market conditions; demographic changes; our ability to sustain, manage, or forecast growth; our ability to successfully make and integrate acquisitions; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other risks that might be detailed from time to time in our filings with the Securities and Exchange Commission.

Although the forward-looking statements in this Annual Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this Report and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects.

Overview

We research and develop technologies that detect and measure metal fatigue. We have developed two products. Our two products are the Fatigue Fuse and Electrochemical Fatigue Sensor. We generate very little revenue from the sale and licensing of our products, and thus we are a development stage company.

Our biggest challenge is funding the continued research and development and commercialization of our products until we can generate sufficient revenue to support our operations. We try to

Table of Contents

keep our overhead low and utilize outside consultants as much as possible in order to reduce expenses, and thus far we have been successful in raising enough capital through loans and financing to fund operations. For the foreseeable future, we will continue to raise capital in this manner.

Our 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. We have sustained operating losses since our inception (October 21, 1983). In addition, we have used substantial amounts of working capital in our operations. Further, at December 31, 2007, the deficit accumulated during the development stage amounted to approximately \$313,208,402.

In view of these matters, realization of a major portion of the assets in the accompanying consolidated balance sheet is dependent upon our ability to meet our financing requirements and the success of our future operations. During 2007, we received approximately \$4,000,000 in private financing, primarily from the sale of equity and debt securities. We plan to continue to raise funds through the sale of our securities for the foreseeable future. In addition in 2007, we received contracts to inspect certain bridges with nine states which generated gross revenue of approximately \$201,917. We have begun marketing our current technologies while continuing to develop new methods and applications. We will need to raise additional capital to finance future activities and no assurances can be made that current or anticipated future sources of funds will enable us to finance future operations. In light of these circumstances, substantial doubt exists about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should we be unable to continue as a going concern.

Results of Operations for the Year Ended December 31, 2007 as Compared to the Year Ended December 31, 2006

Introduction

In 2007, we had revenues from bridge testing. Our revenues for 2007 totaled \$201,917. We continued to fund the majority of our operations through the issuance of our stock, resulting in large expenses in the areas of research and development and consulting. The amount of cash used in our operations was approximately \$2,664,630 in 2007 compared to approximately \$1,779,256 in 2006. We anticipate that we will continue to fund a substantial portion of our operations through the sale of our securities until such time as we can begin to generate substantial revenue from the sale of our products, and we do not have an estimate of when such revenues will begin.

Revenues and Loss from Operations

Our revenue, research and development costs, general and administrative expenses, and loss from operations for the year ended December 31, 2007 as compared to the year ended December 31, 2006 are as follows:

Table of Contents

	Year Ended December 31, 2007	Year Ended December 31, 2006	Percentage Change
Revenue	\$ 201,917	\$ 39,446	411.89%
Research and development costs	3,701,966	902,446	310.21%
General and administrative expenses	98,557,941	138,892,926	(29.04)%
Loss from Operations	\$ 102,057,990	\$ 139,755,926	(26.74)%

Our revenues for both 2007 and 2006 were derived exclusively from bridge testing.

Of the \$3,701,966 in research and development costs for 2007, \$197,005 was incurred in salaries to our in-house engineering staff which included an officer and director, \$359,861 was paid to outside consultants and for related expense reimbursements, and we valued the issuance of 2,116,000 shares of our common stock that were issued to various consultants at \$3,145,100. Of the \$1,013,969 in research and development costs for 2006, \$111,523 was incurred in salaries to our in-house engineering staff which included an officer and director, \$ 271,279 was paid to outside consultants and for related expense reimbursements, and we valued the issuance of 36,028 shares of our common stock that were issued to various consultants at \$631,167.

General and administrative expenses were \$98,557,941 and \$138,781,403, respectively, for the years ended December 31, 2007 and 2006. The major expenses incurred during each of the years were:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Consulting services	\$ 16,855,747	\$ 125,332,072
Officer's salary	284,916	211,574
Officer's stock based compensation	60,048,000	6,575,342
Secretarial salaries	132,754	114,561
Professional Fees	1,053,280	974,704
Office expense	97,459	52,855
Rent	139,173	28,176
Impairment loss	19,294,875	1,913,445
Payroll taxes	42,334	28,255
Telephone	27,929	17,375

Of the \$16,855,747 in consulting expense for the year ended December 31, 2007, \$12,394,888 was related to the issuance of 8,926,724 shares of common stock. In addition, we charged

Table of Contents

\$1,100,000 in consulting fees through an increase in convertible debt of \$1,100,000 and charged \$2,845,000 to consulting in connection with the acquisition of shares of Rocket City Automotive. Of the \$125,332,072 in consulting expense for the year ended December 31, 2006, \$124,543,689 was related to the issuance of 35,021,248 shares of common stock.

Other Income and Expenses and Net Loss

Our gain on modification of convertible debt, modification of research and development sponsorship agreement, loss on subscription receivables, interest expense, other-than-temporary impairment of marketable securities, change in fair value of derivative and warrant liabilities, loss on settlement of lawsuits, and net loss for the year ended December 31, 2007 as compared to the year ended December 31, 2006 are as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Percentage Change
Gain on modification of convertible debt	\$ -0-	\$ 1,033,479	(100)%
Interest expense	(2,374,032)	(1,625,592)	46.04%
Net unrealized and realized loss of marketable securities	(3,986,553)	(3,798,516)	4.95%
Change in fair value of derivative and warrant liabilities	34,962,617	(33,780,874)	(196.5)%
Interest income	60,179	37,120	62.12%
Other	-0-	7,008	(100)%
Provision for income taxes	(800)	(800)	
Net loss	\$ (73,396,579)	\$ (177,884,101)	(58.74)%

Our loss of the gain on modification of convertible debt of \$1,033,479 from 2006 is related to our modification of the Palisades debt and removal of associated derivative liability. Our interest expense includes amortization of debt discounts totaling \$2,041,213 in 2007 and \$968,716 in 2006. The change in fair value of derivative and warrant liabilities represents the change in derivative values related to warrants and convertible debt with Palisades and Golden Gate.

Liquidity and Capital Resources

Introduction

During the year ended December 31, 2007, as with 2006, we did not generate positive cash flow. As a result, we funded our operations through the private sale of equity and debt securities, the issuance of our securities in exchange for services, and loans.

Table of Contents

Our cash, investments in marketable securities held for trading, investments in marketable securities available for sale, accounts receivable, prepaid services, prepaid expenses and other current assets, total current assets, total assets, total current liabilities, and total liabilities as of December 31, 2007, as compared to December 31, 2006, were as follows:

	December 31, 2007	December 31, 2006
Cash	\$ 809,710	\$ 129,296
Marketable securities – trading	300,000	135,136
Marketable securities – available-for-sale	1,009,267	-0-
Accounts receivable	108,661	116,707
Inventories	62,216	-0-
Prepaid expenses and other	47,962	40,006
Total current assets	2,337,546	421,145
Total assets	2,425,280	432,780
Total current liabilities	691,380	542,802
Total liabilities	14,240,655	46,986,215

Cash Requirements

For the year ended December 31, 2007, our net cash used in operations was \$(2,664,630) compared to \$(1,779,256) for the year ended December 31, 2006.

Negative operating cash flows during the year ended December 31, 2007 were primarily created by a net loss from operations of \$(73,396,579), offset by impairment losses of \$19,257,375 incurred in connection with the acquisition of three subsidiaries, the issuance of stock for services of \$16,195,289, other-than-temporary impairment of marketable securities available for sale of amortization of discount on convertible debentures of \$3,986,200 and an increase in officer stock based compensation of \$60,000,000. There was also an increase in the fair value of derivative and warrant liabilities of \$34,962,617.

Negative operating cash flows during the year ended December 31, 2006 were primarily created by a net loss from operations of \$(177,884,101), offset by impairment losses of \$1,913,445 incurred in connection with the acquisition of a subsidiary, a loss on write off of subscription receivables of \$1,346,010, the issuance of stock for services of \$126,199,122, other-than-temporary impairment of marketable securities available for sale of \$3,798,516, amortization of discount on convertible debentures of \$968,716, a increase in the fair value of derivative and warrant liabilities of \$33,780,874 and an increase in accounts payable and accrued expenses of \$1,197,776, and an increase in officer stock based compensation 6,575,342. There was also a gain on modification of convertible debt of \$1,033,479.

Because of our need for cash to fund our continuing research and development, we do not have an opinion as to how indicative these results will be of future results.

Table of Contents

Sources and Uses of Cash

Net cash provided by (used in) investing activities for the years ended December 31, 2007 and 2006, were \$(648,543) and \$236,372, respectively. For the years ended December 31, 2007 and 2006, the net cash came primarily from the sale of securities in the amount of \$537,174 and \$242,506, respectively, offset by the amount for purchase of securities of \$(1,702,038) and \$(7,307), respectively. Net cash from investment activities in 2007 was further increased by the \$600,000 cash we received in connection with the acquisition of three subsidiaries, and \$400,000 in redemptions of certificate of deposits.

Net cash provided by financing activities for the years ended December 31, 2007 and 2006, were \$3,993,588 and \$1,630,734, respectively. For the year ended December 31, 2007, the net cash came primarily from the sale of common stock and warrants of \$4,566,631 and proceeds from convertible debentures and other notes payable of \$20,000. For the year ended December 31, 2006, the net cash came primarily from the sale of common stock and warrants of \$1,680,553 and proceeds from convertible debentures and other notes payable of \$50,000.

We are not generating sufficient cash flow from operations to fund growth. We cannot predict when we will begin to generate revenue from the sale of our products, and until that time, we will need to raise additional capital through the sale of our securities. If we are unsuccessful in raising the required capital, we may have to curtail operations.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In consultation with our Board of Directors, we have identified the following accounting policies that it believes are key to an understanding of its financial statements. These are important accounting policies that require management's most difficult, subjective judgments.

The first critical accounting policy relates to revenue recognition. Income from our research is recognized at the time services are rendered and billed.

The second critical accounting policy relates to research and development expense. Costs incurred in the development of our products are expensed as incurred.

The third critical accounting policy relates to the valuation of non-monetary consideration issued for services rendered. We value all services rendered in exchange for our common stock at the quoted price of the shares issued at date of issuance or at the fair value of the services rendered, whichever is more readily determinable. All other services provided in exchange for other non-monetary consideration is valued at either the fair value of the services received or the fair value of the consideration relinquished, whichever is more readily determinable.

Table of Contents

Our 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 to 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, we record the fair value of nonforfeitable common stock issued for future consulting services as prepaid services in our consolidated balance sheet.

The fourth critical accounting policy is our accounting for conventional convertible debt. When the convertible feature of the conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (BCF”). We record a BCF 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 Instrument(s).” In those circumstances, the convertible debt will be recorded net of the discount related to the BCF. We amortize the discount to interest expense over the life of the debt using the effective interest method.

The fifth critical account policy relates to the accounting for non-conventional convertible debt and the related stock purchase warrants. In the case of non-conventional convertible debt, we bifurcate our 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. ” These embedded derivatives include the conversion feature, liquidated damages related to registration rights and default provisions. The accounting treatment of derivative financial instruments requires that we 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. In addition, under the provisions of EITF Issue No. 00-19, as a result of entering into the non-conventional convertible debenture, we are required to value and classify all other non-employee stock options and warrants as derivative liabilities at that date and mark them to market at each reporting date thereafter. 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, we will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, we will record non-operating, non-cash income. We value our derivatives primarily using the Black-Scholes Option Pricing Model. The derivatives are classified as long-term liabilities.

Table of Contents

The sixth critical accounting policy relates to the recording of marketable securities held for trading and available-for-sale. 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, subject to an impairment analysis (see below). 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 a write down of the market value (see below).

The seventh critical accounting policy is our accounting for the fair market value of non-marketable securities we have acquired. Non-marketable securities are originally recorded at cost. In the case of non-marketable securities we acquired with our common stock, we value the securities at a significant discount to the stated per share cost based upon our historical experience with similar transactions as to the amount ultimately realized from the sale of the shares. Such investments are reduced when we have 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 below).

In accordance with the guidance of EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, we assess any decline in value of available-for-sale securities and non-marketable securities below cost as to whether such decline is other than temporary. If a decline is determined to be other than temporary, the decline is recorded as a reduction of the cost basis of the security and is included in the statement of operations as an impairment write down of the investment.

ITEM 7 – FINANCIAL STATEMENTS

The financial statements required to be filed pursuant to this Item 7 begin on page F-1 of this Report.

ITEM 8 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective September 11, 2007, KMJ/Corbin and Company, LLP (“KMJ”) resigned as our independent registered public accounting firm for the fiscal year ended December 31, 2007.

Table of Contents

We engaged KMJ on January 21, 2005. For the last two fiscal years, KMJ's reports on our financial statements did not contain an adverse opinion or a disclaimer of opinion, nor were the reports qualified or modified as to audit scope, or accounting principles, but they were modified as to uncertainty about our ability to continue as a going concern. For the last two fiscal years and any subsequent interim period preceding the dismissal, there were no disagreements with KMJ on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of KMJ would have caused KMJ to make reference to the matter in their reports.

We engaged Weinberg & Company, P.A. (hereinafter "Weinberg") as our principal accountants to audit our financial statements effective as of September 11, 2007. Effective November 5, 2007, we dismissed Weinberg as our independent registered public accounting firm for the fiscal year ended December 31, 2007. Weinberg never issued a report on our financial statements. During their engagement, there were no disagreements with Weinberg on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Weinberg would have caused Weinberg to make reference to the matter in their reports.

We engaged Kabani & Company, Inc. (hereinafter "Kabani") as our principal accountants to audit our financial statements effective as of November 5, 2007. Effective March 13, 2008, we dismissed Kabani as our independent registered public accounting firm for the fiscal year ended December 31, 2008. Kabani's services were limited to a review of our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007. During their engagement, there were no disagreements with Kabani on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Kabani would have caused Kabani to make reference to the matter in their reports.

We engaged Gruber & Co. LLC (hereinafter "Gruber") as the principal accountants to audit our financial statements effective as of March 13, 2008. We, during our most recent fiscal year and any subsequent interim period to the date hereof, did not have discussions nor have we consulted with Gruber regarding the following: (i) the application of accounting principles to a specified transaction, either completed or proposed or the type of audit opinion to be rendered on the our financial statements, and neither a written report was provided to us nor oral advice was provided that Gruber concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matters that were the subject of a "disagreement," as that term is defined in Item 304(a)(1)(iv) of Regulation S-B and the related instructions to Item 304 of Regulation S-B, or a reportable event.

ITEM 8A – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our President and Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining our disclosure controls and procedures. The Certifying Officers have designed such disclosure controls and procedures to ensure that material information is made known to them, particularly during the period in which this report was prepared. The

Table of Contents

Certifying Officers have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, the Certifying Officers have concluded that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses described below.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) and for assessing the effectiveness of our internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements in accordance with United States' generally accepted accounting principles.

Our internal control over financial reporting is supported by written policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorizations of our management and our board of directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management has assessed the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on this assessment, our management has concluded that our internal control over financial reporting was not effective at the reasonable assurance level due to the material weaknesses described below.

In light of the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the consolidated financial statements included in this Report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 2) or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The Certifying Officers have identified the following three material weaknesses which have caused the Certifying Officers to conclude that our disclosure controls and procedures were not effective at the reasonable assurance level:

1. We do not yet have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a

Table of Contents

requirement of Section 404 of the Sarbanes-Oxley Act and will be applicable to us for the year ending December 31, 2008. The Certifying Officers evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.

2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. The Certifying Officers evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.

3. We had a significant number of audit adjustments last fiscal year. Audit adjustments are the result of a failure of the internal controls to prevent or detect misstatements of accounting information. The failure could be due to inadequate design of the internal controls or to a misapplication or override of controls. The Certifying Officers evaluated the impact of our significant number of audit adjustments last year and have concluded that the control deficiency that resulted represented a material weakness.

On November 27, 2007, the Certifying Officers concluded that in valuing previous periods' non-cash security transactions, we utilized discounts to the respective share's trading prices as well as its derivative liabilities which they have determined are without foundation.

As a result of this evaluation and conclusion, the Certifying Officers in conjunction with our Board of Directors, concluded that previously issued consolidated financial statements included in our Annual Report on Form 10-KSB for the fiscal years ended December 31, 2005 and December 31, 2006, as well as all of our quarterly reports on Form 10-QSB during the 2005 and 2006 fiscal years, can no longer be relied upon. In this regard, we will amend and restate our financial statements to eliminate all discounts and will refile our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 and its Form 10-QSB for the quarters ended March 31, 2007 and June 30, 2007. The net effect of the restatements will be to increase the accumulated deficit at June 30, 2007 from \$100,909,477 to \$292,944,478.

The Certifying Officers have discussed this matter with our current independent registered public accounting firm.

To remediate the material weaknesses in our disclosure controls and procedures identified above, in addition to working with our independent auditors, we have continued to refine our internal procedures to begin to implement segregation of duties and to reduce the number of audit adjustments.

This Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this Annual Report.

Table of Contents

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B – OTHER INFORMATION

None.

PART III

ITEM 9 – DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors and Executive Officers

The following table sets forth the names, positions, and ages of our current directors and executive officers. Our executive officers are appointed by the Board of Directors. The directors serve one-year terms until their successors are elected. The executive officers serve until their death, resignation or removal by the Board of Directors. Unless described below, there are no family relationships among any of the directors and officers, and none of our officers or directors serves as a director of another reporting issuer.

Name	Age	Position(s)
Robert M. Bernstein	74	Chief Executive Officer, President, Chief Financial Officer, Director
Marybeth Miceli Newton	31	Chief Operating Officer
Joel R. Freedman	47	Secretary and Director
William I. Berks	77	Vice President and Director
Brent Phares	36	Chief Engineer

Robert M. Bernstein, President, CEO, Chief Financial Officer, and Director. Mr. Bernstein received a Bachelor of Science degree from the Wharton School of the University of Pennsylvania in 1956. From August 1959 until his certification expired in August 1972, he was a Certified Public Accountant licensed in Pennsylvania. From 1961 to 1981, he was a consultant specializing in mergers, acquisitions, and financing. From 1981 to 1986, Mr. Bernstein was Chairman and Chief Executive Officer of Blue Jay Enterprises, Inc. of Philadelphia, Pennsylvania, an oil and gas exploration company. In December 1985, Mr. Bernstein formed a research and development partnership for our company, funding approximately \$750,000 for research on the Fatigue Fuse. In October 1988, Mr. Bernstein became our President, CEO, and Chief Financial Officer.

Table of Contents

Joel R. Freedman, Secretary and Director. From October 1989 and continuing through the present, Mr. Freedman has been our Secretary and a Director. From 1983 through 1999, Mr. Freedman was President of Genesis Advisors, Inc., an investment advisory firm in Bala Cynwyd, Pennsylvania. From January 2000 through December 2002, Mr. Freedman was a Senior Vice President of PMG Capital Corp., a securities brokerage and investment advisory firm in West Conshohocken, Pennsylvania. From December 2002 and continuing through the present, Mr. Freedman has been Senior Vice President of Wachovia Securities, LLC, a securities brokerage and investment advisory firm in Conshohocken, Pennsylvania.

William Berks, Vice President and Director. Mr. Berks joined us as our Vice President and Director in June 1997. Mr. Berks holds six patents and has over 30 years experience in spacecraft mechanical systems engineering. Mr. Berks has a Bachelor of Science in Aeronautical Engineering and a Master of Science in Applied Mechanics from Polytechnic Institute of New York, as well as a Master of Science in Industrial Engineering from Stevens Institute of Technology. Prior to joining us, Mr. Berks was with TRW Incorporated for 26 years in a variety of management positions, where his duties included flight hardware fabrication and testing and where he was responsible for overseeing 350 employees.

Marybeth Miceli, Chief Operating Officer. Ms. Miceli has over 12 years experience in nondestructive evaluation and testing of civil infrastructure. Ms. Miceli joined us as our Chief Operating Officer in July 2007. From June 2005 through August 2007, Ms. Miceli was Director of Marketing for Sam Schwartz, LLC, Engineering and Planning Consultants, New York, in the areas of infrastructure management, non-destructive testing, and fatigue testing. From January 2001 through May 2005, Ms. Miceli was with Lucius Pitkin, Inc., Engineering Consultants, where Ms. Miceli's responsibilities included Quality Assurance Manager, and Assistant Radiation Safety Officer. Among Ms. Miceli's duties was the supervision and performance of failure analysis investigations, fatigue testing investigations, and interfacing with government agencies on testing, regulations, and safety. Ms. Miceli is currently in the first year of a three year term serving as a director of the American Society of Non-destructive Testing, and Chairman in 2003 of the Metropolitan New York Chapter. Ms. Miceli is a graduate of Johns Hopkins University and has a Master of Science in Materials Science and Engineering, from Virginia Polytechnic Institute. Ms. Miceli is a member of the American Society of Metals and has published several papers on non-destructive testing of bridge components and other related subjects.

Brent M. Phares, Chief Engineer. Dr. Phares has over 15 years of management, inspection, research, and testing experience related to bridge structures. From October 2001 and continuing through the present, Dr. Phares has been the Associate Director for Bridges and Structures at Iowa State University. In this position, Dr. Phares is responsible for the development and deployment of innovative bridge evaluation and techniques and for the development of applications for innovative materials in bridge engineering. From June 2001 through October 2004, Dr. Phares served as President and CEO of MGPS, Inc., an engineering firm specializing in the evaluation of civil infrastructure based on innovative sensors and monitoring strategies. Dr. Phares has served as a consulting Research Engineer at the Federal Highway Administration's Nondestructive Evaluation Validation Center where he led the execution of

Table of Contents

several validation and developmental studies. Dr. Phares is a registered professional engineer and serves as a voting member of many national and international technical committees. Dr. Phares joined us in June 2007.

Committees of the Board Of Directors

We presently do not have an audit committee, compensation committee, nominating committee, an executive committee of our board of directors, stock plan committee or any other committee of our board of directors.

Advisory Board

Since 1987, we and our predecessors have had an Advisory Board consisting of very senior experienced businessmen and technologists, most of whom are nationally prominent. These individuals consult with us on an as needed basis. Members of the Advisory Board serve at will. The Advisory Board advises our management on technical, financial, and business matters and may in the future be additionally compensated for these services. A brief biographical description of the members of the advisory board is as follows:

Campbell Laird. Campbell Laird, age 64, received his Ph.D. in 1963 from the University of Cambridge. His Ph.D. thesis title was Studies of High Strain Fatigue.” He is presently Professor and graduate group Chairman in the Department of Materials, Science & Engineering at the University of Pennsylvania. His research has focused on the strength, structure, and fatigue of materials, in which areas he published in excess of 250 papers. He is co-inventor of the EFS.

Samuel I. Schwartz. Samuel I. Schwartz, age 50, is presently President of Sam Schwartz Co., consulting engineers, primarily in the bridge industry. Mr. Schwartz received his BS in Physics from Brooklyn College in 1969, and his Masters in Civil Engineering from the University of Pennsylvania in 1970. From February 1986 to March 1990, he was the Chief Engineer/First Deputy Commissioner, New York City Department of Transportation and from April 1990 to the present acted as a director of the Infrastructure Institute at the Cooper Union College, New York City, New York. From April 1990 to 1994 he was a Senior Vice President of Hayden Wegman Consulting Engineers, and is a columnist for the New York Daily News.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company’s directors and executive officers and persons who own more than ten percent of a registered class of the Company’s equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

During the most recent fiscal year, to the Company’s knowledge, the following delinquencies occurred:

Table of Contents

Name	No. of Late Reports	No. of Transactions Reported Late	No. of Failures to File
Robert M. Bernstein	3	3	-0-
William Berks	1	1	-0-
Brent Phares	2	2	-0-
Marybeth Miceli	1	1	-0-

Code of Ethics

We have adopted a corporate code of ethics. We believe our code of ethics is reasonably designed to deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code. A copy of the Code of Ethics is attached hereto.

Terms of Office

Our directors are appointed for a one year term to hold office until the next annual general meeting of the holders of our Common Stock or until removed from office in accordance with our by-laws. Our officers are appointed by our board of directors and hold office until removed by our board of directors.

On November 17, 2006, we entered into an indemnification agreement with each of our directors. Under the terms of the indemnification agreements, we agreed to indemnify each director to the fullest extent permitted by law if the director was or is a party or threatened to be made a party to any action or lawsuit by reason of the fact that he is or was a director. The indemnification shall cover all expenses, penalties, fines and amounts paid in settlement, including attorneys' fees. A director will not be indemnified for intentional misconduct for the primary purpose of his own personal benefit.

ITEM 10 – EXECUTIVE COMPENSATION

Summary Compensation Table

Set forth below is a summary of compensation for our principal executive officer and our two most highly compensated officers other than our principal executive officer (collectively, the “named executive officers”) for our last two fiscal years. There have been no annuity, pension or retirement benefits ever paid to our officers, directors or employees.

With the exception of reimbursement of expenses incurred by our named executive officers during the scope of their employment and unless expressly stated otherwise in a footnote below, none of the named executive officers received other compensation, perquisites and/or personal benefits in excess of \$10,000.

Table of Contents

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Non-equity Incentive All			Total (\$)
					Option Award (\$)	Plan Compensation (\$)	Other Compensation (\$)	
Robert M. Bernstein, CEO, President, CFO	2007	\$ 250,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 250,000
	2006	\$ 206,500	\$ -0-	\$ 180,000,000	\$ -0-	\$ -0-	\$ -0-	\$ 180,206,500
Marybeth Miceli Newton, COO	2007 <u>1</u>	\$ 52,083.33	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 52,083.33
Brent Phares, Chief Engineer	2007 <u>2</u>	\$ 65,625	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 65,625

Employment Agreements

On October 1, 2006, we entered into an Employment Agreement with Robert M. Bernstein, our Chief Executive Officer, President and Chief Financial Officer, which provides certain terms and conditions with respect to Mr. Bernstein's employment. The Employment Agreement is for a three year term. Under the Employment Agreement, Mr. Bernstein will be paid an annual salary of \$250,000, with one year of paid severance if he is terminated without good cause prior to the expiration of the employment term.

Other Compensation

There are no annuity, pension or retirement benefits proposed to be paid to officers, directors, or employees of our company in the event of retirement at normal retirement date as there was no existing plan as of December 31, 2007 provided for or contributed to by our company.

Director Compensation

Our directors are not compensated for their services, but are entitled for reimbursement of expenses incurred in attending board of directors meetings.

Grants of Plan Based Awards

There were no grants of plan based awards made in 2007.

1 Joined us July 6, 2007.

2 Joined us June 1, 2007.

Table of Contents

Outstanding Equity Awards at Fiscal Year-End

There were no outstanding equity awards as of December 31, 2007.

ITEM 11 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding our shares of outstanding common stock beneficially owned as of the date hereof by (i) each of our directors and executive officers, (ii) all directors and executive officers as a group, and (iii) each other person who is known by us to own beneficially more than 5% of our common stock based upon 186,828,995 shares of Class A common stock outstanding.

Name and Address of Beneficial Owners ¹	Class A Common Stock		Class B Common Stock	
	Amount and Nature of Beneficial Ownership	Percent Ownership of Class ²	Amount and Nature of Beneficial Ownership	Percent Ownership of Class
Robert M. Bernstein, President, CEO, CFO, and Director	400,767,177 ³	68.29%	597,000 ⁴	99.5%
William Berks , Vice President and Director	2,710,048 ⁵	1.45%	0	0%
Joel R. Freedman, Secretary and Director	3,700,501 ⁶	1.98%	0	0%
Marybeth Miceli, Chief Operating Officer	2,237,501 ⁷	1.19%	0	0%

1 C/o our address, 11661 San Vicente Blvd., Suite 707, Los Angeles, CA 90049, unless otherwise noted.

2 Except as otherwise indicated, we believe that the beneficial owners of common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage of the person holding such options or warrants, but are not deemed outstanding for purposes of computing the percentage of any other person.

3 Includes 30,000,000 options to purchase shares of Class A common stock at \$0.011 per share expiring on April 22, 2018; 70,000,000 options to purchase shares of Class A common stock at \$0.007 per share expiring on May 6, 2018; and 300,000,000 options to purchase shares of Class A common stock at \$0.00462 per share expiring on May 23, 2008.

4 Each share of Class B common stock has 2,000 votes on any matter which is brought for shareholders vote. As a result, Mr. Bernstein holds 1,194,000,000 votes represented by the Class B common stock, and 89.25% of the overall votes.

5 Includes 200,000 options to purchase shares of Class A common stock at \$0.011 per share expiring on April 30, 2016.

6 Includes 200,000 options to purchase shares of Class A common stock at \$0.011 per share expiring on April 30, 2016.

7 Includes 200,000 options to purchase shares of Class A common stock at \$0.011 per share expiring on April 30, 2016.

28

Table of Contents

Brent Phares, Chief Engineer	3,513,334 8	1.89%	0	0%
All executive officers and directors as a group (five persons)	412,928,561	70.27%	597,000	99.5%
UTEK Corporation 2109 Palm Avenue Tampa, FL 33605	17,821,937	9.54%	0	0%

ITEM 12 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

8 Includes 200,000 options to purchase shares of Class A common stock at \$0.011 per share expiring on April 30, 2016.

Table of Contents

ITEM 13 – EXHIBITS

- 3.1 Certificate of Incorporation of Material Technologies, Inc., dated March 4, 19971
- 3.2 Certificate of Amendment to Articles of Incorporation, dated February 16, 20002
- 3.3 Certificate of Amendment to Articles of Incorporation, dated July 12, 20002
- 3.4 Certificate of Amendment to Articles of Incorporation, dated July 31, 20002
- 3.5 Amended and Restated Certificate of Incorporation, dated September 12, 20033
- 3.6 Certificate of Amendment to Certificate of Incorporation of Material Technologies, Inc., dated May 31, 20064
- 3.7 Certificate of Amendment to Certificate of Incorporation of Material Technologies, Inc., dated October 25, 20064
- 3.8 Bylaws of Material Technologies, Inc. 1
- 4.1 Class A Convertible Preferred Stock Certificate of Designation1
- 4.2 Class B Convertible Preferred Stock Certificate of Designation1
- 4.3 Class E Convertible Preferred Stock Certificate of Designation5
- 10.1 License Agreement between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania, dated August 26, 1993 1
- 10.2 Sponsored Research Agreement between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania, dated August 31, 1993 1
- 10.3 Amendment No. 1 to the License Agreement between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania, dated October 15, 1993 1

10.4 Repayment Agreement between Tensiodyne
Scientific Corporation and the Trustees of the
University of Pennsylvania, dated October 15, 1993 1

1Incorporated by reference from our registration statement on Form S-1 filed with the Commission on April 30, 1997.

2Incorporated by reference from our Annual Report on Form 10-KSB filed with the Commission on March 30, 2001.

3Incorporated by reference from our Annual Report on Form 10-KSB filed with the Commission on April 9, 2004.

4Incorporated by reference from our Current Report on Form 8-K filed with the Commission on November 8, 2006.

5Incorporated by reference from our Current Report on Form 8-K filed with the Commission on February 6, 2007.

Table of Contents

- 10.5 Teaming Agreement between Tensiodyne Scientific Corporation and Southwest Research Institute, dated August 23, 1996 1
- 10.6 Letter Agreement between Tensiodyne Scientific Corporation, Robert M. Bernstein, and Stephen Forrest Beck and Handwritten modification, dated February 8, 1995 1
- 10.7 Agreement between Tensiodyne Corporation and Tensiodyne 1985-1 R&D Partnership 6
- 10.8 Amendment to Agreement between Material Technologies, Inc. and Tensiodyne 1985-1 R&D Partnership 6
- 10.9 Agreement between Advanced Technology Center of Southeastern Pennsylvania and Material Technologies 6
- 10.10 Addendum to Agreement between Advanced Technology Center of Southeastern Pennsylvania and Material Technologies, Inc. 6
- 10.11 Class A Senior Preferred Convertible Debenture issued to Palisades Capital, LLC, dated September 23, 2003 3
- 10.12 Stock Purchase Agreement, dated April 7, 2005, with Birchington Investments Ltd. 7
- 10.13 Escrow Agreement with Birchington Investments Ltd, dated April 7, 2005 7
- 10.14 Workout Agreement with the Trustees of the University of Pennsylvania, dated August 15, 2005 7
- 10.15 Securities Purchase Agreement with Golden Gate Investors, Inc., dated December 16, 2005 8
- 10.16 Convertible Debenture issued to Golden Gate Investors, Inc., dated December 16, 2005 8
- 10.17 Common Stock Purchase Warrant issued to Golden Gate Investors, Inc., dated December 16, 2005 8
- 10.18 Registration Rights Agreement for Golden Gate Investors, Inc., dated December 16, 2005 8

6Incorporated by reference from our registration statement on Form S-1 which became effective on January 19, 1996.

7Incorporated by reference from our Quarterly Report on Form 10-QSB filed with the Commission on November 14, 2005.

8Incorporated by reference from our Current Report on Form 8-K/A filed with the Commission on January 5, 2006.

Table of Contents

- 10.19 Letter Agreement with Golden Gate Investors, Inc., dated December 16, 2005 8
- 10.20 Letter Agreement with Golden Gate Investors, Inc., dated December 16, 2005 8
- 10.21 Addendum to Convertible Debenture, Warrant to Purchase Common Stock and Securities Purchase Agreement with Golden Gate Investors, Inc., dated December 16, 2005 8
- 10.22 Addendum to Convertible Debenture and Warrant to Purchase Common Stock with Golden Gate Investors, Inc., dated December 16, 2005 8
- 10.23 Addendum to Convertible Debenture, Warrant to Purchase Common Stock and Securities Purchase Agreement, dated May 2, 2006, with Golden Gate Investors, Inc. 9
- 10.24 Securities Purchase Agreement, dated May 30, 2006, with La Jolla Cove Investors, Inc. 10
- 10.25 Warrant to Purchase Common Stock issued to La Jolla Cove Investors, Inc., dated May 30, 2006 10
- 10.26 Addendum to Warrant to Purchase Common Stock, dated as of June 12, 2006, issued to La Jolla Cove Investors, Inc. 11
- 10.27 Addendum to Convertible Debenture, Warrant to Purchase Common Stock and Securities Purchase Agreement dated as of May 2, 2006 12
- 10.28 Regulation S Distribution Agreement and Instruction of Escrow, dated May 31, 2006 13
- 10.29 Acquisition Agreement with UTEK Corporation and Materials Monitoring Technologies, Inc., dated August 18, 2006 14
- 10.30 License Agreement between Material Monitoring Technologies, Inc. and North Carolina A&T State University, dated August 18, 2006 14
- 10.31 Consulting Agreement with Mannur J. Sundaresan, PhD, dated August 18, 2006 14

⁹Incorporated by reference from our Current Report on Form 8-K filed with the Commission on May 17, 2006.

¹⁰Incorporated by reference from our Current Report on Form 8-K filed with the Commission on June 8, 2006

¹¹Incorporated by reference from our Current Report on Form 8-K/A filed with the Commission on June 15, 2006.

12Incorporated by reference from our registration statement on Form SB-2 filed with the Commission on June 15, 2006.

13Incorporated by reference from our Current Report on Form 8-K filed with the Commission on June 9, 2006.

14Incorporated by reference from our Current Report on Form 8-K filed with the Commission on August 24, 2006.

Table of Contents

- 10.32 Settlement Agreement and General Release, dated August 23, 2006, with Ben Franklin Technology Partners of Southeastern Pennsylvania 15
- 10.33 Settlement Agreement and General Release, dated October 27, 2006 16
- 10.34 Warrant Agreement, dated October 27, 2006, with Palisades Capital, LLC 16
- 10.35 Warrant Agreement, dated October 27, 2006, with Hyde Investments, Ltd. 16
- 10.36 Warrant Agreement, dated October 27, 2006, with Livingston Investments, Ltd. 16
- 10.37 Warrant Agreement, dated October 27, 2006, with Palisades Capital, LLC 16
- 10.38 Warrant Agreement, dated October 27, 2006, with GCH Capital, Ltd. 16
- 10.39 Amendment to Class A Senior Secured Convertible Debenture, dated October 27, 2006, with Palisades Capital, LLC 16
- 10.40 Amendment to Class A Senior Secured Convertible Debenture, dated October 27, 2006, with Hyde Investments, Ltd. 16
- 10.41 Amendment to Class A Senior Secured Convertible Debenture, dated October 27, 2006, with Livingston Investments, Ltd. 16
- 10.42 Stockholder Lockup Agreement, dated October 27, 2006 with Robert M. Bernstein 16
- 10.43 Escrow Agreement, dated October 27, 2006 16
- 10.44 Employment Agreement with Robert M. Bernstein, dated October 1, 2006 17
- 10.45 Stock Grant and General Release Agreement with Robert M. Bernstein, dated November 21, 2006 17
- 10.46 Settlement Agreement and Release with Stephen F. Beck, dated as of December 27, 2006 18
- 10.47

Irrevocable Escrow Instructions with Stephen F.
Beck, dated as of December 27, 2006¹⁸

15Incorporated by reference from our Quarterly Report on Form 10-QSB filed with the Commission on November 14, 2006.

16Incorporated by reference from our Current Report on Form 8-K filed with the Commission on November 2, 2006.

17Incorporated by reference from our Current Report on Form 8-K filed with the Commission on November 28, 2006

18Incorporated by reference from our Current Report on Form 8-K filed with the Commission on January 3, 2007.

Table of Contents

- 10.48 Promissory Note, dated March 30, 2007, with Nathan J. Esformes19
- 10.49 Acquisition Agreement with UTEK Corporation and Damage Assessment Technologies, Inc., dated May 3, 200720
- 10.50 Acquisition Agreement with UTEK Corporation and Non-Destructive Assessment Technologies, Inc., dated June 28, 200721
- 10.51 Agreement with Livingston Investments, Ltd., dated as of July 3, 200722
- 10.52 Amendment No. 2 to Class A Senior Secured Convertible Debenture, dated October 11, 2007, with Palisades Capital, LLC22
- 10.53 Acquisition Agreement with Brent Phares and Bridge Testing Concepts, Inc., dated September 28, 200723
- 10.54 Amendment to Consulting Agreement with Strategic Advisors, Ltd., dated April 9, 200822
- 10.55 Consulting Agreement with Bud Shuster, dated April 9, 200822
- 10.56 Consulting Agreement with Kelly Shuster, dated April 9, 200822
- 10.57 Class A Common Stock Option Agreement with Bud Shuster, dated April 9, 200822
- 10.58 Class A Common Stock Option Agreement with Kelly Shuster, dated April 9, 200822
- 10.59 Class B Common Stock Option Agreement with Bud Shuster, dated April 9, 200822
- 10.60 Class B Common Stock Option Agreement with Kelly Shuster, dated April 9, 200822
- 14.1 Code of Ethics
- 23.1 Consent of Gruber & Company, LLC
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief
Financial Officer

32 Certification pursuant to 18 U.S.C. Section 1350, as
adopted pursuant to Section 906 of the Sarbanes
Oxley Act of 2002.

19Incorporated by reference from our Annual Report on Form 10-KSB filed with the Commission on April 3, 2007.

20Incorporated by reference from our Current Report on Form 8-K filed with the Commission on May 4, 2007.

21Incorporated by reference from our Current Report on Form 8-K filed with the Commission on July 3, 2007.

22 Incorporated by reference from our Annual Report on Form 10-KSB filed with the Commission on April 14, 2008.

23Incorporated by reference from our Current Report on Form 8-K filed with the Commission on October 29, 2007.

34

Table of Contents

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

KMJ/Corbin and Company, LLP, Weinberg & Company, P.A., and Kabani & Company, Inc. (the “Independent Auditors”) were each, at various times, our independent auditor and examined our financial statements for the years ended December 31, 2007 and 2006. The Independent Auditors performed the services listed below and were as paid the aggregate fees listed below for the years ended December 31, 2007 and 2006.

Audit Fees

The Independent Auditors were paid aggregate fees of approximately \$40,000 for the fiscal year ended December 31, 2007 and approximately \$106,750 for the fiscal year ended December 31, 2006 for professional services rendered for the audit of our annual financial statements and for the reviews of the financial statements included in our quarterly reports on Form 10-QSB during these periods.

Audit Related Fees

The Independent Auditors were not paid additional fees for either the year ended December 31, 2007 or the fiscal year ended December 31, 2006 for assurance and related services reasonably related to the performance of the audit or review of our financial statements.

Tax Fees

The Independent Auditors were not paid fees for the year ended December 31, 2007 or the fiscal year ended December 31, 2006 for professional services rendered for tax compliance, tax advice and tax planning during this fiscal year period.

All Other Fees

The Independent Auditors were not paid any other fees for professional services during the year ended December 31, 2007 or the fiscal year ended December 31, 2006.

Table of Contents

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: July 24, 2008

Material Technologies, Inc.

/s/ Robert M. Bernstein

By: Robert M. Bernstein

Its: Chief Executive Officer, President, and Chief Financial Officer

(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)

Table of Contents

GRUBER & COMPANY LLC

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Material Technologies, Inc.

We have audited the accompanying balance sheets of Material Technologies, Inc.(A Development Stage Company) as of December 31, 2007 and 2006 and the related statements of operations, stockholders deficit and cash flows for the years then ended and for the period of inception October 21, 1983 to December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its' operations and its' stockholders deficit and cash flows for the years then ended and for the period of inception October 21, 1983 to December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in the notes to these financial statements the Company has incurred losses. This raises substantial doubt about its ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Gruber & Company LLC
Gruber & Company LLC
Lake Saint Louis, Missouri
July 24, 2008

Table of Contents

MATERIAL TECHNOLOGIES, INC.		
(A Development Stage Company)		
CONSOLIDATED BALANCE SHEET		
DECEMBER 31,		
	2006	2007
	(Restated)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 129,296	\$ 809,710
Investments in marketable securities held for trading	135,136	300,000
Investment in certificate of deposits and commercial paper	-	1,009,267
Accounts receivable	116,707	108,661
Inventories	-	62,216
Prepaid expenses and other current assets	40,006	47,692
Total current assets	421,145	2,337,546
Property and equipment, net	5,371	82,546
Intangible assets, net	3,916	2,840
Deposit	2,348	2,348
	\$ 432,780	\$ 2,425,280

Continued . . .

F-2

Table of Contents

MATERIAL TECHNOLOGIES, INC.		
(A Development Stage Company)		
CONSOLIDATED BALANCE SHEET		
	December 31,	
	2006	2007
	(Restated)	
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 427,664	\$ 599,619
Current portion of research and development sponsorship payable	25,000	25,000
Notes payable	90,138	66,761
Total current liabilities	542,802	691,380
Accrued legal settlement	1,050,000	480,000
Research and development sponsorship payable, net of current portion	747,713	760,650
Notes payable, long-term	-	213,508
Convertible debentures and accrued interest payable, net of discount	169,160	1,981,194
Derivative and warrant liabilities	44,476,540	10,113,923
	46,443,413	13,549,275
Total liabilities	46,986,215	14,240,655
Minority interest in consolidated subsidiary	825	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 as of December 31, 2006 and 2007	-	-
Class B preferred stock, \$0.001 par value, liquidation preference of \$10,000 per share; 15 shares authorized; none issued and outstanding as of December 31, 2006 and 2007	-	-
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 as of December 31, 2006 and 2007	1	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 as of December 31, 2006 and 2007	-	-
Class E convertible preferred stock, \$0.001 par value, no liquidation preference; 60,000 shares authorized; 55,000 shares issued and outstanding as of December 31, 2007	-	55
Class A Common Stock, \$0.001 par value, 1,699,400,000 shares authorized; 99,785,276 shares issued and 72,425,587 shares outstanding as of December 31, 2006; 546,173,718 shares issued and 126,347,453 outstanding as of December 31, 2007	72,426	126,348
Class B Common Stock, \$0.001 par value, 600,000 shares authorized, issued and outstanding as of December 31, 2006 and 2007	600	600
Warrants subscribed	10,000	10,000
Additional paid-in-capital	193,188,217	301,348,331
Deficit accumulated during the development stage	(239,811,823)	(313,208,402)
Treasury stock (2,076 shares at cost at December 31,2006 and 85,977 shares at cost at December 31, 2007	(13,681)	(93,133)
Total stockholders' deficit	(46,554,260)	(11,816,200)
	\$ 432,780	\$ 2,425,280

See report of independent registered public accounting firm and accompanying notes to the consolidated financial statement
F-3

Table of Contents

MATERIAL TECHNOLOGIES, INC.			
(A Development Stage Company)			
CONSOLIDATED STATEMENTS OF OPERATIONS			
	For the Year Ended		From October 21, 1983 (Inception) through December 31, 2007
	2006 (Restated)	2007	
Revenues:			
Research and development	\$ -	\$ -	\$ 5,392,085
Revenue from bridge testing	39,446	201,917	318,624
Other	-	-	274,125
Total revenues	39,446	201,917	5,984,834
Costs and expenses:			
Research and development	1,013,969	3,701,966	20,562,989
General and administrative	138,781,403	98,557,941	303,495,241
Modification of research and development sponsorship agreement	-	-	5,963,120
Loss on settlement of lawsuits	-	-	1,267,244
Total costs and expenses	139,795,372	102,259,907	331,288,594
Loss from operations	(139,755,926)	(102,057,990)	(325,303,760)
Other income (expense):			
Gain on modification of convertible debt	1,033,479	-	586,245
Loss on subscription receivable			(1,368,555)
Interest expense	(1,625,592)	(2,374,032)	(11,740,193)
Other-than-temporary impairment of marketable securities available for sale			(9,785,947)
Net unrealized and realized loss of marketable securities	(3,798,516)	(3,986,553)	(9,398,218)
Change in fair value of investments derivative liability	-	-	(210,953)
Change in fair value of derivative and warrant	(33,780,874)	34,962,617	43,587,089

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liabilities			
Interest income	37,120	60,179	466,882
Other	7,008	-	(25,992)
Other expense, net	(38,127,375)	28,662,211	12,110,358
Loss before provision for income taxes	(177,883,301)	(73,395,779)	(313,193,402)
Provision for income taxes	(800)	(800)	(15,000)
Net loss	\$ (177,884,101)	\$ (73,396,579)	\$ (313,208,402)
Per share data:			
Basic and diluted net loss per share	\$ (40.10)	\$ (0.68)	
Weighted average Class A common shares outstanding - basic and diluted	4,435,708	107,708,004	

See report of independent registered public accounting firm
and accompanying notes to the consolidated financial statement

F-4

Table of Contents

MATERIAL TECHNOLOGIES, INC.			
(A Development Stage Company)			
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS			
	For the Year Ended		From October
	September 30,		21, 1983
	2006	2007	(Inception)
	(Restated)	(Restated)	through
			December 31,
			2007
			(Unaudited)
			(Restated)
Net loss	\$ (177,884,101)	\$ (73,396,579)	\$ (313,208,402)
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	\$ (177,884,101)	\$ (73,396,579)	\$ (313,208,402)

See report of independent registered public accounting firm
and accompanying notes to the consolidated financial statement

F-5

Table of Contents

MATERIAL TECHNOLOGIES, INC.														
(A Development Stage Company)														
CONSOLIDATED STATEMENT OF STOCKHOLDERS' (DEFICIT))														
												Deficit		
												Accumulated		
	Class A	Class B	Class A	Class B	Class C	Class D	Class E							
	Common	Common	Preferred	Preferred	Preferred	Preferred	Preferred			Additional	During the			
	Shares	Shares	Stock	Paid-in	Development									
	Outstanding	Capital	Stage											
Initial Issuance of Common Stock														
October 21, 1983	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	2,500	\$ -
Adjustment to give effect to recapitalization on December 15, 1986														
Cancellation of shares	-	-	-	-	-	-	-	-	-	-	-	-	(4)	-
	-	-	-	-	-	-	-	-	-	-	-	-	2,496	-
Balance - October 21, 1983														
Shares issued By Tensidyne Corporation in connection with pooling of interests	-	-	-	-	-	-	-	-	-	-	-	-	4,342	-
Net (loss), year ended December 31, 1983	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,317)
Balance December 31, 1983	-	-	-	-	-	-	-	-	-	-	-	-	6,838	(4,317)
Capital contribution	-	-	-	-	-	-	-	-	-	-	-	-	21,755	-
	-	-	-	-	-	-	-	-	-	-	-	-	10,700	-

Balance December 31, 1987	-	-	-	-	-	-	-	-	-	-	-	-	-	-	282,331	(333,938)
Issuance of Common Stock Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	101,752	-
Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,600	-
Net (Loss), Year Ended December 31, 1988	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(142,335)
Balance December 31, 1988	-	-	-	-	-	-	-	-	-	-	-	-	-	-	454,683	(476,273)
Issuance of Common Stock Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000	-
Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,000	-
Net (Loss), Year Ended December 31, 1989	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(31,945)
Balance December 31, 1989	-	-	-	-	-	-	-	-	-	-	-	-	-	-	474,683	(508,218)
Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,250	-
Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,400	-
Net Income, Year Ended December 31, 1990	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	133,894
Balance December 31, 1990	-	-	-	-	-	-	-	-	-	-	-	-	-	-	566,333	(374,324)

See accompanying notes and independent accountants' report.

F-6

Issuance of Common Stock																				
Sale of Stock	-	-	-	-	350	-	-	-	-	-	-	-	-	-	-	-	-	-	273,686	-
Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	64,884	-
Conversion of Warrants	-	-																	-	
Conversion of Stock	-	-	60,000	60	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6)	-
Net (Loss), Year Ended December 31, 1991	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(346,316)
Balance December 31, 1991	-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	-	-	-	-	904,897	(720,640)
Issuance of Common Stock																				
Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,000	-
Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,520	-
Conversion of Warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000	-
Sale of Class B Stock	-	-	60,000	60	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,940	-
Issuance of Stock to Unconsolidated Subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,664	-
Conversion of Stock	-	-	(60,000)	(60)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6	-
Cancellation of Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (Loss), Year Ended December 31, 1992	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(154,986)
Balance December 31, 1992	-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	-	-	-	-	1,038,027	(875,626)
Issuance of Common Stock																				
Licensing Agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,250	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,913	-

Services Rendered																					
Warrant Conversion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	304,999	-
Cancellation of Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,569)	-
Net (Loss) for Year Ended December 31, 1993	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(929,900)
Balance December 31, 1993	-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,355,620	(1,805,526)
Adjustment to Give Effect to Recapitalization on February 1, 1994	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	385,424	-
Issuance of Shares for Services Rendered	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	223	-
Sale of Stock	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,786	-
Issuance of Shares for the Modification of Agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (Loss) for the Year Ended December 31, 1994	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(377,063)
Balance December 31, 1994	6	-	60,000	60	350	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,766,053	(2,182,589)
Issuance of Common Stock in Consideration for Modification of Agreement	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	153	-
Net (Loss) for the Year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(197,546)

Ended
December 31,
1995

Balance December 31, 1995	6	-	60,000	60	350	-	-	-	-	-	-	-	-	-	-	1,766,206	(2,380,135)
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Issuance of
Shares for
Services

Rendered	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,466	-
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Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	174,040	-
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Issuance of
Shares for
the

Modification of Agreements	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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Cancellation of
Shares Held

in Treasury	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(154,600)	-
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Net (Loss) for
the Year

Ended December 31, 1996	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(450,734)
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Balance

December 31, 1996	8	-	60,000	60	350	-	-	-	-	-	-	-	-	-	-	1,802,112	(2,830,869)
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See accompanying notes and independent accountants' report.

F-7

Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100,000	-
Conversion of Indebtedness	3	-	-	-	-	-	-	-	-	-	-	-	-	-	166,000	-
Class A Common Stock Issued in Cancellation of \$372,000																
Accrued Wages Due Officer	5	-	-	-	-	-	-	-	-	-	-	-	-	-	372,000	-
Issuance of Shares for Services Rendered	1	-	-	-	-	-	-	-	-	-	-	-	-	-	2,471	-
Adjustment to Give Effect to Recapitalization on 9-Mar-97	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (Loss) for the Year Ended December 31, 1997																(133,578)
Balance December 31, 1997	18	-	60,000	60	350	-	-	-	-	-	-	-	-	-	2,442,583	(2,964,447)
Shares Issued in Cancellation of Indebtedness	8	-	-	-	-	-	-	-	-	-	-	-	-	-	170,000	-
Conversion of Options	2	-	-	-	-	-	-	-	-	-	-	-	-	-	125,000	-
Issuance of Shares for Services Rendered	4	-	-	-	-	-	-	-	-	-	-	-	-	-	112,162	-
Shares Issued in Cancellation of Redeemable Preferred Stock															150,000	-
Shares Returned to Treasury and Cancelled	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Modification of Royalty Agreement	2	-	-	-	-	-	-	-	-	-	-	-	-	-	7,332	-

Issuance of Warrants to Officer	-	-	-	-	-	-	-	-	-	-	-	-	-	27,567	-
Net (Loss) for the Year Ended December 31, 1998	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(549,187)
Balance December 31, 1998	32	-	60,000	60	350	-	-	-	-	-	-	-	-	3,034,644	(3,513,634)
Shares Issued in Cancellation of Indebtedness	7	-	-	-	-	-	-	-	-	-	-	-	-	166,667	-
Issuance of Shares for Services Rendered	4	-	-	-	-	-	-	-	-	-	-	-	-	95,099	-
Shares Issued in Modification of Licensing Agreement	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Stock	1	-	-	-	-	-	-	-	-	-	-	-	-	173,540	-
Net (Loss) for the Year Ended December 31, 1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(539,283)
Balance December 31, 1999	47	-	60,000	60	350	-	-	-	-	-	-	-	-	3,469,950	(4,052,917)
Issuance of Shares for Services Rendered - as restated	2	-	-	-	-	-	-	-	-	-	-	-	-	824,516	-
Shares Issued to Investors Pursuant to Settlement Agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares Issued for Cash and Non-Recourse Promissory Notes	17	-	-	-	-	-	-	-	-	-	-	-	-	1,995,000	-

Shares Issued for Cash	1	-	-	-	-	-	-	-	-	-	-	-	-	281,694	-
Shares Issued in Cancellation of Indebtedness	-	-	-	-	-	-	-	-	-	-	-	-	-	100,000	-
Shares Issued as Compensation Pursuant to Escrow Agreement	14	-	-	-	-	-	-	-	-	-	-	-	-	4,184	-
Shares Returned from Escrow	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Shares Converted into Class B Common	-	-	40,000	40	-	-	-	-	-	-	-	-	-	(40)	-
Preferred Shares Converted into Common	-	-	-	-	(13)	-	-	-	-	-	-	-	-	-	-
Net (Loss) for the Year Ended December 31, 2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,199,695)
Balance December 31, 2000	80	-	100,000	100	337	-	-	-	-	-	-	-	-	6,675,304	(5,252,612)
Issuance of Shares for Services Rendered	21	-	-	-	-	-	-	-	-	-	-	-	-	804,336	-
Shares Issued for Cash	16	-	-	-	-	-	-	-	-	-	-	-	-	286,567	-
Shares Issued in Connection with Private Offering	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares Issued to Officer	20	-	-	-	-	-	-	-	-	-	-	-	-	1,128,000	-
Net (Loss) for the Year Ended December 31, 2001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,548,559)

See accompanying notes and independent accountants' report.

Balance December 31,	140	-	100,000	100	337	-	-	-	-	-	-	-	-	8,894,207	(8,801)
Balance Shares for Services rendered	73	-	-	-	-	-	-	-	-	-	-	-	-	1,185,631	
Balance Shares to University of Pennsylvania Shares issued Settlement	4	-													-
Share Purchase Agreement	5	-	-	-	-	-	-	-	-	-	-	-	-	40,000	
Shares Issued Cash	93	-	-	-	-	-	143	-	-	-	-	-	-	1,153,736	
Issuance Costs			-	-	-	-	-	-	-	-	-	-	-	(200,412)	
Shares issued Cancellation															
President's Investment in Shares	-	-	200,000	200	-	-	-	-	-	-	-	-	-		-
Cancellation of Shares in stock	(4)	-	-	-	-	-	-	-	-	-	-	-	-		-
Shares issued Company's President															
Share Purchase Agreement	43	-	-	-	-	-	-	-	-	-	-	-	-	260,000	
Shares Issued Connection															
Private Offering	9	-	-	-	-	-	-	-	-	-	-	-	-		-
(Loss) for Year ended December 31,	-	-	-	-	-	-	-	-	-	-	-	-	-		(3,852)
Balance - December 31,	362	-	300,000	300	337	-	-	-	143	-	-	-	-	11,333,162	(12,653)
Balance Shares for Services rendered	25,934	26	-	-	-	-	-	-	-	-	-	-	-	484,308	

ance														
ares to														
ersity of														
sylvania	14	-	-	-	-	-	-	-	-	-	-	-	-	-
es														
ased for														
illation	(4)	-	-	-	-	-	-	-	-	-	-	-	-	(24,432)
s issued														
tlement														
vsuit	1	-	-	-	-	-	-	-	-	-	-	-	-	-
s issued														
sh	113	-	-	-	-	-	-	4,074	4	-	-	-	-	235,194
ing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	(81,975)
s issued														
ncellation														
fee note														
le	73,333	73	-	-	-	-	-	-	-	-	-	-	-	1,583,054
s issued														
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st														
ensation	106,667	107	-	-	-	-	-	-	-	-	-	-	-	319,893
s issued														
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vable	16,667	17	-	-	-	-	-	-	-	-	-	-	-	49,983
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Notes																
Change in equity attributable to the Company by operations																
Change in stock options	(17)	-	-	-	-	-	-	-	-	-	-	-	-	-	(769,823)	
Change of Class A common stock for Class A common	(1)	-	300,000	300											(300)	
Change of Class A common stock for Class A common	(24,800)	(25)	-	-	-	-	-	-	-	5,440,000	5,440	-	-		(5,415)	
Shares Issued in Connection with Private Placement	23,355	23	-	-	-	-	-	-	-	-	-	-	-		(23)	
Change in equity attributable to the Company in consolidated subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-		37,597	
(Loss) for the year ended December 31,	-	-	-	-	-	-	-	-	-	-	-	-	-		(1,885)	
Balance - December 31,	221,628	\$ 221	600,000	\$ 600	337	\$-	-	\$-	4,217	\$ 4	5,440,000	\$ 5,440	-	\$-	13,190,840	\$ (14,539)
Change in equity attributable to the Company for shares purchased	22,406	22	-	-	-	-	-	-	-	-	-	-	-		14,252,173	
Shares purchased and held	(4)	-													(4,167)	
Change in equity attributable to the Company for the year ended December 31, and change in equity attributable to the Company for the year ended December 31,	250	-	-	-	-	-	-	-	-	-	-	-	-		64,467	
Change in equity attributable to the Company for the year ended December 31,	11	-	-	-	-	-	-	-	-	-	-	-	-		4,550	
Change in equity attributable to the Company for the year ended December 31,																

Shares in															
ely Park															
tments															
	28,889	29	-	-	-	-	-	-	-	-	-	-	-	-	12,973,484
icial															
ersion															
re															
convertible															
ature	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125,000

See accompanying notes and independent accountants' report.
F-9

Shares issued for cash	4,025	4	-	-	-	-	-	-	-	-	-	-	-	-	207,471	
Offering costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,713)	
Change of Class A Common Shares for Class C Preferred Shares	9	-	-	-	-	-	-	(2,700)	(3)	-	-	-	-	-	3	
Change of Class A Common Shares for Class D Preferred Shares	11,733	12	-	-	-	-	-	-	-	(3,520,000)	(3,520)	-	-	-	3,508	
Net (loss) for the year ended December 31, 2004	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25,495,290)	
Balance - December 31, 2004	288,947	288	600,000	\$ 600	337	-	-	-	1,517	1	1,920,000	1,920	-	-	41,803,616	(40,034,480)
Quance Shares for Services Rendered	111,913	112	-	-	-	-	-	-	-	-	-	-	-	-	4,105,322	
Exercise of Options	333	-	-	-	-	-	-	-	-	-	-	-	-	-	2,100	
Shares issued in exchange for shares in Archington Investments LLC	39,500	40	-	-	-	-	-	-	-	-	-	-	-	-	3,582,560	
Shares issued to University of Pennsylvania pursuant to agreement for modification	15,173	15	-	-	-	-	-	-	-	-	-	-	-	-	5,963,105	
Shares issued in connection with																

Washington															
Stock															
Acquisition	3,950	4	-	-	-	-	-	-	-	-	-	-	-	-	(4)
Shares issued															
For cash	7,329	7	-	-	-	-	-	-	-	-	-	-	-	-	313,132
Offering															
Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(19,140)
Shares issued															
Conversion															
Class D															