

MATERIAL TECHNOLOGIES INC /CA/  
Form 10-Q  
August 14, 2003

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the quarterly period ended June 30, 2003**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT  
For the transition period from to

**33-23617**

(Commission file number)

**Material Technologies, Inc.**

(Exact name of small business issuer as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**95-4622822**

(IRS Employer  
Identification No.)

**11661 San Vicente Boulevard**

**Suite 707**

**Los Angeles, California 90049**

(Address of principal executive offices)

**(310) 208-5589**

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

[X]

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.

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares outstanding of each of the issuer's classes of common equity;  
as of August 5, 2003:

Class A Common Stock - 148,635,565 shares outstanding, 802,800 shares held in reserve

Class B Common Stock - 300,000 shares outstanding

Class A Preferred - 504,821 shares outstanding

Class C Convertible Preferred - 4,550,000 shares outstanding

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**Material Technologies, Inc.**

**PART I. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

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**Material Technologies, Inc.**

**(A Development Stage Company)**

**CONSOLIDATED BALANCE SHEETS**

|  | <b>December 31, 2002</b> |                | <b>June 30, 2003</b> |
|--|--------------------------|----------------|----------------------|
|  |                          |                | <b>(Unaudited)</b>   |
| <b>Assets</b>  |                          |                |                      |
| <b>Current Assets</b>                                      |                          |                |                      |
| Cash and cash equivalents                                  | \$ 251,782               | \$             | 46,999               |
| Receivable from officer                                    | 76,109                   |                | 79,926               |
| Employee receivable  | 1,433                    |                | -                    |
| Prepaid expenses   | 1,179                    | 1,179          |                      |
| <b>Total current assets</b>                                | <b>330,503</b>           | <b>128,104</b> |                      |
| <b>Fixed Assets</b>  |                          |                |                      |
| Property and equipment,<br>net of accumulated depreciation | 27,649                   | 24,137         |                      |
| <b>Other Assets</b>  |                          |                |                      |

|   |            |            |
|---|------------|------------|
| Intangible assets,<br>net of accumulated amortization | 12,120     | 11,062     |
| Refundable deposit                                    | 2,348      | 2,348      |
| <b>Total other assets</b>                             | 14,468     | 13,410     |
| <b>Total Assets</b>                                   | \$ 372,620 | \$ 165,651 |

The accompanying notes are an integral part of the consolidated financial statements.

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**Material Technologies, Inc.**

**(A Development Stage Company)**

**CONSOLIDATED BALANCE SHEETS**

|   | <b>December 31, 2002</b> | <b>June 30, 2003</b><br><b>(Unaudited)</b> |
|---|--------------------------|--|
| <b>Liabilities and Stockholders' (Deficit)</b>  |                          |  |
| <b>Current Liabilities</b>                      |                          |  |
| Legal fees payable                              | \$ 216,783               | \$ 220,964                                 |
| Accounting fees payable                         | 22,443                   | 30,359                                     |
| Other accounts payable                          | 15,736                   | 2,286                                      |
| Accrued expenses                                | 33,880                   | 42,200                                     |
| Accrued officer wages                           | 75,482                   | 104,482                                    |
| Notes payable - current portion                 | 25,688                   | 25,688                                     |
| Payable on research and development sponsorship | 498,731                  | 543,617                                    |
| Loans payable - others                          | 59,028                   | 69,840                                     |
| <b>Total Current Liabilities</b>                | 947,771                  | 1,039,436                                  |
| <b>Long-Term Debt</b>                           | 1,519,166                | 1,564,616                                  |
| <b>Total Liabilities</b>                        | 2,466,937                | 2,604,052                                  |

**Stockholders' Equity (Deficit)**

Class A Common stock, \$.001 par value, authorized 399,700,000 shares; 109,228,185 shares issued at December 31, 2002 and 148,095,565 at June 30, 2003.

Shares held in reserve 101,602,800 at December 31, 2002 and

|   |                    |                    |
|---|--------------------|--------------------|
| 1,342,800 at June 30, 2003  | 109,228            | 148,095            |
| Class B Common Stock, \$.001 par value, authorized 300,000 shares, outstanding 300,000 shares at December 31, 2002 and June 30, 2003                    | 300                | 300                |
| Class A Preferred, \$.001 par value, authorized 45,950,000 shares, outstanding 480,721 shares at December 31, 2002, and 504,821 shares at June 30, 2003 | 480                | 504                |
| Class C Convertible Preferred, \$.001 par value, authorized 4,050,000 shares, outstanding 4,050,000 at June 30, 2003;                                   |                    |                    |
| Each Share of Preferred Convertible into One Share of Common  | -                  | 4,050              |
| Additional paid-in capital  | 11,223,453         | 11,562,948         |
| Deficit accumulated during the development stage  | (12,653,467)       | (13,358,598)       |
| Less: Notes receivable - common stock   | (774,311)          | (795,700)          |
| <b>Total Stockholders' (Deficit)</b>  | <b>(2,094,317)</b> | <b>(2,438,401)</b> |
| <b>Total Liabilities and Stockholders' (Deficit)</b>  | <b>\$ 372,620</b>  | <b>\$ 165,651</b>  |

The accompanying notes are an integral part of the consolidated financial statements.

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**Material Technologies, Inc.**

**(A Development Stage Company)**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                  | <b>For the Three Months Ended June 30,</b> |                    | <b>For the Six Months Ended June 30,</b> |                    | <b>From Inception (October 21, 1983) Through June 30, 2003</b> |
|----------------------------------|--|--------------------|--|--------------------|--|
|                                  | <b>2002</b>                                | <b>2003</b>        | <b>2002</b>                              | <b>2003</b>        |  |
|                                  | <b>(Unaudited)</b>                         | <b>(Unaudited)</b> | <b>(Unaudited)</b>                       | <b>(Unaudited)</b> | <b>(Unaudited)</b>   |
|                                  | <b>Restated</b>                            |                    | <b>Restated</b>                          |                    |  |
| <b>Revenues</b>                  |  |                    |  |                    |  |
| Sale of fatigue fuses            | \$ -                                       | \$ -               | \$ -                                     | \$ -               | \$ 64,505  |
| Sale of royalty interests        | -  | -                  | -  | -                  | 198,750  |
| Research and development revenue | 130,514                                    | -                  | 461,323                                  | -                  | 5,024,812  |

|   |              |              |              |              |                 |
|---|--------------|--------------|--------------|--------------|-----------------|
| Test services                                 | -            | -            | -            | -            | 10,870          |
| <b>Total Revenues</b>                         | 130,514      | -            | 461,323      | -            | 5,298,937       |
| <b>Costs and Expenses</b>                     |              |              |              |              |                 |
| Research and development                      | 131,917      | 70,478       | 384,263      | 101,714      | 5,132,477       |
| General and administrative                    | 448,368      | 198,041      | 905,307      | 536,479      | 12,990,333      |
| <b>Total Costs and Expenses</b>               | 580,285      | 268,519      | 1,289,570    | 638,193      | 18,122,810      |
| <b>Income (Loss) From Operations</b>          | (449,771)    | (268,519)    | (828,247)    | (638,193)    | (12,823,873)    |
| <b>Other Income (Expense)</b>                 |              |              |              |              |                 |
| Interest income                               | 11,494       | 13,198       | 24,110       | 26,384       | 326,984         |
| Interest expense                              | (20,356)     | (46,261)     | (40,712)     | (92,522)     | (526,969)       |
| Loss on abandonment of joint venture          | -            | -            | -            | -            | (33,000)        |
| <b>Total Other Income (Expense)</b>           | (8,862)      | (33,063)     | (16,602)     | (66,138)     | (232,985)       |
| <b>Net Income (Loss) Before Extraordinary</b> |              |              |              |              |                 |
| <b>Items and Provision for Income Taxes</b>   | (458,633)    | (301,582)    | (844,649)    | (705,131)    | (13,056,858)    |
| <b>Provision for Income Taxes</b>             | -            | -            | (800)        | (800)        | (11,800)        |
| <b>Net Income (Loss) Before</b>               |              |              |              |              |                 |
| <b>Extraordinary Items</b>                    | (458,633)    | (301,582)    | (845,649)    | (705,131)    | (13,068,658)    |
| <b>Extraordinary Items</b>                    |              |              |              |              |                 |
| Forgiveness of indebtedness                   | -            | -            | -            | -            | (289,940)       |
| <b>Net Income (Loss)</b>                      | \$ (454,633) | \$ (301,582) | \$ (845,649) | \$ (705,131) | \$ (13,358,598) |
| <b>Per Share Data</b>                         |              |              |              |              |                 |
| Basic Income (Loss)                           |              |              |              |              |                 |
| Before Extraordinary Item                     | \$ (0.01)    | \$ n/a       | \$ (0.02)    | \$ (0.01)    |                 |
| Basic Extraordinary Items                     | -            | -            | -            | -            |                 |
| <b>Basic Net Income (Loss) Per Share</b>      | \$ (0.01)    | \$ n/a       | \$ (0.02)    | \$ (0.01)    |                 |
| <b>Weighted Average</b>                       |              |              |              |              |                 |
| <b>Common Shares Outstanding</b>              | 44,819,027   | 141,109,726  | 44,819,027   | 128,439,681  |                 |

The accompanying notes are an integral part of the consolidated financial statements.

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**Material Technologies, Inc.**

**(A Development Stage Company)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**From Inception**

|  | <b>For the Three Months<br/>Ended<br/>June 30,</b> |                    | <b>For the Six Months<br/>Ended<br/>June 30,</b> |                    | <b>(October 21,<br/>1983)<br/>Through<br/>June 30,<br/>2003</b> |
|--|--|--------------------|--|--------------------|---|
|  | <b>2002</b>  | <b>2003</b>        | <b>2002</b>                                      | <b>2003</b>        |   |
|  | <b>(Unaudited)</b>                                 | <b>(Unaudited)</b> | <b>(Unaudited)</b>                               | <b>(Unaudited)</b> | <b>(Unaudited)</b>  |
|  | <b>Restated</b>                                    |                    | <b>Restated</b>                                  |                    |   |
| <b>Cash Flows From Operating Activities</b>  |  |                    |  |                    |   |
| Net income (loss)  | \$ (458,633)                                       | \$ (301,582)       | \$ (845,649)                                     | \$ (705,131)       | \$ (13,358,598)   |
| Adjustments to reconcile net income<br>(loss) to cash provided<br>(used) in operating activities |  |                    |  |                    |   |
| Depreciation and amortization  | 1,059  | 2,285              | 2,119  | 4,570              | 190,182   |
| Accrued interest income  | (10,962)   | (13,198)           | (23,209)   | (25,205)           | (272,936)   |
| Gain on sale of securities   | -  | -                  | -  | -                  | (196,596)   |
| Charge off of investments in joint venture   | -  | -                  | -  | -                  | 33,000  |
| Officers and directors compensation<br>on stock subscription modification                        | -  | -                  | -  | -                  | 1,500,000   |
| Issuance of common stock<br>to officer for past services   | -  | -                  | -  | -                  | 260,000   |
| Charge off of deferred offering costs  | -  | -                  | -  | -                  | 36,480  |
| Charge off of long-lived assets<br>due to impairment   | -  | -                  | -  | -                  | 92,919  |
| Modification of royalty agreement  | -  | -                  | -  | -                  | 7,332   |
| Gain on foreclosure  | -  | -                  | -  | -                  | (18,697)  |
| (Increase) decrease in accounts receivable   | 192,137  | -                  | 220,071  | -                  | (50,328)  |
| (Increase) decrease in employee advances   | -  | -                  | -  | 1,433              | -   |
| (Increase) decrease in prepaid expense   | -  | -                  | (109,167)  | -                  | (1,338)   |
| Loss on sale of equipment  | -  | -                  | -  | -                  | 12,780  |
| Issuance of common stock for services  | 326,032  | 102,211            | 638,592  | 234,461            | 4,816,117   |
| Issuance of stock for agreement modification   | -  | -                  | -  | -                  | 152   |
| Forgiveness of indebtedness  | -  | -                  | -  | -                  | 215,000   |
| Increase (decrease) in accounts<br>payable and accrued expenses                                  | (113,649)  | 25,867             | (161,561)  | 35,966             | 938,955   |
| Increase in legal fees secured by note payable   | -  | -                  | -  | -                  | 1,481,895   |
| Interest accrued on note payables  | 19,668   | 45,574             | 39,337   | 91,147             | 478,873   |
| Increase in research and development<br>sponsorship payable                                      | -  | -                  | -  | -                  | 218,000   |
| (Increase) in note for litigation settlement   | -  | -                  | -  | -                  | (25,753)  |
| (Increase) in Deposits   | -  | -                  | -  | -                  | (2,189)   |
| <b>TOTAL ADJUSTMENTS</b>   | <b>414,285</b>                                     | <b>162,739</b>     | <b>606,182</b>                                   | <b>342,372</b>     | <b>9,713,848</b>  |

|   |          |           |           |           |             |
|---|----------|-----------|-----------|-----------|-------------|
| NET CASH PROVIDED (USED) BY                 |          |           |           |           |             |
| OPERATING ACTIVITIES                        | (44,348) | (138,843) | (239,467) | (362,759) | (3,644,750) |
| <b>Cash Flows From Investing Activities</b> |          |           |           |           |             |
| Proceeds from sale of equipment             | -        | -         | -         | -         | 10,250      |
| Purchase of property and equipment          | (29,608) | -         | (29,608)  | -         | (266,472)   |
| Proceeds from sale of securities            | -        | -         | -         | -         | 283,596     |
| Purchase of securities                      | -        | -         | -         | -         | (90,000)    |
| Proceeds from foreclosure                   | -        | -         | -         | -         | 44,450      |
| Investment in joint ventures                | -        | -         | -         | -         | (102,069)   |
| Payment for license agreement               | -        | -         | -         | -         | (6,250)     |
| NET CASH PROVIDED (USED) BY                 |          |           |           |           |             |
| INVESTING ACTIVITIES                        | (29,608) | -         | (29,608)  | -         | (126,495)   |

The accompanying notes are an integral part of the consolidated financial statements.

**Material Technologies, Inc.**

**(A Development Stage Company)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | For the Three Months Ended |             | For the Six Months Ended |             | From Inception (October 21, 1983) |
|---|----------------------------|-------------|--------------------------|-------------|-----------------------------------|
|   | June 30,                   |             | June 30,                 |             | Through                           |
|   | 2002                       | 2003        | 2002                     | 2003        | June 30, 2003                     |
|   | (Unaudited)                | (Unaudited) | (Unaudited)              | (Unaudited) | (Unaudited)                       |
|   | Restated                   |             | Restated                 |             |                                   |
| <b>Cash Flows From Financing Activities</b> |                            |             |                          |             |                                   |
| Issuance of common stock                    | \$ 195,879                 | \$ 29,988   | \$ 630,580               | \$ 140,341  | \$ 3,041,809                      |
| Costs incurred in offerings                 | (31,861)                   | (10,312)    | (120,196)                | (33,358)    | (405,871)                         |
| Sale of common stock warrants               | -                          | -           | -                        | -           | 18,250                            |
| Sale of preferred stock                     | -                          | 33,900      | -                        | 64,500      | 323,000                           |
| Sale of redeemable preferred stock          | -                          | -           | -                        | -           | 150,000                           |
| Capital contributions                       | -                          | -           | -                        | -           | 301,068                           |
| Purchase of treasury stock                  | -                          | (7,788)     | -                        | (23,508)    | (23,508)                          |
| Payment on proposed reorganization          | -                          | -           | -                        | -           | (5,000)                           |
| Loans from officer                          | -                          | -           | -                        | -           | 778,805                           |
| Repayments to officer                       | (6,700)                    | -           | (29,700)                 | -           | (542,379)                         |



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|                                   |            |           |            |           |           |
|-----------------------------------|------------|-----------|------------|-----------|-----------|
| Increase in loan payable - others | -          | 10,000    | -          | 10,000    | 182,069   |
| CASH FLOWS PROVIDED BY            |            |           |            |           |           |
| FINANCING ACTIVITIES              | 157,318    | 55,788    | 480,684    | 157,976   | 3,818,244 |
| NET INCREASE (DECREASE) IN        |            |           |            |           |           |
| CASH AND CASH EQUIVALENTS         | 83,362     | (83,055)  | 211,609    | (204,783) | 46,999    |
| BEGINNING BALANCE                 |            |           |            |           |           |
| CASH AND CASH EQUIVALENTS         | 302,716    | 130,054   | 174,469    | 251,782   | -         |
| ENDING BALANCE                    |            |           |            |           |           |
| CASH AND CASH EQUIVALENTS         | \$ 386,078 | \$ 46,999 | \$ 386,078 | \$ 46,999 | \$ 46,999 |

The accompanying notes are an integral part of the consolidated financial statements.

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MATERIAL TECHNOLOGIES, INC.

(A Development Stage Company)

Notes to Financial Statements

Note 1.

The accompanying Consolidated financials statements include those of Material Technologies, Inc. and its wholly owned subsidiaries, Matech Aerospace, Inc. and Matech International Corp. These subsidiaries were formed in 2003 and had no activity since their inception.

Note 2.

In the opinion of the Company's management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of the Company as of June 30, 2003, and the results of its operations and cash flows for the three-month and six-months periods ended June 30, 2002 and 2003. The operating results of the Company on a quarterly basis may not be indicative of operating results for the full year.

Note 3.

Financial statements for the quarter ended June 30, 2002 have been restated to reflect the value of shares issued for services at the quoted price of the shares at the time of issuance.

Note 4.

Accounting Policies

Property and Equipment

Property and equipment are stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed. At the time property and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or

charged to income.

Material Technologies, Inc. depreciates its property and equipment as follows:

Financial statement reporting Straight-line method as follows:

|                    |           |
|--------------------|-----------|
| Machinery          | 5 years   |
| Computer equipment | 3-5 years |
| Office equipment   | 5 years   |

#### Long-Lived Assets

The Company recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In such circumstances, those assets are written down to estimated fair value. Long-lived assets consist primarily of fixed assets.

#### Net Loss Per Share

The Company adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 128, Earnings Per Share ( EPS ) that established standards for the computation, presentation and disclosure of earnings per share, replacing the presentation of Primary EPS with a presentation of Basic EPS.

#### Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Fair Value of Financial Instruments

The Company estimates the fair value of its financial instruments at their current carrying amounts.

#### Stock Based Compensation

For 1998 and subsequent years, the Company has adopted FASB Statement 123 which establishes a fair value method of accounting for its stock-based compensation plans. Prior to 1998, the Company used APB Opinion 25.

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MATERIAL TECHNOLOGIES, INC.

(A Development Stage Company)

Notes to Financial Statements

#### Revenue Recognition

During 2002, significantly all of the Company's revenue was derived from the Company's subcontract with the United States Air Force relating to the further development of the Electrochemical Fatigue Fuse ( EFS ). Revenue on the sub-contract is recognized at the time services are rendered. . The Company billed monthly for services pursuant to

this sub-contract at which time revenue is recognized for the period that the respective invoice relates. The objective of the contract with the US Air Force was to further develop and validate a prototype Electrochemical Fatigue Sensor (EFS) to inspect turbine engine blades and components in the disassembled condition as well as without the need to disassemble the engine. The project builds on work performed through previous contracts with the Air Force. As required under the contract and previous contracts with the Air Force, the technical data and /or commercial computer software developed under the contracts will be delivered to the Government with Other Than Unlimited Rights . Under the contracts, Material Technologies, Inc. has always maintained a proprietary interest in the development of the data and software for commercial use. The sub-contract expired in 2002.

All other income is reported in the period that the income was earned.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers cash and cash equivalents to include all stable, highly liquid investments with maturities of three months or less.

#### Income Taxes

The Company accounts for its income taxes under the provisions of Statement of Financial Accounting Standards 109 ("SFAS 109"). The method of accounting for income taxes under SFAS 109 is an asset and liability method. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

Note 5.

#### Stock Activity

During the quarter ended June 30, 2003, the Company received \$63,888 net of offering costs in exchange for the issuance of 3,500,000 shares of its Class A common stock and 3,400,000 shares of its Class C convertible preferred stock. Each share of Class C preferred is convertible into one share of the Class A common. In addition, during the quarter, the Company issued 2,650,000 shares of its Class A common stock for legal services valued at \$26,500, 7,571,127 shares of Class A common for consulting services valued at \$75,711, and 1,180,333 shares of Class A common in connection with its Regulation S offering valued at \$11,803. The shares issued for non-cash consideration were valued at their respective quoted market price at date of issuance. Also during the quarter, the Company issued 4,241,606 shares of its Class A common stock to the University of Pennsylvania pursuant to the anti-dilution provision of the Company's agreement with the University.

Also during the quarter ended June 30, 2003, the Company purchased 185,000 shares of its Class A common stock from various shareholders on the open market for \$7,788. These shares and the 812,000 shares acquired during the first quarter of 2003 were all cancelled. Also during the quarter, the 100,000,000 shares held in reserve pertaining to the Straight Documentary Credit with Allied Boston were return to the Company's treasury and cancelled.

#### Note 6. Subsequent Events

On July 31, 2003, the Company issued stock options priced at \$.01 per share to two consultants for a number of Class A common shares equaling 15% of the issued shares outstanding at the time the Company has increased its revenue by at least \$5,000,000. The options expire in March 31, 2008.

QUARTERLY REPORT

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Results of Operations for the Six Months Ended June 30, 2003 and 2002**

The Company had no sales during the six-month period ended June 30, 2003 or during the six month period ended June 30, 2002.

During the six-months ended June 30, 2003, the Company did not generate any revenue with the exception of interest income. The Company generated \$461,323 under its research and development contracts during the six-months ended June 30, 2002.

During the six months ended June 30, 2003, the Company incurred development costs of \$101,714. During the six month period ended June 30, 2002, the Company incurred \$384,263 in development costs of which \$345,621 relates to subcontract costs. Of the \$101,714 incurred in 2003, \$50,714 pertains to salaries and \$40,000 relates to fees paid for services through the issuance of 4,250,000 shares of the Company's common stock.

General and administrative costs were \$536,479 and \$905,307, respectively, for the six-month periods ended June 30, 2003 and 2002.

Major costs incurred during 2003, included officer's salary of \$60,000 of which \$29,000 was accrued, office salaries of \$24,573, professional fees of \$227,117, consulting fees of \$125,282, travel of \$12,386, telephone expense of \$8,441, rent of \$14,088, and office expense of \$12,460. Of the \$227,117 in professional fees, \$95,617 was paid in cash or accrued and the remaining \$131,500 was paid through the issuance of 8,650,000 shares of the Company's common stock. Of the \$125,282 incurred in consulting fees, \$67,321 was paid in cash or accrued and \$57,961 was paid through the issuance of 3,821,127 shares of the Company's common stock.

Major costs incurred during 2002, included officer's salary of \$60,000 of which \$30,000 was accrued, office salaries of \$18,979, professional fees of \$272,010, consulting fees of \$458,092, travel of \$16,309, telephone expense of \$14,344, rent of \$14,088, and office expense of \$17,659. Of the \$272,010 in professional fees, \$43,237 was paid in cash or accrued and the remaining \$228,773 was paid through the issuance of 2,067,100 shares of the Company's common stock. Of the \$458,092 incurred in consulting fees, \$53,493 was paid in cash or accrued and \$404,599 was paid through the issuance of 2,808,918 shares of the Company's common stock.

Interest earned during the six-months ended June 30, 2003 and 2002 of \$26,384 and \$24,110, respectively, consists primarily of accrued interest earned on promissory notes due from the Company's President and a Director on stock purchased during the second quarter of 2000. Interest expense for the six-months ended June 30, 2003 and 2002 totaled \$92,522 and \$40,712, respectively. Significantly all of interest expenses during these periods pertain to interest accrued on promissory notes due by the Company.

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MATERIAL TECHNOLOGIES, INC.

QUARTERLY REPORT

**Results of Operations for the Three Months Ended June 30, 2003 and 2002**

The Company had no sales during the three-month period ended June 30, 2003 or during the three month period ended June 30, 2002. During the three-month period ending June 30, 2002, the Company generated \$130,513 from its

research contract. Interest earned during the three months ended June 30, 2003 and 2002 totaled \$13,198 and \$11,494, respectively. Interest earned primarily consists of accrued interest earned on promissory notes due from the Company's President and a Director on stock purchased.

During the three-month period ended June 30, 2003, the Company incurred \$70,478 in development costs. Development costs incurred during the same three-month period of 2002 amounted to \$131,917.

General and administration costs were \$198,041 and \$448,368, respectively, for the three-month periods ended June 30, 2003 and 2002.

The major costs incurred during the three-month period in 2003, consisted of officer's compensation of \$30,000 of which \$29,000 was accrued. Other expenses incurred during the three-months ended June 30, 2003 included professional fees of \$65,345, consulting fees of \$58,127, travel expenses of \$5,810, telephone expense of \$4,124, office expense of \$8,663, and rent of \$7,044.

Of the \$65,345 in professional fees, \$38,845 was paid in cash or accrued and the remaining \$26,500 was paid through the issuance of 2,650,000 shares of the Company's common stock. Of the \$58,127 incurred in consulting fees, \$22,416 was paid in cash or accrued and \$35,711 was paid through the issuance of 3,571,127 shares of the Company's common stock. The major costs incurred during the three-month period in 2002, consisted of officer's compensation of \$30,000 of which \$20,000 was accrued. Other expenses incurred during the three-months ended June 30, 2002 included professional fees of \$213,166, consulting fees of \$150,146, travel expenses of \$7,686, telephone expense of \$5,672, office expense of \$9,084, and rent of \$7,044.

Of the \$213,166 in professional fees, \$18,393 was paid in cash or accrued and the remaining \$194,773 was paid through the issuance of 1,892,100 shares of the Company's common stock. Of the \$150,146 incurred in consulting fees, \$9,162 was paid in cash and \$140,984 was paid through the issuance of 1,119,918 shares of the Company's common stock. Interest expense for the three-months ended June 30, 2003, totaled \$46,261 as compared to \$20,356 incurred during the same period in 2002.

### **Liquidity and Capital Resources**

Cash and cash equivalents as of June 30, 2003 and 2002 were \$46,999 and \$386,078, respectively. During the six-months ended June 30, 2003, the Company received a total of \$214,841, which consisted of \$204,841 through the sale of 14,049,194 shares of its common stock and 4,074,100 shares of its preferred stock, and a loan from a third party of \$10,000. During the six month period, the Company used \$362,759 in its operations, used \$33,358 in its Regulation S offering, and used \$23,508 to purchase its 997,000 shares of common stock from the open market.

During the six-months ended June 30, 2002, the Company received a total of \$1,312,816, which consisted of \$681,382 from its research and development contracts, \$581,830 through the sale of 8,100,484 shares of its common stock, \$48,750 through the issuance of 100,000 shares of convertible preferred stock, and \$854 in interest income. Of the \$1,312,816 received, \$920,849 was used in operations, \$120,196 was paid in the offering of the shares of common stock, \$29,608 was paid as partial payment towards the purchase of equipment used in the Company's development of the Electrochemical Fatigue Sensor, and \$29,700 was advanced to the Company's President. As of June 30, 2002, total amounts owed by the Company to its President for accrued wages of \$100,000 were charged against the loans due from him amounting to \$66,885, leaving a balance due him in the amount of \$33,115.

As indicated, as of August 14, 2003, the Company has sufficient cash resources to fund approximately 2 months of current operating expenses. Without an infusion of capital through the sale of additional shares of its stock, the Company may not be able to continue operating after its current cash is depleted.

MATERIAL TECHNOLOGIES, INC.

QUARTERLY REPORT

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

None

### Item 2. Change in Securities and Use of Proceeds

During the quarter ended June 30, 2003, the Company received \$63,888 net of offering costs in exchange for the issuance of 3,500,000 shares of its Class A common stock and 3,400,000 shares of its Class C convertible preferred stock. Each share of Class C preferred is convertible into one share of the Class A common. In addition, during the quarter the Company issued 2,650,000 shares of its Class A common stock for legal services valued at \$26,500, issued 7,571,127 shares of Class A common for consulting services valued at \$75,711, and 1,180,333 shares of Class A common were issued in connection with its Regulation S offering valued at \$11,803. The shares issued for non-cash consideration were valued at their respective quoted market price at date of issuance. Also during the quarter, the Company issued 4,241,606 shares of its Class A common stock to the University of Pennsylvania pursuant to the anti-dilution provision of the Company's agreement with the University.

Also during the quarter ended June 30, 2003, the Company purchased 185,000 shares of its Class A common stock from various shareholders on the open market for \$7,788. These shares and the 812,000 shares acquired during the first quarter of 2003 were all cancelled. In addition, in May 2003, the Company cancelled the 100,000,000 shares that it held in reserve relating to its straight documentary credit.

On July 1, 2003, the Company issued Stephen Beck 540,000 shares pursuant to the anti-dilution provision of his settlement agreement with the Company. Also in July 2003, the Company issued 500,000 shares of Class C convertible preferred stock for \$5,000.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

### Item 5. Other Information

None

### Item 6. Exhibits and Reports on Form 8-K

#### Exhibits

| Number | Description   |
|--------|---|
| 99.1   | Certification of Chief Executive Officer and Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**Reports on Form 8-K**

No filings were made during the period covered by this report.

**Item 7. Controls and Procedures**

Material Technologies, Inc. management, including the Principal Executive Officer and Principal Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c) and 15d-14(c). This evaluation was conducted within 90 days prior to the filing of this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date the Principal Executive Officer and Principal Financial Officer completed their evaluation.

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MATERIAL TECHNOLOGIES, INC.

QUARTERLY REPORT

**SIGNATURES**

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

**Material Technologies, Inc.**

By: /s/ Robert M. Bernstein, President

Robert M. Bernstein, President

Date: August 12, 2003

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

**Material Technologies, Inc.**

By: /s/ Robert M. Bernstein, President

Robert M. Bernstein, President

Date: August 12, 2003

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MATERIAL TECHNOLOGIES, INC.

QUARTERLY REPORT

I, Robert M. Bernstein, certify that:

1.

I have reviewed this quarterly report on Form 10-Q of Material Technologies, Inc.;

2.

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

3.

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

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

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

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 12, 2003



/s/ Robert M. Bernstein

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Robert M. Bernstein

Principal Executive Officer and Principal Accounting Officer