

MATERIAL TECHNOLOGIES INC /CA/
Form 10-Q
November 10, 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 September 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)

Check whether the issuer (1) filed all reports required to be filed by Section

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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. [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares outstanding of each of the issuer's classes of common equity; as of October 15, 2003

Class A Common Stock - 73,930,715 shares outstanding, 1,342 shares held in reserve

Class B Common Stock - 600,000 shares outstanding

Class A Preferred - 505 shares outstanding

Class C Convertible Preferred - 4,550 shares outstanding

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MATERIAL TECHNOLOGIES, INC.
 (A Development Stage Company)
 CONSOLIDATED BALANCE SHEETS

	December 31, 2002

ASSETS	
CURRENT ASSETS	
Cash	\$ 251,782
Accounts receivable	-
Receivable from officer	76,109
Employee receivable	1,433
Prepaid expenses	1,179

TOTAL CURRENT ASSETS	330,503

FIXED ASSETS	
Property and equipment, net of accumulated depreciation	27,649

OTHER ASSETS	
Intangible assets subject to amortization, net of accumulated amortization	12,120
Refundable deposit	2,348

TOTAL OTHER ASSETS	14,468

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TOTAL ASSETS

\$ 372,620
=====

See accompanying notes
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MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
=====

December 31,
2002

LIABILITIES AND STOCKHOLDERS' (DEFICIT)

CURRENT LIABILITIES

Legal fees payable	\$ 216,783
Accounting fees payable	22,443
Other accounts payable	15,736
Accrued expenses	33,880
Accrued officer wages	75,482
Notes payable - current portion	25,688
Payable on research and development sponsorship	498,731
Loans payable - others	59,028

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TOTAL CURRENT LIABILITIES	947,771
LONG-TERM DEBT	1,519,166
TOTAL LIABILITIES	2,466,937
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	-
STOCKHOLDERS' (DEFICIT)	
Class A Common Stock, \$.001 par value, authorized 549,400,000 shares, 109,228 shares issued at December 31, 2002 and 73,929,499 shares at September 30, 2003, shares held in reserve 101,603 at December 31, 2002 and 1,343 at September 30, 2003	109
Class B Common Stock, \$.001 par value, authorized 600,000 shares, outstanding 300,000 shares at December 31, 2002, and 600,000 shares outstanding at September 30, 2003	300
Class A Preferred, \$.001 par value, authorized 25,000,000 shares outstanding 480 shares at December 31, 2002 and 505 shares at September 30, 2003	-
Class C Convertible Preferred, \$.001 par value, authorized 25,000,000 shares, outstanding 4,050 shares at September 30, 2003; each share of Preferred Convertible into one share of common stock	-
Additional paid-in capital	10,559,815
Deficit accumulated during the development stage	(12,653,767)
Less: Notes receivable - common stock	(774)
TOTAL STOCKHOLDERS' (DEFICIT)	(2,094,317)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	\$ 372,620

See accompanying notes

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MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended September 30,		For the Nine M September
2002	2003	2002
-----	-----	-----
(Unaudited)	(Unaudited)	(Unaudited)

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	Restated		Restated
REVENUES			
Sale of fatigue fuses	\$ -	\$ -	\$ -
Sale of royalty interests	-	-	-
Research and development revenue	-	-	461,323
Test services	-	-	-
TOTAL REVENUES	-	-	461,323
COSTS AND EXPENSES			
Research and development	123,932	16,695	508,195
General and administrative	2,206,049	361,969	3,112,156
TOTAL COSTS AND EXPENSES	2,329,981	378,664	3,620,351
LOSS FROM OPERATIONS	(2,329,981)	(378,664)	(3,159,028)
OTHER INCOME (EXPENSE)			
Interest income	11,947	12,101	36,057
Interest expense	(21,095)	(42,147)	(61,807)
Forgiveness of indebtedness	-	-	-
Loss on abandonment of joint venture	-	-	-
TOTAL OTHER INCOME (EXPENSE)	(9,148)	(30,046)	(25,750)
NET LOSS BEFORE PROVISION FOR INCOME TAXES	(2,339,129)	(408,710)	(3,184,778)
PROVISION FOR INCOME TAXES	(800)	-	(800)
NET LOSS	\$ (2,339,929)	\$ (408,710)	\$ (3,185,578)
PER SHARE DATA			
Basic loss	\$ (59.95)	\$ (0.07)	\$ (58.58)
BASIC NET LOSS PER SHARE	\$ (59.95)	\$ (0.07)	\$ (58.58)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	39,033	5,497,249	54,378

See accompanying notes

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MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended September 30,		For the Nine September
	2002	2003	2002
	(Unaudited) Restated	(Unaudited)	(Unaudited) Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (2,339,929)	\$ (408,710)	\$ (3,185,578)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	3,650	2,285	5,768
Accrued interest income	(10,960)	(11,112)	(32,864)
Gain on sale of securities	-	-	-
Charge off of investment in joint venture	-	-	-
Officers' and directors compensation on stock subscription modification	-	-	-
Issuance of common stock to officer for past services	-	-	-
Charge off of deferred offering costs	-	-	-
Charge off of long-lived assets due to impairment	-	-	-
Modification of royalty agreement	-	-	-
Gain on foreclosure	-	-	-
(Increase) decrease in accounts receivable	57,244	(4,850)	277,315
Decrease in employee advances	-	-	-
(Increase) decrease in prepaid expense	109,166	(3,000)	-
Loss on sale of equipment	-	-	-
Issuance of common stock for services	435,200	65,240	1,073,792
Issuance of stock for agreement modification	-	-	-
Forgiveness of Indebtedness	-	-	-
Increase in accounts payable and accrued expenses	1,445,505	250,522	1,283,944
Increase in legal fees secured by note payable	-	-	-
Increase interest accrued on notes payable	19,669	19,018	57,701
Increase in research and development sponsorship payable	-	-	-
(Increase) in note for litigation settlement	-	-	-

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(Increase) in deposits	-	-	-
TOTAL ADJUSTMENTS	2,059,474	318,103	2,665,656
NET CASH USED IN OPERATING ACTIVITIES	(280,455)	(90,607)	(519,922)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of equipment	-	-	-
Purchase of property and equipment	-	-	(29,608)
Proceeds from sale of securities	-	-	-
Purchase of securities	-	-	-
Proceeds from foreclosure	-	-	-
Investment in joint ventures	-	-	-
Payment for license agreement	-	-	-
NET CASH USED IN INVESTING ACTIVITIES	-	-	(29,608)

See accompanying notes

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MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended September 30,		For the Nine Months Ended
	2002	2003	September 30, 2002
	(Unaudited) Restated	(Unaudited)	(Unaudited) Restated
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock	\$ 166,850	\$ 44,610	\$ 797,430
Issuance of stock in consolidated subsidiary	-	2,189	-
Costs incurred in offerings	(29,035)	(5,823)	(149,231)
Sale of common stock warrants	-	-	-
Sale of preferred stock	-	-	-
Sale of redeemable preferred stock	-	-	-
Capital contributions	-	-	-
Purchase of treasury stock	-	-	-
Payment on proposed reorganization	-	-	-
Loans from officer	-	-	-
Repayments to officer	-	-	(29,700)
Increase in notes and loans payable	-	120,000	-

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CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:	137,815	160,976	618,499
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(142,640)	70,369	68,969
BEGINNING BALANCE CASH AND CASH EQUIVALENTS	386,078	46,999	174,469
	-----	-----	-----
ENDING BALANCE CASH AND CASH EQUIVALENTS	\$ 243,438	\$ 117,368	\$ 243,438
	=====	=====	=====

See accompanying notes

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MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)
Notes to Consolidated 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

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formed in 2003 and had no activity since their inception.

On September 15, 2003, the Company filed an amendment to its Articles of Incorporation increasing the number of Class A common stock it is authorized to issue to 549,400,000 and the number of Class B common shares it is authorized to issue to 600,000. Holders of Class A Common are entitled to one vote for each share held. Holders of Class B Common are entitled to 1000 votes for each share held.

On September 23, 2003, the Company effected a 1000 for 1 reverse stock split of its Class A common stock and preferred stock. All equity accounts and related transactions included in the accompanying financial statements have been restated to reflect the reverse stock split as if it occurred at the beginning of each period presented.

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 September 30, 2003, and the results of its operations and cash flows for the three-month and nine-months periods ended June September 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 September 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 and for the 1000:1 reverse stock split as discussed above.

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:

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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.

Revenue Recognition

During 2002, significantly all of the Company's revenue was derived from the Company's sub-contract with the United States Air Force relating to the further development of the Electrochemical Fatigue Sensor ("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.

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. Long-term Debt

On September 23, 2003, the Company issued 20,000,000 (post-split) shares of its Class A common stock and warrants to purchase 30,000,000 (post-split) Class A common shares at \$.10 per share to seven investors in exchange for their assumption of indebtedness due by the Company to two attorneys for legal services totaling \$1,583,129. In addition, on September 23, 2003 the Company issued 2,000,000 shares to the Company's same two attorneys for a release of any claims that they might have against the Company for past services.

Also on September 23, 2003, the Company entered into a financing agreement with Palisades Capital LLC, whereby Palisades agreed to loan the Company up to \$1,500,000. The loan will be evidenced by a Senior Secured Convertible Debenture convertible at any time after March 30, 2004 into common stock at a rate of the lesser of \$.10 per share or 50% of the average closing price of the common stock for the ten trading days prior to the date of conversion. The debenture bears interest at a rate of 10% per annum and matures on December 31, 2006, when any and all outstanding principal and accrued interest becomes due and payable. Accrued interest is paid out of, and only to the extent of positive earnings before taxes, interest, amortization and depreciation.

The warrants to purchase 30,000,000 shares of the Company's Class A common vest in proportion to the amount of the debenture funded divided by \$1,500,000. If the Company elects not to accept any additional advances prior to receiving \$1,500,000, then all of the 30 million warrants automatically vest.

At September 30, 2003, the balance due on the debenture amounted to \$120,000 in principal and accrued interest of \$98.

Note 6. Transactions with Management

On September 23, 2003, the Company issued to its President, Mr. Robert Bernstein 37,000,000 (post-split) shares of its Class A common stock and 300,000 shares of its Class B common shares in consideration for releasing all claims he had against the Company through September 24, 2003, which included accrued wages due him amounting to \$320,000. As additional consideration for the shares received, Mr. Bernstein agreed to pay the Company \$37,000 as evidenced by an unsecured promissory note, which is assessed interest at an annual rate of 6%. The \$37,000 and accrued interest are due and payable on in September 23, 2006. The 37,000,000 shares received are subject to certain restrictions. During the quarter, the Company recognized past accrued compensation due Mr. Bernstein of \$261,601, which was charged to operations, pursuant to a previous year's board resolution which authorized the accrual of Mr. Bernstein's salary at a rate of \$150,000 a year. Pursuant to the resolution, the \$30,000 a year difference between the \$150,000 and amount of the \$120,000 annual salary actually paid to Mr. Bernstein was deferred and payable to Mr. Bernstein at the discretion of the Board and was based upon the financial condition of the Company. During the quarter ended September 30, 2003, the Board authorized the payment of the deferred compensation through the issuance of the Company's stock.

In connection with the \$1,500,000 financing, Mr. Bernstein entered into a voting agreement and irrevocable proxy with Palisades Capital LLC. Under the terms of that agreement, in the event of a default, as defined in the debenture, if such default continued for more than thirty days after notice thereon, all Class B common shares that he owns at the time of default will be voted by a representative of Palisades, thus creating a change in control of the Company. The voting rights of the Class B shares remain with Mr. Bernstein until and during the occurrence of an event of default. So long as no event of default occurs or is occurring, Mr. Bernstein remains in voting control of the Company, and in all events, the Voting Agreement and Irrevocable Proxy terminate upon payment in full of all principal and accrued interest under the debenture.

All amounts due the Company from Mr. Bernstein and Mr. Joel Freedman, a Director and corporate secretary, on subscriptions relating to prior purchases of common stock have also been reduced pursuant to the 1000 to 1 reverse stock split. At the time of the split, total subscriptions owed by them to the Company totaling \$769,861 were reduced to \$769. The difference of \$ 769,092 was charged against additional paid-in capital.

Note 7. Stock Activity

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During the quarter ended September 30, 2003, the Company received \$38,787 net of offering costs in exchange for the issuance of 19,069 (post split) shares of its Class A common stock. In addition, during

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the quarter, the Company issued 5,760,000 (post split) shares of its Class A common stock for consulting services valued at \$30,240. As discussed above, the Company also issued during the quarter, 20,000,000 (post split) shares in consideration for the assumption of indebtedness owed by the Company for past legal services amounting to \$1,583,129 and issued 2,000,000 shares in consideration for the release of any potential claims that may exist against the Company for, among other things, past legal services. Also during the quarter, the Company issued 7,002,749 (post split) shares of common stock in connection with its Regulation S offering valued at \$71,645, and issued 2,000,000 (post split) shares in consideration for certain capital-raising services on the Company's behalf. The shares issued for non-cash consideration were valued at their respective quoted market price at date of issuance.

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

Also during the quarter, the Company granted to certain consultants and investors warrants to acquire up to 31,000,000 (post split) shares in consideration for certain consulting services and investments made to the Company.

Note 8. Subsequent Events

Effective October 1, 2003, the Company entered into an employment agreement with its President, under which the Company will pay him a monthly salary of \$16,000, of which \$6,000 is deferred. The deferred compensation becomes fully due and payable on March 31, 2005, or the date the Company reports at least \$250,000 in earnings before depreciation and amortization in one quarter, whichever occurs sooner.

Also effective October 1, 2003, the Company entered into a consulting agreement whereby the Company issued 5,760,000 shares of the Company's Class A common stock. The Company has the right to purchase such shares from the consultant at a purchase price of \$.10 per share; provided, that the purchase right shall expire as to 160,000 shares on October 1, 2003, and an additional 160,000 shares on the 1st day of each month thereafter.

The consultant shall also receive, upon the successful closing or acquisition by the Company of any business, corporation or division (a

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"Target") in which the consultant assisted with the introduction, consulting or advisory services, a fee of 10% of the total consideration paid in the acquisition or sale of such Target for consulting services. The Company, at its option, may pay these fees by issuance of restricted common stock or freely tradeable, registered common stock. Restricted common stock shall be issued at a rate equal to the lessor of (i) fifty percent (50%) of the market price of the Company common stock on the day prior to the closing date of a

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transaction which entitles the consultant to receive such fees, or (ii) \$.50 per share. Freely tradable, registered common stock, pursuant to an effective and current registration statement, shall be issued at the rate equal to seventy percent (70%) of the market price of the Company's common stock on the day prior to the closing date of a transaction which entitles the consultant to receive such fees.

Finally, the Company also issued to consultant or its designees a warrant to purchase up to an aggregate of 1,000,000 shares of common stock at an exercise price of \$.10 per share, which vested immediately, and which may be exercised at any time.

Item 2. Management's Discussion and Analysis of Financial Conditions and

Results of Operations

For the nine-months ended September 30, 2003 and 2002

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

The Company did not generate any research and development revenue during the nine-months ended September 30, 2003 as compared to \$461,323 during the first nine-months of 2002.

Interest earned during the nine-months ended September 30, 2003 totaled \$38,485 as compared to \$36,057 earned during the same period in 2002. Earned interest consists mostly 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.

During the nine-month period ended September 30, 2003 the Company incurred research and development costs of \$118,410 as compared to \$508,195 incurred in the same nine-month period in 2002. Of the \$508,195 in development costs incurred in 2002, \$440,201 relates to subcontract costs. The Company earned the full amount of its grant from the U.S. Air Force during the quarter ended June 30, 2002, but continued its product development during the third quarter of 2002. All of the research and development incurred in 2003

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related to internal projects of Company.

General and administrative costs were \$898,447 and \$3,112,156, respectively, for the nine-month periods ended September 30, 2003 and 2002.

The major costs incurred during 2003, included officer's salary of \$278,199 of which only \$31,000 was paid in cash. Other expenses incurred during the nine-months ended September 30, 2003 included office salaries of \$34,288, professional fees of \$256,351, consulting fees of \$201,664, travel of \$17,257, telephone expense of \$13,385, rent of \$21,132, and office expense of \$20,287.

Of the \$256,351 in professional fees, \$124,851 was paid in cash or accrued and the remaining \$131,500 was paid through the issuance of 8,650,000 (pre-split) (8,650 shares post split) shares of the Company's

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common stock. Of the \$201,664 in consulting fees, \$102,963 was paid in cash or accrued, and the remaining \$98,701 was paid through the issuance of 7,764,864 (post split) shares of the Company's common stock.

The major costs incurred during 2002, included officer's salary of \$90,000 of which \$33,000 was accrued, office salaries of \$29,597, professional fees of \$1,986,488, consulting fees of \$850,750, travel of \$38,290, telephone expense of \$18,919, rent of \$21,132, and office expense of \$25,343.

Of the \$1,986,488 in professional fees, \$1,481,895 is accrued and due to two attorneys in the settlement of the Beck matter. The Company's obligation to pay this fee was contingent upon the Company's earnings (See Note 5 to the financial statements). Also included are legal fees of \$437,473 that were paid through the issuance of 9,072,100 (pre-split) (9,072 post split) shares of the Company's common stock.

Of the \$850,750 incurred in consulting fees, \$631,099 was paid through the issuance of 9,033,918 (pre split) shares (9,034 post split) shares of the Company's common stock. Also included in consulting fees were the 1,000,000 (pre split) (1,000 post split) shares of the Company's common stock that were issued in full settlement to Stephen Beck. The 1,000,000 shares were valued at \$30,000.

Interest expense for the nine-months ended September 30, 2003 totaled \$134,670 as compared to \$61,807 incurred during the same nine-month period of 2002. The majority of interest incurred during the nine months of 2003 and 2002 relate to interest accruing on the Company's obligation to the University of Pennsylvania.

For the three months ended September 30, 2003 and 2002

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

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The Company generated no revenue from the development contract during the three-months ended September 30, 2003; However during the quarter, the Company received notification that it would receive \$11,730 from prior year's billing of which \$6,880 was received during the three months. Previously, the Company set up a bad debt reserve in full for the hold back. The amounts receivable were offset against the charge off.

The Company received its full award through its agreement with the U.S. Air Force during the quarter ended June 30, 2002 and had no revenue from the contract during the quarter ended September 30, 2002.

During the three-month periods ended September 30, 2003 and 2002, the Company incurred approximately \$16,695, and \$123,932, respectively, in development costs. Of the \$123,932 incurred in 2002, \$54,580 was paid to subcontractors.

General and administration costs were \$361,969 and \$2,206,049, respectively, for the three-month periods ended September 30, 2003 and 2002. The major expenses incurred in 2003, consisted of officer's salaries of \$218,199 all of which was paid through the issuance of common shares. Other expenses incurred during the three-month period included office

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salaries of \$9,715, consulting fees of \$76,383, professional fees of \$29,235, rent of \$7,044, office expense of \$7,827, telephone expense of \$4,943, and travel expense of \$4,871.

Of the \$76,383 incurred in consulting fees, \$40,740 was paid through the issuance of 7,760,000 (post split) shares of the Company's common stock.

The major expenses incurred in 2002, consisted of officer's salaries of \$30,000, office salaries of \$10,618, consulting fees of \$392,658, professional fees of \$1,714,479, rent of \$6,411, office expense of \$6,246, telephone expense of \$5,236, and travel expense of \$3,672.

Of the \$1,714,479 in professional fees, \$1,481,895 is accrued and due to two attorneys in the settlement of the Beck matter. The Company's obligation to pay this fee is contingent upon the Company's earnings (See Note 2 to the financial statements). Also included are legal fees of \$208,700 that were paid through the issuance of 7,005,000 (pre-split) shares (7,005 shares post-split) of the Company's common stock.

Of the \$392,658 incurred in consulting fees, \$196,500 was paid through the issuance of 5,750,000 (pre-split) (5,750 post-split) shares of the Company's common stock. Also included in consulting fees were the 1,000,000 (pre-split) (1,000 shares post-split) shares of the Company's common stock that was issued in full settlement to Stephen Beck. The 1,000,000 shares were valued at \$40,000.

Interest expense for the three-months ended September 30, 2003 totaled

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\$42,147 as compared to \$21,095 incurred during the first nine-months of 2002.

Liquidity and Capital Resources

Cash as of September 30, 2003 and 2002 were \$117,368, and \$243,438, respectively. During 2003, the Company received \$6,880 from the prior year's development contract, \$184,951 through the issuance of 33,117 shares (post split) of Class A common stock, \$24,100 through the issuance of 24 (post split) shares of the Company's Class A Preferred Shares, \$40,400 through the issuance of the 4,050 (post split) shares of the Company's Class C Convertible shares, and \$2,189 through the issuance of 43,750 shares of common stock of Matech Aerospace, Inc., an inactive corporation that was wholly owned by the Company prior to the issuance of the 43,750 shares. The Company holds 4,000,000 shares of the subsidiary's common stock. Of the \$258,520 received, \$460,246 was used in operations, \$38,356 was used to pay offering expenses, and \$24,332 was used to repurchase 997 (post split) shares of its common stock from investors.

During 2002, the Company received \$738,638 through its research contracts, \$797,430 through the issuance of Company's common stock, \$1,555 from interest earned on savings. Of the \$1,537,623 received, \$1,258,560 was used in operations, \$29,608 was used in the purchase of equipment, \$149,231 was used to pay offering expenses, and \$29,700 was repaid to its President.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

n/a.

Part II. Other Information

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

During the quarter ended September 30, 2003, the Company received \$38,787 net of offering costs in exchange for the issuance of 19,069 shares (post split) of Class A common stock. In addition, during the quarter the Company issued 7,760,000 (post split) shares of Class A common for consulting services valued at \$40,740, and 7,002,749 (post split) shares of Class A common were issued in connection with its Regulation S offering valued at \$61,145. The Company also during the quarter issued 37,000,000 (post split)

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shares to its President for the cancellation of accrued compensation due him of \$320,000 and a \$37,000 note due the company. 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 20,000,000 (post split) shares of its Class A common stock in consideration of certain investors for their assumption of the \$1,583,129 obligation due to two attorneys. In addition, the Company issued 2,000,000 (post split) shares of its common stock to the same two attorneys in exchange for the release of any claims which they might have against the Company. During the quarter, the Company also issued 2,000,000 shares (post split) of its Class A common stock for fees incurred relating to the \$1,500,000 financing arrangement with Palasides, LLC.

Item 3. Defaults Upon Senior Securities

None

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

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Exhibits

Number 31.1

Certifications Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Number 32.1

Certification 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

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

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Material Technologies, Inc.

Registrant

/s/ Robert M. Bernstein

Robert M. Bernstein, President and Chief
Financial Officer