MATERIAL TECHNOLOGIES INC /CA/
Form 10-Q
May 03, 2002

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OF 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended: March 31, 2002 Commission file number: 33-23617

MATERIAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4622822
(State or other jurisdiction of incorporation or organization)	(IRS Employer identification No.)

11661 San Vicente Boulevard
Suite 707
Los Angeles, California 90049
(address of principal executive offices)
(Zip Code) 90064

(310) 208-5589
(Registrant's telephone number including area code)

Securities Registered pursuant to Section 12(g) of the Act:

Common

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 or Regulation S-K is not contained herein, and will not 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-K or any amendment of this form 10-K. [ ]

The aggregate market value of the voting stock held by Non-affiliates of the registrant at May 1, 2002 was $ 3,263,402

Documents incorporated by reference-None.

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

	December 31, 2001	March 31. 2002
		(Unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 174,469	$ 302,716
Receivable due on research contract	285,677	257,743
Receivable from officer	35,880	60,185
Prepaid expenses	-	79,166
TOTAL CURRENT ASSETS	496,026	699,810
FIXED ASSETS		
Property and equipment, net		

of accumulated depreciation	2,708	2,405
OTHER ASSETS		
Intangible assets, net of accumulated amortization	15,663	14,907
Refundable deposit	2,348	2,348
TOTAL OTHER ASSETS	18,011	17,255
TOTAL ASSETS	$ 516,745	$ 719,470

See accompanying notes

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

	December 31, 2001	
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES		
Legal fees payable	$ 282,950	$
Fees payable to R&D subcontractor	196,043	
Consulting fees payable	5,525	
Accounting fees payable	42,417	
Other accounts payable	8,801	
Accrued expenses	43,213	
Accrued officer wages	70,000	
Notes payable - current portion	25,688	
Loans payable - others	57,406	
TOTAL CURRENT LIABILITIES	732,043	
Payable on research and development sponsorship	422,653	
TOTAL LIABILITIES	1,154,696	
STOCKHOLDERS' EQUITY (DEFICIT)		
Class A Common Stock, $.001 par value, authorized 200,000,000 shares, 102,433,378 shares issued , 42,433,378 shares outstanding and 60,000,000 Shares Held in Reserve at December 31, 2001,		

and 149,125,389 shares issued, 49,125,389 shares outstanding and 100,000,000 shares held in reserve at March 31, 2002	42,433
Class B Common Stock, $.001 par value, authorized 100,000 Shares, outstanding 100, 000 shares at December 31, 2001, and March 31, 2002	100
Class A Preferred, $.001 par value, authorized 50,000,000 Shares outstanding 337,471 shares at December 31, 2001 and March 31, 2002	337
Additional paid in capital	6,995,412
Less notes receivable - common stock	(731,549)
Deficit accumulated during the development stage	(6,944,684)
TOTAL STOCKHOLDERS' (DEFICIT)	(637,951)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$ 516,745

See accompanying notes

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

	For the Three Months Ended March 31,		From Inception (October 21, 198 Through
	2001	2002	March 31, 2002
	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES			
Sale of fatigue fuses	$ -	$ -	$ 64,5
Sale of royalty interests	-	-	198,7
Research and development revenue	264,760	330,809	4,894,2
Test services	-	-	10,8
TOTAL REVENUES	264,760	330,809	5,168,4
COSTS AND EXPENSES			
Research and development	210,616	252,346	4,408,9
General and administrative	540,664	330,779	7,865,9
TOTAL COSTS AND EXPENSES	751,280	583,125	12,274,9
INCOME (LOSS) FROM OPERATIONS	(486,520)	(252,316)	(7,106,5
OTHER INCOME (EXPENSE)			
Expense reimbursed	-	-	4,5
Interest income	41,150	12,616	260,4

Interest expense	(17,814)	(20,356)	(336,3
Gain on sale of stock	-	-	207,4
Loss on abandonment of interest in joint venture	-	-	(33,0
Miscellaneous income	-	-	25,1
Loss on sale of equipment	-	-	(12,7
Gain on foreclosure	-	-	18,6
Modification of royalty agreement	-	-	(7,3
Settlement of teaming agreement	-	-	50,0
Litigation settlement	-	-	18,0
TOTAL OTHER INCOME	23,336	(7,740)	194,9
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND PROVISION FOR INCOME TAXES	(463,184)	(260,056)	(6,911,6
PROVISION FOR INCOME TAXES	(800)	(800)	(11,0
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(463,984)	(260,856)	(6,922,6
EXTRAORDINARY ITEMS			
Forgiveness of indebtness	-	-	(289,9
Utilization of operating loss carryforward	-	-	7,0
NET INCOME (LOSS)	$ (463,984)	$ (260,856)	$ (7,205,5
PER SHARE DATA			
Basic income (loss) before extraordinary item	$ (0.02)	$ (0.01)	
Basic extraordinary items	-	-	
BASIC NET INCOME (LOSS) PER SHARE	$ (0.02)	$ (0.01)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	27,685,389	44,819,027	

See accompanying notes

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

	For the Three Months E March 31, 2001	200
	(Unaudited)	(Unaudi
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (463,984)	$ (260
Adjustments to reconcile net income (loss) to net cash provided (used) in operating activities		

Depreciation and amortization	737	1
Accrued interest income	(41,150)	(12
Gain on sale of securities	-	
Charge off of investment in joint venture		
Officers' and directors compensation on stock subscription modification		
Charge off of deferred offering costs	-	
Charge off of long-lived assets due to impairmant	-	
Modification of royalty agreement	-	
Gain on foreclosure	-	
(Increase) decrease in accounts receivable	(123,985)	27
(Increase) decrease in prepaid expense	-	(79
Loss on sale of equipment	-	
Issuance of common stock for services	442,500	186
Issuance of stock for agreement modification	-	
Forgiveness of Indebtedness	-	
Increase (decrease) in accounts payable and accrued expenses	173,282	(77
Interest accrued on note payables	17,127	19
Increase in research and development sponsorship payable	-	
(Increase) in note for litigation settlement	-	
(Increase) in Deposits	-	
TOTAL ADJUSTMENTS	468,511	65
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,527	(195
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From sale of equipment	-	
Purchase of property and equipment	-	
Proceeds from sale of securities	-	
Purchase of securirties	-	
Proceeds from foreclosure	-	
Investment in joint ventures	-	
Payment for license agreement	-	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	

See accompanying notes

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

	For the Three Months Ended March 31,		From Inception (October 21, 1983) Through
	2001	2002	March 31, 2002

	(Unaudited)	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock net of offering costs	$ -	$ 434,700	$ 2,182,433
Costs incurred in offerings	-	(88,334)	(199,373)
Sale of common stock warrants	-	-	18,250
Sale of preferred stock	-	-	258,500
Sale of redeemable preferred stock	-	-	150,000
Capital contributions	-	-	301,068
Payment on proposed reorganization	-	-	(5,000)
Loans From officer	1,600	-	778,805
Repayments to officer	(7,300)	(23,000)	(531,832)
Increase in loan payable-others	-	-	172,069
CASH FLOWS FROM FINANCING ACTIVITIES:	(5,700)	323,366	3,124,920
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,173)	128,247	302,716
BEGINNING BALANCE CASH AND CASH EQUIVALENTS	1,954	174,469	-
ENDING BALANCE CASH AND CASH EQUIVALENTS	$ 781	$ 302,716	$ 302,716

See accompanying notes

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS

Note 1. 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 March 31, 2002, and the results of its operations and cash flows for the three-month periods ended March 31, 2001 and 2002. The operating results of the Company on a quarterly basis may not be indicative of operating results for the full year.

MATERIAL TECHNOLOGIES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

During the three-month period ended March 31, 2002, the Company generated approximately $330,809 under its research and development contracts as

compared to $264,760 generated during the three-month period ended March 31, 2001.

During the three-month periods ended March 31, 2002 and 2001, the Company incurred approximately $252,346 and $210,616, respectively, in development costs all of which related to the above-indicated contracts.

General and administration costs were $330,779 and $540,664, respectively, for the three-month periods ended March 31, 2002 and 2001. The major expenses incurred during 2002 consisted of consulting in the amount of $198,285, officer's salary of $30,000, secretarial salary of $10,315, professional fees of $42,343, travel expenses of $8,622, and telephone expense of $8,671. Of the $198,285 incurred for consulting expense, $168,900 was through the issuance of 1,689,000 shares of the Company's common stock. Of the $42,343 incurred in professional fees, $17,500 was through the issuance of 175,000 shares of the Company's common stock.

The major expenses incurred during the three-month period ended March 31, 2001 consisted of officer's salary of $450,000, office salaries of $9,903, consulting of $5,998, professional fees of $43,636, telephone of $2,060, and travel of $5,009. Officer's salary consists of $30,000 of accrued wages and the issuance of 6,000,000 shares of common stock valued at $420,000 for the amount of accrued compensation for the years 1991 through 1995.

Interest credited to operations for 2002 and 2001 were $41,150 and $12,616, respectively. Significantly all interest income credited to operations has been accrued on non-recourse notes from the Company's president and a director totaling $495,000.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of March 31, 2002 and 2001 were $302,716 and $781, respectively.

During the first quarter of 2002, the Company received a total of $793,800, which consisted of $358,744 from its research and development contracts, $434,700 through the sale of 5,003,011 shares of its common stock and $356 in interest income. Of the $793,800 received, $554,219 was used in operations, $88,334 was incurred in the offering of the shares of common stock, and $23,000 was advanced to the Company's President.

During the first quarter of 2001, the Company received a total of $141,669, which consisted of $140,069 from its research and development contracts, and advances from its President totaling $1,600. Of the $141,669 received, $137,142 was used in operations and $7,300 was advanced to the Company's President.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

During the first quarter of 2002, the Company issued a total of 46,692,011 of its common stock, of which 40,000,000 shares were issued in connection with the Company's $12,500,000 straight documentary credit. These shares are held in reserve as collateral under the terms of the credit and are not available for sale. Of the remaining 6,692,011 shares issued, 5,003,011 were sold through Regulation S from

which the Company received a total of $434,700, and 1,864,000 shares were issued to consultants and professionals for services rendered. The services rendered for these 1,864,000 shares were valued at $186,400.

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.

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Material Technologies, Inc.

Registrant

s/s/ Robert M. Bernstein

Robert M. Bernstein, President and Chief Financial Officer