

MATERIAL TECHNOLOGIES INC /CA/
Form 10-Q
May 15, 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 March 31, 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 April 21, 2003:

Class A Common Stock - 138,542,565 shares outstanding, 1,342,800 shares held in reserve

Class B Common Stock - 300,000 shares outstanding

Class A Preferred - 504,821 shares outstanding

Material Technologies, Inc.

PART I. FINANCIAL INFORMATION

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Material Technologies, Inc.
(A Development Stage Company)

BALANCE SHEETS

	December 31, 2002	March 31, 2003 (Unaudited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 251,782	\$ 130,054
Receivable from officer	76,109	77,402
Employee receivable	1,433	-
Prepaid expenses	1,179	1,179
Total current assets	330,503	208,635
Fixed Assets		
Property and equipment, net of accumulated depreciation	27,649	25,893
Other Assets		
Intangible assets,		

net of accumulated amortization	12,120	11,591
Refundable deposit	2,348	2,348
Total other assets	14,468	13,939
Total Assets	\$ 372,620	\$ 248,467

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

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Material Technologies, Inc.
(A Development Stage Company)

BALANCE SHEETS

	December 31, 2002	March 31, 2003 (Unaudited)
Liabilities and Stockholders' (Deficit)		
Current Liabilities		
Legal fees payable	\$ 216,783	\$ 218,891
Accounting fees payable	22,443	30,538
Other accounts payable	15,736	8,002
Accrued expenses	33,880	41,510
Accrued officer wages	75,482	75,482
Notes payable - current portion	25,688	25,688
Payable on research and development sponsorship	498,731	521,174
Loans payable - others	59,028	59,434
Total Current Liabilities	947,771	980,719
Long-Term Debt	1,519,166	1,541,891
Total Liabilities	2,466,937	2,522,610

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 130,199,499 at March 31, 2003.

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

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101,342,80 at March 31, 2003	109,228	130,199
Class B Common Stock, \$.001 par value, authorized 300,000 shares, outstanding 300,000 shares at December 31, 2002 and March 31, 2003	300	300
Class A Preferred, \$.001 par value, authorized 50,000,000 outstanding 480,721 shares at December 31, 2002, and 504,821 shares at March 31, 2003	480	504
Additional paid-in capital	11,223,453	11,452,615
Less notes receivable - common stock	(774,311)	(785,025)
Deficit accumulated during the development stage	(12,653,467)	(13,057,016)
Less: Notes receivable - common stock	(774,311)	(785,025)
Treasury stock - (812,000 shares Class A common) - at cost	-	(15,720)
Total Stockholders' (Deficit)	(2,094,317)	(2,274,143)
Total Liabilities and Stockholders' (Deficit)	\$ 372,620	\$ 248,467

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

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**Material
Technologies, Inc.
(A Development Stage
Company)**

STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,		From Inception (October 21, 1983) Through March 31,
	2002	2003	2003
	(Unaudited)	(Unaudited)	(Unaudited)
	(Restated)		
Revenues			
Sale of fatigue fuses	\$ -	\$ -	\$ 64,505
Sale of royalty interests	-	-	198,750
Research and development revenue	330,809	-	5,024,812
Test services	-	-	10,870

Total Revenues	330,809	-	5,298,937
Costs and Expenses			
Research and development	252,346	31,236	5,061,999
General and administrative	456,939	338,438	12,792,292
Total Costs and Expenses	709,285	369,674	17,854,291
Income (Loss) From Operations	(378,476)	(369,674)	(12,555,354)
Other Income (Expense)			
Interest income	12,616	13,186	313,786
Interest expense	(20,356)	(46,261)	(480,708)
Loss on abandonment of joint venture	-	-	(33,000)
Total Other Income	(7,740)	(33,075)	(199,922)
Net Income (Loss) Before Extraordinary Items and Provision for Income Per Share	\$ (0.01)	\$ n/a	
Weighted Average Common Shares Outstanding	44,819,027	115,637,191	

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

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Material Technologies, Inc.
**(A Development Stage
Company)**

STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2002 (Unaudited) (Restated)	2003 (Unaudited)	From Inception (October 21, 1983) Through March 31, 2003 (Unaudited)
Cash Flows From Operating Activities			
Net income (loss)	\$ (387,016)	\$ (403,549)	\$ (13,057,016)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization	1,059	2,285	187,897
Accrued interest income	(12,247)	(12,007)	(259,738)

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Gain on sale of securities	-	-	(196,596)
Charge off of investment in joint venture	-	-	33,000
Officers and directors compensation			
on stock subscription modification	-	-	1,500,000
Issuance of common stock to officer for past services	-	-	260,000
Charge off of deferred offering costs	-	-	36,480
Charge off of long-lived assets due to impairment	-	-	92,919
Modification of royalty agreement			7,332
Gain on foreclosure	-	-	(18,697)
(Increase) decrease in accounts receivable	27,934	-	(50,328)
(Increase) decrease in employee advances	-	1,433	-
(Increase) decrease in prepaid expenses	(79,166)	-	(1,338)
Loss on sale of equipment	-	-	12,780
Issuance of common stock for services	312,560	132,250	4,713,906
Issuance of stock for agreement modification	-	-	152
Forgiveness of indebtedness	-	-	215,000
Increase (decrease) in accounts payable and accrued expenses	(77,912)	10,098	913,087
Increase in legal fees secured by note payable	-	22,725	1,504,620
Interest accrued on note payables	19,669	22,849	410,575
Increase in research and development sponsorship payable	-	-	218,000
(Increase) in note for litigation settlement	-	-	(25,753)
(Increase) in deposits	-	-	(2,189)
Total Adjustments	191,897	179,633	9,551,109
Net Cash Provided (Used) By Operating Activities	(195,119)	(223,916)	(3,505,907)
Cash Flows From Investing Activities			
Proceeds from sale of equipment	-	-	10,250
Purchase of property and equipment	-	-	(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	-	-	(126,495)

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

STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,		From Inception (October 21, 1983) Through March 31,
	2002	2003	2003
	(Unaudited)	(Unaudited)	(Unaudited)
	(Restated)		
Cash Flows From Financing Activities			
Issuance of common stock	\$ 434,700	\$ 112,853	\$ 3,014,321
Costs incurred in Offering	(88,334)	(19,045)	(391,558))
Sale of common stock warrants	-	-	18,250
Sale of preferred stocks	-	24,100	282,600
Sale of redeemable preferred stock	-	-	150,000
Capital contributions	-	-	301,068
Purchase of treasury stock	-	(15,720)	(15,720)
Payment on proposed reorganization	-	-	(5,000)
Loans from officer	-	-	778,805
Repayments to officer	(23,000)	-	(542,379)
Increase in loan payable - others	-	-	172,069
Net Cash Flows From Financing Activities	323,366	102,188	3,762,456
Net Increase (Decrease) in Cash and Cash Equivalents	128,247	(121,728)	130,054
Beginning Balance Cash and Cash Equivalents	174,469	251,782	-
Ending Balance Cash and Cash Equivalents	\$ 302,716	\$ 130,054	\$ 130,054

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

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, 2003, and the results of its operations and cash flows for the three-month periods ended March 31, 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 2.

Financial statements for the quarter ended March 31, 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 3.

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

Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

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 subcontract with the United States Air Force relating to the further development of the Electrochemical Fatigue Fuse. 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 is 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.

MATERIAL TECHNOLOGIES, INC.

(a Development Stage Company)

Notes to Financial Statements

Note 4.

Stock Activity

During the quarter ended March 31, 2003, the Company received \$93,808 net of offering costs in exchange for the issuance of 10,799,194 shares of its Class A common stock. The Company also received \$24,100 in exchange for the issuance of 24,100 shares of its preferred stock. The preferred stock is convertible into 48,200 shares of Class A

common. In addition, during the quarter the Company issued 6,000,000 shares of its Class A common stock for legal services valued at \$105,000, 1,362,250 shares of Class A common were issued for consulting services valued at \$27,250, and 2,549,620 shares of Class A common were issued in connection with its Regulation S offering valued at \$25,496. The shares issued for non-cash consideration were valued at their respective quoted market price at date of issuance.

Also during the quarter ended March 31, 2003, the Company purchased 812,000 shares of its common stock from various shareholders on the open market for \$15,720. These shares are held in the Company's treasury waiting for cancellation.

MATERIAL TECHNOLOGIES, INC.

QUARTERLY REPORT

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

Results of Operations for the Three Months Ended March 31, 2003 and 2002

During the quarter ended March 31, 2003, the Company did not generate any revenue with the exception of interest income. During the three-month period ended March 31, 2002, the Company generated approximately \$330,809 under its research and development contracts.

During the three-month periods ended March 31, 2003 and 2002, the Company incurred development costs of approximately \$31,236 and \$252,346, respectively. Of the \$31,236 incurred in 2003, \$5,000 was paid through the issuance of 250,000 shares of the Company's common stock.

General and administration costs were \$338,438 and \$456,939, respectively, for the three-month periods ended March 31, 2003 and 2002. The major expenses incurred during 2003 consisted of consulting in the amount of \$67,155, officer's salary of \$31,000, secretarial salary of \$13,015, professional fees of \$161,772, travel expenses of \$6,575, and telephone expense of \$4,317. Of the \$67,155 incurred for consulting expense, \$22,250 was through the issuance of 1,112,500 shares of the Company's common stock. Of the \$161,155 incurred for professional fees, \$105,000 was through the issuance of 6,000,000 shares of the Company's common stock.

The major expenses incurred during 2002 consisted of consulting in the amount of \$307,945, officer's salary of \$30,000, secretarial salary of \$10,315, professional fees of \$58,843, travel expenses of \$8,622, and telephone expense of \$8,671. Of the \$307,945 incurred for consulting expense, \$278,560 was through the issuance of 1,689,000 shares of the Company's common stock. Of the \$58,843 incurred in professional fees, \$34,500 was through the issuance of 175,000 shares of the Company's common stock.

Interest credited to operations for 2003 and 2002 were \$13,186 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. Interest charged to operations primarily relate to accrued interest due on the Company's various obligations.

Liquidity and Capital Resources

Cash and cash equivalents as of March 31, 2003 and 2002 were \$130,054 and \$302,716, respectively. During the first quarter of 2003, the Company received a total of \$138,133, which consisted of \$112,853 through the sale of 10,799,194 shares of its common stock, \$24,100 through the sale of 24,100 of its convertible preferred shares, and

\$1,180 in interest income. During the quarter, the Company used \$225,096 in its operations, \$19,045 was incurred in the offering of the shares of common stock, and \$15,720 was used to purchase 812,000 shares of its common stock from various shareholders.

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.

As indicated, the Company used approximately \$225,000 in its operations for the quarter ended March 31, 2003 leaving a cash balance of only \$130,054. Although Management has continued to lower the Company's overhead, there is no assurance that the Company can continue operating without additional funding. Management continues in its attempt to raise capital, but there is no assurance that additional capital will be found, and if found, the amounts raised will be sufficient to fund continued operations until such time as the Company's products are brought to market. Even if the necessary funds are obtained, there is no assurance that Company's products will be fully developed and go to market, or that the Company will generate enough sales to ever be profitable.

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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 first quarter of 2003, the Company issued a total of 20,971,314 of its common stock, of which 10,799,194 shares were sold through Regulation S from which the Company received a total of \$112,853, and 9,912,120 shares were issued to consultants and professionals for services rendered. The services rendered for these 9,912,120 shares were valued at \$157,460. The remaining 260,000 shares of common stock were issued to Mr. Stephen Beck pursuant to the anti-dilution provision included in his settlement agreement with the Company. The Company cancelled 260,000 shares of its common stock, which it held in reserve relating to Mr. Beck's agreement.

>From April 1, 2003 through April 21, 2003, the Company issued 8,343,066 shares of its common stock of which 4,241,606 were issued to the University of Pennsylvania pursuant to its anti-dilution provision included in its licensing agreement with the Company, 1,000,000 shares were issued each to Mr. Goodman and Mr. Berks, employees of the company, and 2,101,460 shares were issued to various consultants for services rendered.

In addition, in May 2003, the Company cancelled the 100,000,000 shares that it held in reserve relating to its straight documentary credit.

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: May 13, 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: May 13, 2003

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MATERIAL TECHNOLOGIES, INC.

QUARTERLY REPORT

CERTIFICATION

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: May 13, 2003

/s/ Robert M. Bernstein

- - - - -

Robert M. Bernstein

Principal Executive Officer and Principal Accounting Officer