

MATERIAL TECHNOLOGIES INC /CA/  
Form 10-Q/A  
July 02, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A2  
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(Mark One)

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

For the quarterly period ended March 31, 2004  
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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 13 or 15(d) of the Exchange Act during the past 12 months (or for

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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 March 31, 2003

Class A Common Stock - 67,588,975 shares outstanding, 842 shares held in reserve

Class B Common Stock - 600,000 shares outstanding

Class A Preferred - 337 shares outstanding

Class B Preferred - 167 shares outstanding

Class C Preferred - 4,050 shares outstanding

Class D Preferred - 4,990,000 shares outstanding

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Part 1. Financial Information  
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Item 1. Financial Statements  
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The following financial statements and related footnotes replace in their entirety the financial statements and footnotes previously filed in the Company's 10-Q and 10-Q/A for the quarter ended March 31, 2004 which were not reviewed by the Company's independent accountants.

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

|                                      | December<br>2003 |
|--------------------------------------|------------------|
|                                      | -----            |
| ASSETS                               |                  |
| CURRENT ASSETS                       |                  |
| Cash                                 | \$ 47            |
| Receivable due in research contracts | 28               |
| Receivable from officer              | 83               |
| Employee receivable                  | 1                |
| Receivable from tax authorities      |                  |
| Prepaid expenses                     | 4                |
|                                      | -----            |
| TOTAL CURRENT ASSETS                 | 165              |
|                                      | -----            |
| FIXED ASSETS                         |                  |

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|  |        |
|--|--------|
| Property and equipment, net<br>of accumulated depreciation | 20     |
| <hr/>  |        |
| OTHER ASSETS   |        |
| Intangible assets, net of<br>accumulated amortization      | 10     |
| Refundable deposit   | 2      |
| <hr/>  |        |
| TOTAL OTHER ASSETS   | 12     |
| <hr/>  |        |
| TOTAL ASSETS   | \$ 198 |
| <hr/> <hr/>  |        |

See accompanying notes

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

|   |                  |
|---|------------------|
|   | December<br>2003 |
| <hr/>                                   |                  |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) |                  |
| CURRENT LIABILITIES                     |                  |
| Legal fees payable                      | \$ 219           |
| Fees payable to R&D subcontractors      | 25               |
| Accounting fees payable                 | 37               |
| Other accounts payable                  | 78               |
| Accrued expenses                        | 17               |
| Accrued officer wages                   | 142              |
| Notes payable - current portion         | 25               |

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|  |          |
|--|----------|
| Payable on research and development sponsorship  | 638      |
| Loans payable - others   | 60       |
|  | -----    |
| TOTAL CURRENT LIABILITIES  | 1,245    |
|  | -----    |
| SECURED CONVERTIBLE DEBENTURE  | 345      |
|  | -----    |
| TOTAL LIABILITIES  | 1,590    |
|  | -----    |
| MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY   | 38       |
|  | -----    |
| STOCKHOLDERS' (DEFICIT)  |          |
| Class A preferred stock, \$.001 par value, authorized 350,000 Shares, issued and outstanding 337 shares at December 31, 2003 and March 31, 2004  |          |
| Class B preferred stock, \$.001 par value, authorized 200,000 Shares, issued and outstanding 167 shares at December 31, 2003 and March 31, 2004  |          |
| Class C preferred stock, \$.001 par value, authorized 25,000,000 shares, issued and outstanding 4,050 at December 31, 2003 and March 31, 2004  |          |
| Class D preferred stock, \$.001 par value, authorized 20,000,000 Shares, issued and outstanding 5,440,000 shares at December 31, 2003 and 4,990,000 shares at March 31, 2004   | 5        |
| Class A Common Stock, \$.001 par value, authorized 549,400,000 shares, issued and outstanding 66,488,975 at December 31, 2003 and 67,588,975 shares at March 31, 2004, Shares held in reserve 843 shares at December 31, 2003 and March 31, 2004 | 66       |
| Class B Common Stock, \$.001 par value, authorized 600,000 Shares, issued and outstanding 600,000 shares at December 31, 2003, and March 31, 2004  |          |
| Additional paid in capital   | 13,086   |
| Less notes receivable - common stock   | (51)     |
| Deficit accumulated during the development stage   | (14,539) |
|  | -----    |
| TOTAL STOCKHOLDERS' (DEFICIT)  | (1,430)  |
|  | =====    |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)  | \$ 198   |
|  | =====    |

See accompanying notes

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(A Development Stage Company)  
 CONSOLIDATED STATEMENTS OF OPERATIONS

|   | For the Three Months Ended<br>March 31, |              | From<br>(October<br>1<br>to<br>March<br>31) |
|---|---|--------------|---|
|   | 2003                                    | 2004         | (Unaudited)                                 |
|   | (Unaudited)                             | (Unaudited)  | (Unaudited)                                 |
| <b>REVENUES</b>   |   |              |   |
| Sale of fatigue fuses   | \$ -                                    | \$ -         | \$ -  |
| Sale of royalty interests   | -                                       | -            | -   |
| Research and development revenue  | -                                       | 67,270       | -   |
| Test services   | -                                       | -            | -   |
|   | -                                       | 67,270       | -   |
| <b>COSTS AND EXPENSES</b>   |   |              |   |
| Research and development  | 31,236                                  | 161,586      | -   |
| General and administrative  | 338,438                                 | 784,419      | -   |
|   | 369,674                                 | 946,005      | -   |
| <b>(LOSS) FROM OPERATIONS</b>   | (369,674)                               | (878,735)    | -   |
| <b>OTHER INCOME (EXPENSE)</b>   |   |              |   |
| Interest income   | 13,186                                  | 3,090        | -   |
| Interest expense  | (46,261)                                | (45,653)     | -   |
| Forgiveness of indebtedness   | -                                       | -            | -   |
| Loss on abandonment of joint venture  | -                                       | -            | -   |
|   | (33,075)                                | (42,563)     | -   |
| <b>NET (LOSS) BEFORE EXTRAORDINARY ITEMS<br/>AND PROVISION FOR INCOME TAXES</b> | (402,749)                               | (921,298)    | -   |
| <b>PROVISION FOR INCOME TAXES</b>   | (800)                                   | (800)        | -   |
|   | -                                       | -            | -   |
| <b>NET (LOSS)</b>   | \$ (403,549)                            | \$ (922,098) | \$ (922,098)                                |
| <b>PER SHARE DATA</b>   |   |              |   |
| Basic income (loss) before extraordinary item                                   | -                                       | -            | -   |
| <b>BASIC NET (LOSS) PER SHARE</b>   | \$ (3.49)                               | \$ (0.01)    | -   |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>                               | 115,637                                 | 67,006,008   | -   |

See accompanying notes

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

|  | For the Three Months Ended<br>March 31, |                              |
|--|---|------------------------------|
|  | 2003<br>-----<br>(Unaudited)            | 2004<br>-----<br>(Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES:  |   |                              |
| Net (loss)   | \$ (403,549)                            | \$ (922,098)                 |
| Adjustments to reconcile net income<br>(loss) to net cash provided<br>(used) in operating activities |   |                              |
| Depreciation and amortization  | 2,285                                   | 2,107                        |
| Accrued interest income  | (12,007)                                | (3,090)                      |
| Gain on sale of securities   | -                                       | -                            |
| Charge off of investment in joint venture  | -                                       | -                            |
| Officers' and directors compensation on stock<br>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   | -                                       | (6,303)                      |
| (Increase) decrease in employee advances   | 1,433                                   | -                            |
| (Increase) decrease in prepaid expense   | -                                       | 1,188                        |
| Loss on sale of equipment  | -                                       | -                            |
| Issuance of common stock for services  | 132,250                                 | 553,200                      |
| Issuance of stock for agreement modification   | -                                       | -                            |
| Forgiveness of Indebtedness  | -                                       | -                            |
| Increase (decrease) in accounts<br>payable and accrued expenses                                      | 10,098                                  | (64,501)                     |
| Increase in legal fees secured by note payable   | 22,725                                  | -                            |
| Interest accrued on note payables  | 22,849                                  | 44,966                       |
| Increase in research and development<br>sponsorship payable  | -                                       | -                            |

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|   |           |           |
|---|-----------|-----------|
| (Increase) in note for litigation settlement        | -         | -         |
| (Increase) in Deposits                              | -         | -         |
|   | -----     | -----     |
| TOTAL ADJUSTMENTS                                   | 179,633   | 527,567   |
|   | -----     | -----     |
| NET CASH PROVIDED (USED) BY<br>OPERATING ACTIVITIES | (223,916) | (394,531) |
|   | -----     | -----     |
| CASH FLOWS FROM INVESTING ACTIVITIES                |           |           |
| Proceeds From sale of equipment                     | -         | -         |
| Purchase of property and equipment                  | -         | -         |
| Proceeds from sale of securities                    | -         | -         |
| Purchase of securities                              | -         | -         |
| Proceeds from foreclosure                           | -         | -         |
| Investment in joint ventures                        | -         | -         |
| Payment for license agreement                       | -         | -         |
|   | -----     | -----     |
| NET CASH PROVIDED (USED) BY<br>INVESTING ACTIVITIES | -         | -         |
|   | -----     | -----     |

See accompanying notes

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

|   | For the Three Months Ended<br>March 31, |             |
|---|---|-------------|
|   | 2003                                    | 2004        |
|   | -----                                   | -----       |
|   | (Unaudited)                             | (Unaudited) |
| CASH FLOWS FROM FINANCING ACTIVITIES                |   |             |
| Issuance of common stock                            | \$ 112,853                              | \$ -        |
| Costs incurred in offerings                         | (19,045)                                | -           |
| Purchase of Company's common stock for cancellation | (15,720)                                | -           |
| Sale of common stock warrants                       | -                                       | -           |
| Sale of preferred stock                             | 24,100                                  | -           |
| Sale of redeemable preferred stock                  | -                                       | -           |
| Capital contributions                               | -                                       | -           |



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|   |            |           |
|---|------------|-----------|
| Payment on proposed reorganization                      | -          | -         |
| Loans From officer                                      | -          | -         |
| Repayments to officer                                   | -          | -         |
| Increase in loan payable-others                         | -          | 375,000   |
|   | -----      | -----     |
| CASH FLOWS FROM FINANCING ACTIVITIES:                   | 102,188    | 375,000   |
|   | -----      | -----     |
| NET INCREASE (DECREASE) IN CASH<br>AND CASH EQUIVALENTS | (121,728)  | (19,531)  |
| BEGINNING BALANCE CASH AND<br>CASH EQUIVALENTS          | 251,782    | 47,664    |
|   | -----      | -----     |
| ENDING BALANCE CASH AND CASH<br>EQUIVALENTS             | \$ 130,054 | \$ 28,133 |
|   | =====      | =====     |

See accompanying notes

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MATERIAL TECHNOLOGIES, INC.  
(A Development Stage Company)

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### Notes to Financial Statements

-----

Note 1. In the opinion of the Company's management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of the Company as of March 31, 2004, and the results of its operations and cash flows for the three-month periods ended March 31, 2004 and 2003. The operating results of the Company on a quarterly basis may not be indicative of operating results for the full year.

On September 23, 2003, the Company's Board of Directors affected a 1,000 for 1 reverse stock split of its Class A Common Stock and all classes of its Preferred Stock. The financial statements presented herein have been restated as if the reverse stock split occurred at the beginning of each period presented.

Note 2. Summary of Significant Accounting Policies

a. Principles of consolidation

The accompanying financial statements include the accounts and transactions of Material Technologies, Inc. and its wholly owned subsidiaries, Matech International, Inc and Matech Aerospace, Inc. Intercompany transactions and balances have been eliminated in consolidation.

b. Accounts Receivable

Accounts receivable are reported at the customers' outstanding balances less any allowance for doubtful accounts. Interest is not accrued on overdue accounts receivable.

c. Allowance for Doubtful Accounts

The allowance for doubtful accounts on accounts receivable is charged to income in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers.

d. 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

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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

As of January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which 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 or disposable value.

#### e. 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 and diluted EPS. Basic and diluted EPS is calculated by dividing net loss by the weighted average shares number of shares outstanding during the year.

#### f. 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.

#### g. Fair Value of Financial Instruments

The Company estimates the fair value of its financial instruments at their current carrying amounts since the assets and liabilities approximate their respective fair values.

#### h. 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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i. Revenue Recognition

Significantly all of the Company's revenue is derived from the Company's contracts relating to the further development of the Electrochemical Fatigue Sensor (EFS). Revenue on the contracts is recognized at the time services are rendered.

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

j. 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.

k. 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 3. Receivable from officer

As of March 31, 2004, the Company is owed by its President, Mr. Robert M. Bernstein, \$86,033 for various advances made to him. Advances are assessed interest at a rate of 10% per annum, are unsecured, and due on demand. Accrued interest credited to operations of the three-months ended March 31, 2003 and 2004 were \$1,293 and \$2,093.

Note 4. Intangibles

Intangible assets consist of the following:

|                                   | Period of<br>Amortization | 2003      | March 31,<br>2004 |
|-----------------------------------|---------------------------|-----------|-------------------|
|                                   | -----                     | -----     | -----             |
| Patent Costs                      | 17 Years                  | \$ 28,494 | \$ 28,494         |
| License Agreement<br>(See Note 5) | 17 Years                  | 6,250     | 6,250             |
| Website                           | 5 Years                   | 5,200     | 5,200             |
|                                   |                           | -----     | -----             |
|                                   |                           | 39,944    | 39,944            |
| Less Accumulated Amortization     |                           | (28,353)  | (30,469)          |
|                                   |                           | -----     | -----             |
|                                   |                           | \$ 11,591 | \$ 9,475          |

Amortization charged to operations for the three-months ended March 31, 2003 and 2004 were \$529, and \$529, respectively.

Estimated amortization expense for the next five years is as follows:

|      |         |
|------|---------|
| 2005 | \$2,116 |
| 2006 | \$1,596 |
| 2007 | \$1,076 |
| 2008 | \$1,076 |
| 2009 | \$1,076 |

Note 5. Convertible Debentures

On September 23, 2003, the Company entered into a Class A Senior Secured Convertible Debenture (the "Debenture") with Palisades Capital, LLC or its registered assigns ("Palisades"), pursuant to which Palisades has agreed to loan to the Company up to \$1,500,000, of which a total of \$715,000 has been funded through March 31, 2004.

Under the Debenture, Palisades has the option, after March 30, 2004, to convert the principal amount of all moneys loaned under the Debenture, together with accrued interest, into Common Stock of the Company at the lesser of (i) 50% of the average ten closing prices for the Company's Common Stock for the ten (10) trading days immediately preceding the Conversion Date or (ii) \$0.10 (the lesser of the two being referred to as the "Conversion Price"). In the event Palisades loans the full \$1,500,000 face amount of the Debenture to the Company and subsequently elects to exercise its right to convert the Debenture into the Company's Common Stock at a time when the Conversion Price is less than four cents per share Palisades would receive at least fifty million (50,000,000) shares of Common Stock resulting in a change in control of the Common Stock of the Company. However, Mr. Bernstein would still retain voting control as a result of his holding of one hundred percent (100%) of the Class B Common Stock.

In connection with the financing, the Company's President entered into a voting agreement and irrevocable proxy, which provides that until September 23, 2006, if an Event of Default, as defined in the Debenture in favor of Palisades and continues for a period of not less than 30 days, all Class B Common Stock which Mr. Bernstein owns of record, or becomes the owner of record in the future will be voted in accordance with the directions of Mr. Monty Freedman, or his designated successor. This loss of voting rights would affect a change in the voting control of the Company.

The debenture bears interest at an annual rate of 10% and matures on December 31, 2006 when the principal and accrued interest becomes fully due. During the three-month period ended March 31, 2004, the

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Company was advanced \$375,000 from Palisades. The balance of the debenture at March 31, 2004 was \$736,182 including accrued interest. Interest charged to operations for the three-months ended March 31, 2003 and 2004 pertaining to this obligation were \$0 and \$15,850, respectively.

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### Note 6. Stock Activity

During the quarter ended March 31, 2004, the Company issued 1,100,000 shares of its common of which 450,000 shares were issued through the conversion of 450,000 shares of the Company's Class D Preferred, 25,000 shares were issued to the Company's accountant for \$25,000 for past amounts due, and 625,000 shares were issued for consulting services valued at \$553,200. The 25,000 shares issued to the Company's accountant and the 625,000 issued to the five consultants are subject to three-year lockup agreements whereby these shares cannot be transferred or sold for three years.

During the quarter ended March 31, 2003, the Company received \$93,808 net of offering costs in exchange for the issuance of 10,799 shares of its Class A common stock. The Company also received \$24,100 in exchange for the issuance of 24 shares of its preferred stock. The preferred stock is convertible into 48 shares of Class A common. In addition, during the quarter the Company issued 6,000 shares of its Class A common stock for legal services valued at \$105,000, 1,362 shares of Class A common were issued for consulting services valued at \$27,250, and 2,550 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 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.

On February 15, 2004, the Company authorized a modification to the exercise price of certain outstanding warrants which were issued in 2003 as part of the Company's offering of Class C-Series A Convertible Preferred Stock and Class A and Class B Common Stock Purchase Warrants. The modification reduced the purchase price under the Warrants to purchase Class A Common Stock from \$50 per share to \$1 per share and reduced the purchase price under the Warrants to purchase Class B Common Stock from \$100 per share to \$2 per share. The modification also extended the exercise date by one year.

Item 2. Management's discussion and analysis of financial conditions and  
-----  
results of operations  
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Results of Operations for the Three Months Ended March 31, 2004 and 2003  
-----

Revenue generated by the Company during the quarter ended March 31, 2004 came from its research contracts with Northrop Gruman amounting to \$25,715 and URS Corporation amounting to \$41,555. In addition, the Company accrued interest income during the same quarter on amounts due it from its President in the amount of \$3,090.

During the three-month period ended March 31, 2003, the Company did not generate any revenue from its research and development contracts and earned \$13,186 in interest income, the majority of which was accrued on officer loans and notes due the Company.

During the three-month periods ended March 31, 2004 and 2003, the Company incurred development costs of approximately \$161,586 and \$31,236, respectively. Of the \$31,236 incurred in 2003, \$5,000 was paid through the issuance of 250 shares of the Company's common stock.

General and administration costs were \$784,419 and \$338,438, respectively, for the three-month periods ended March 31, 2004 and 2003.

The major expenses incurred during 2004 consisted of consulting in the amount of \$591,419, officer's salary of \$48,000, secretarial salary of \$11,658, professional fees of \$81,863, travel expenses of \$9,913, and telephone expense of \$3,736. Of the \$591,419 incurred for consulting expense, \$553,200 was paid through the issuance of 675,000 shares of the Company's common stock. Included in the 675,000 shares is 550,000 shares issued to two consultants for services rendered in connection with Matech Aerospace and for the overseeing the design, utilization, and marketing of the Company's Videoscope. The shares are subject to a three-year lock up agreement and were valued at \$486,750, which is based on 30% of the quoted market value of the shares on the date of issuance.

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 shares of the Company's common stock. Of the \$161,155

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incurred for professional fees, \$105,000 was through the issuance of 6,000 shares of the Company's common stock.

Interest charged to operations for the quarters ended March 31, 2004 and 2003, primarily relate to accrued interest due on the Company's various obligations.

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### Liquidity and Capital Resources

-----

Cash and cash equivalents as of March 31, 2004 and 2003 were \$28,133 and \$130,054, respectively.

During the quarter ended March 31, 2004, the Company received a total of \$435,967, \$60,967 was received on services rendered on its two research contracts and \$375,000 was advanced on its Class A Senior Convertible Debenture. During the quarter, the Company spent \$455,498 in its operations.

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 shares of its common stock, \$24,100 through the sale of 24 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 shares of its common stock from various shareholders.

For the quarter ended March 31, 2004, operating expenses exceeded operating revenue by \$394,531 (\$60,967 less \$455,498) leaving a cash balance at March 31, 2004 of only \$28,133. The Company is currently financing its operations from its two research contracts, and its Senior Class A Debenture. The two research contracts do not generate enough revenues to cover the costs of Company's current research projects and the remaining expected funds from its debenture agreement is only \$785,000. Based upon the Company's current level of spending, the remaining amounts expected from the debenture and the remaining amounts expected from the research contracts should allow the Company to fund its operations through May 2004. 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 that the Company will generate enough sales to ever be profitable.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

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n/a.

### Part II. Other Information

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Item 2. Changes in Securities  
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During the quarter ended March 31, 2004, the Company issued 1,100,000 shares of its common of which 450,000 shares were issued through the conversion of 450,000 shares of the Company's Class D Preferred, 25,000 shares were issued to the Company's accountant for \$25,000 for past amounts

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due, and 625,000 shares were issued for consulting services valued at \$553,200. The 25,000 shares issued to the Company's accountant and the 625,000 issued to the five consultants are subject to three-year lockup agreements whereby these shares cannot be transferred or sold three years.

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.  
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Registrant

/s/ Robert M. Bernstein  
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Robert M. Bernstein, President and Chief  
Financial Officer

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