



INDEX

	PAGE -----
Part 1. Financial Statements	
Balance Sheets	3 - 4
Statements of Operations	
Second Quarter Ended June 30, 2000 and 2001 and from the Company's inception (October 21, 1983) through June 30, 2001	5
Statements of Cash Flows	
Second Quarter Ended June 30, 2000 and 2001 and from the Company's inception (October 21, 1983) through June 30, 2001	6 - 7
Notes to Financial Statements	8
Management's Discussion and Analysis	9 - 10
Part 2 - Other Items	11

Part 1. Financial Statements

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

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	December 31, 2000	June 30, 2001	
	-----	-----	
		(Unaudited)	
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,954	\$ 5,719	
Receivable Due on Research Contract	33,932	267,291	
Receivable from Officer	22,052	27,965	
	-----	-----	

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TOTAL CURRENT ASSETS	57,938	300,975
	-----	-----
FIXED ASSETS		
Property and Equipment, Net of Accumulated Depreciation	2,990	2,511
	-----	-----
OTHER ASSETS		
Intangible Assets, Net of Accumulated Amortization	12,712	11,718
Investments	33,000	33,000
Refundable Deposit	2,136	2,136
	-----	-----
TOTAL OTHER ASSETS	47,848	46,854
	-----	-----
TOTAL ASSETS	\$ 108,776	\$ 350,340
	=====	=====

See accompanying notes.

3

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

	December 31, 2000	Ju
	-----	-----
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES		
Legal Fees Payable	\$ 209,306	\$
Fees Payable to R&D Subcontractor	20,474	
Consulting Fees Payable	50,000	
Accounting Fees Payable	26,288	
Other Accounts Payable	10,157	
Accrued Expenses	24,982	
Accrued Officer Wages	40,000	
Notes Payable - Current Portion	25,688	
Loans Payable - Others	54,160	
	-----	-----
TOTAL CURRENT LIABILITIES	461,055	
Payable on Research and Development Sponsorship	358,181	
	-----	-----
TOTAL LIABILITIES	819,236	
	-----	-----

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STOCKHOLDERS' EQUITY (DEFICIT)

Class A Common Stock, \$.001 Par Value, Authorized 100,000,000 Shares, Outstanding 24,618,167 at December 31, 2000, and 32,843,167 shares at June 30, 2001	24,618
Class B Common Stock, \$.001 Par Value, Authorized 100,000 Shares, Outstanding 100,000 Shares at December 31, 2000, and June 30, 2001	100
Class A Preferred, \$.001 Par Value, Authorized 900,000 Shares Outstanding 337,471 Shares at December 31, 2000 and June 30, 2001	337
Additional Paid in Capital	5,909,782
Less Notes Receivable - Common Stock	(2,133,251)
Deficit Accumulated During the Development Stage	(4,512,046)
	-----

TOTAL STOCKHOLDERS' (DEFICIT) (710,460)

TOTAL LIABILITIES AND STOCKHOLDERS'  
(DEFICIT) \$ 108,776 \$

See accompanying notes.

4

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2000	2001	2000	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>REVENUES</b>				
Sale of Fatigue Fuses	\$ -	\$ -	\$ -	\$ -
Sale of Royalty Interests	-	-	-	-
Income from Research Contracts	277,308	346,295	458,155	611,155
Test Services	-	-	-	-
	-----	-----	-----	-----
TOTAL REVENUES	277,308	346,295	458,155	611,155
<b>COSTS AND EXPENSES</b>				
Research and Development	260,469	261,003	351,087	471,003
General and Administrative	110,324	1,602,771	308,158	2,141,155
	-----	-----	-----	-----
TOTAL COSTS AND EXPENSES	370,793	1,863,774	659,245	2,612,158
	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	(93,485)	(1,517,479)	(201,090)	(2,001,003)
<b>OTHER INCOME (EXPENSE)</b>				
Expense Reimbursed	-	-	-	-

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Interest Income	21,440	37,295	22,478	7
Gain on Sale of Securities	-	-	251,798	
Gain on Foreclosure	-	-	-	
Miscellaneous Income	-	-	-	
Loss on Sale of Equipment	-	-	-	
Settlement of Teaming Agreement	-	-	-	
Modification of Royalty Agreement	-	-	-	
Interest Expense	(15,158)	(17,420)	(30,378)	(3)
Litigation Settlement	-	-	-	
	-----	-----	-----	-----
TOTAL OTHER INCOME	6,282	19,875	243,898	4
	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND PROVISION FOR INCOME TAXES	(87,203)	(1,497,604)	42,808	(1,96)
PROVISION FOR INCOME TAXES	(800)	-	(2,575)	
	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(88,003)	(1,497,604)	40,233	(1,96)
EXTRAORDINARY ITEMS				
Forgiveness of Debt	-	-	--	
Utilization of Operating Loss Carry forward	-	-	--	
	-----	-----	-----	-----
NET (LOSS)	\$ (88,003)	\$ (1,497,604)	\$ 40,233	\$ (1,96)
	=====	=====	=====	=====
PER SHARE DATA				
Income (Loss) Before Extraordinary Item	(0.005)	\$ (0.047)	0.003	\$ (
Extraordinary Items	-	-	-	
	-----	-----	-----	-----
NET INCOME (LOSS)	(0.005)	(0.047)	0.003	\$ (
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	17,243,600	32,010,475	16,047,454	29,41
	=====	=====	=====	=====

See accompanying notes.

5

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

	For the Three Months Ended June 30,		For the
	2000	2001	2000
	-----	-----	-----
	(Unaudited)	(Unaudited)	(Unaudi
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	\$ (88,003)	(1,497,604)	\$ 40,
	-----	-----	-----
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation and Amortization	738	736	1,
Interest Income Accrued on Stock Subscription Receivable	(16,715)	(37,294)	(17,

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Bad Debts	-	-	-
Gain on Sale of Securities	-	-	-
Gain on Foreclosure	-	-	-
Charge off of Deferred Offering Costs	-	-	-
Charge off of Long-lived Assets Due to Impairment	-	-	-
Loss on Sale of Equipment	-	-	-
Modification of Royalty Agreement	-	-	-
Issuance of Common Stock for Services	(3,450)	1,533,750	45,
Issuance of Stock for Agreement Modification	-	-	-
Forgiveness of Indebtedness	-	-	-
(Increase) Decrease in Accounts Receivable	(66,469)	(109,374)	4,
(Increase) in Employee Advances	-	-	-
(Increase) Decrease in Prepaid Expense	-	-	-
Increase (Decrease) in Accounts Payable and Accrued Expenses	112,465	96,792	13,
Interest Accrued on Notes Payable	14,470	16,732	29,
Increase in Research and Development Sponsorship Payable	-	-	-
(Increase) in Note for Litigation Settlement	-	-	-
(Increase) in Deposits	-	-	-
	-----	-----	-----
TOTAL ADJUSTMENTS	41,039	1,501,342	76
	-----	-----	-----
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(46,964)	3,738	116
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds From Sale of Equipment	-	-	-
Purchase of Property and Equipment	-	-	-
Proceeds from Sale of Securities	-	-	-
Purchase of Securities	-	-	-
Investment in Joint Ventures	(15,000)	-	(15,
Proceeds from Foreclosure	-	-	-
Payment for License Agreement	-	-	-
	-----	-----	-----
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(15,000)	-	(15,
	-----	-----	-----

See accompanying notes.

6

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2000	2001	2000	2001
	-----	-----	-----	-----
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES				

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Issuance of Common Stock				
Net of Offering Costs	\$ 5,000	\$ -	\$ 5,000	\$ -
Costs incurred in Offering	-	-	-	-
Sale of Common Stock Warrants	-	-	-	-
Sale of Preferred Stock	-	-	-	-
Sale of Redeemable Preferred Stock	-	-	-	-
Capital Contributions	-	-	-	-
Payment on Proposed Reorganization	-	-	-	-
Loans From Officers	3,000	12,700	3,000	14,300
Repayments to Officer	(1,000)	(11,500)	(11,500)	(18,800)
Increase (Decrease) in Loans - Other	-	-	-	-
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	7,000	1,200	(3,500)	(4,500)
	-----	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,964)	4,938	98,344	3,765
BEGINNING BALANCE CASH AND CASH EQUIVALENTS	216,212	781	62,904	1,954
	-----	-----	-----	-----
ENDING BALANCE CASH AND CASH EQUIVALENTS	\$ 161,248	\$ 5,719	\$ 161,248	\$ 5,719
	=====	=====	=====	=====

See accompanying notes.

7

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 June 30, 2001 and 2000 and the results of operations and cash flows for the three-month and six-month periods then ended. The operating results of the Company on a quarterly or semi-annual basis may not be indicative of operating results for the full year.

NOTE 2. In May 2000, 4,650,000 shares of the Company's common stock were issued to its President and 350,000 shares were issued to a Director. In exchange for the 5,000,000 shares issued, the Company received \$5,000 cash and non-recourse promissory notes with face values totaling \$1,995,000. The notes mature in May 2005, and bear interest at an annual rate of 8%.

In June 2001, the Company's board of directors authorized the reduction in the amount owed by the President and Director on these promissory notes to \$460,350 and \$34,650, respectively. The reduction was due to continuing market conditions and the substantial reduction in the market value of the Company's stock. The \$1,500,000 reduction was charged to general and administrative expenses.

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8

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

### RESULTS OF OPERATIONS

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FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

The Company had no sales during the six-month period ended June 30, 2001 or during the six-month period ended June 30, 2000.

The Company generated \$611,055 under its research and development contracts during the first two quarters of 2001, as compared to \$458,155 that was earned during the same period in 2000.

Interest earned during the first two quarters in 2001 totaled \$78,445, which mostly consisted of accrued interest earned on promissory notes due from the Company's President and a Director on stock purchased during the second quarter of 2000. Interest earned in 2000 amounted to \$22,478. The Company realized a \$251,798 gain from the sale of marketable securities during the first two quarters of 2000

During the six-month period ended June 30, 2001, the Company incurred \$471,619 in development costs of which \$416,476 relates to subcontract costs. Development costs incurred during the six months ended June 30, 2000, amounted to \$351,087.

General and administrative costs were \$2,143,435 and \$308,608, respectively, for the six-month periods ended June 30, 2001 and 2000. The major costs incurred during 2001, consisted of a \$1,500,000 reduction in promissory notes due from the Company's President and a Director which were charged to operations (see Note 2 to the financial statements), In addition, general and administration costs incurred during the first six-months of 2001, included officer's salary of \$480,000 of which \$60,000 was accrued and \$420,000 was paid through the issuance of 6,000,000 shares of restricted common stock. Other expenses incurred during the six-month period included professional fees of \$51,208, consulting fees of \$139,503, travel of \$8,968, telephone expense of \$2,771, rent of \$13,666, and office expense of \$3,325. The major costs incurred during 2000, consisted of professional fees of \$74,819, consulting fees of \$75,510, officer's salary of \$60,000, travel of \$18,819, telephone expense of \$9,341, rent of \$12,444, and office expense of \$15,515.

Interest expense for the six-months ended June 30, 2001 totaled \$35,234 as compared to \$30,378 incurred during the first six-months of 2000.

9

FOR THE THREE MONTHS ENDED JUNE 30, 2001 AND 2000

The Company had no sales during the three-month period ended June 30, 2001 or during the three month period ended June 30, 2000. During the three-month period ending June 30, 2001, the Company earned \$346,295 from its research contract as compared to \$277,308 earned during the



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same period in 2000. Interest earned during the three-months ended June 30, 2001 totaled \$37,295, which mostly consisted 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 (see Note 2 to the financial statements). Interest earned for the period in 2000 amounted to \$21,440.

During the three-month period ended June 30, 2001, the Company incurred \$261,003 in development costs. Development costs incurred during the same three-month period of 2000 amounted to \$260,469.

General and administration costs were \$1,602,771 and \$110,324, respectively, for the three-month periods ended June 30, 2001 and 2000. The major costs incurred during the three-month period in 2001, consisted of officer's compensation of \$1,425,000 of which \$1,395,000 relates to the reduction on the amount due on a promissory note (see Note 2 to the financial statements) and \$30,000 of accrued wages. Other expenses incurred during the three-months ended June 30, 2001, included consulting fees of \$133,505, travel expenses of \$2,770, telephone expense of \$2,770, office expense of \$2,495, and rent of \$7,255. The major costs incurred during 2000, consisted of professional fees of \$28,484, consulting fees of \$10,989, officer's salary of \$30,000, travel expenses of \$4,018, telephone expense of \$4,551, office expense of \$7,231, and rent of \$6,411.

Interest expense for the three-months ended June 30, 2001, totaled \$17,420 as compared to \$15,158 incurred during the same period in 2000.

### LIQUIDITY AND CAPITAL RESOURCES

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Cash and cash equivalents as of June 30, 2001 and 2000 were \$5,719, and \$161,248, respectively. During 2001, the Company generated net cash from operations of \$3,738. During the period, the Company made advances of \$18,800 to its officer and was repaid \$14,300. During 2000, the Company generated net cash from operations of \$116,844, and received \$3,000 from officer advances and \$5,000 from the issuance of shares to the Company's President and a Director. During 2000, the Company invested \$15,000 in a joint venture and repaid \$11,500 in officer advances.

10

### ITEM 2. CHANGES IN SECURITIES

During the three months ended June 30, 2001, the Corporation issued 1,775,000 shares of its Class A Common Stock of which 525,000 shares were issued to several consultants, 250,000 were issued in settlement of a disputed matter, and 1,000,000 shares were issued in cancellation of fees due for past consulting services.

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

DATE: JULY 31, 2000

11