MATERIAL TECHNOLOGIES INC /CA/
Form 10-Q
August 05, 2004

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2004

[_] 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 June 30, 2004
Class A Common Stock - 72, 789,818 shares issued, 66,488,975 shares outstanding
Class B Common Stock - 600,000 shares issued and outstanding
Class A Preferred - 337 shares issued and outstanding
Class B Preferred - 167 shares issued and outstanding
Class C Preferred - 1,350 shares issued and outstanding
Class D Preferred -4,490,000 shares issued and outstanding

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Part 1. Financial Information

Item 1. Financial Statements

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

	December 31, 2003	June 30, 2004 (Unaudited)
ASSETS		
CURRENT ASSETS		
Cash	$ 47,664	$ 119,449
Receivable due in research contracts	28,004	3,027
Receivable from officer	83,940	88,192
Employee receivable	1,350	2,689
Receivable from tax authorities	161	-
Prepaid expenses	4,179	3,000
TOTAL CURRENT ASSETS	165,298	216,357
FIXED ASSETS		
Property and equipment, net of accumulated depreciation	20,626	18,147

OTHER ASSETS		
Intangible assets, net of accumulated amortization	10,004	8,946
Refundable deposit	2,348	2,348
TOTAL OTHER ASSETS	12,352	11,294
TOTAL ASSETS	$ 198,276	$ 245,798

See accompanying notes

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

	December 31, 2003
LIABILITIES AND STOCKHOLDERS' (DEFICIT)	
CURRENT LIABILITIES	
Legal fees payable	$ 219,154
Fees payable to R&D subcontractors	25,000
Accounting fees payable	37,984
Other accounts payable	78,671
Accrued expenses	17,920
Accrued officer wages	142,446
Notes payable - current portion	25,688
Payable on research and	

development sponsorship	638,003
Loans payable - others	60,438
TOTAL CURRENT LIABILITIES	1,245,304
SECURED CONVERTIBLE DEBENTURE	345,333
TOTAL LIABILITIES	1,590,637
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	38,422
STOCKHOLDERS' (DEFICIT)	
Class A preferred stock, $.001 par value, authorized 350,000 Shares, issued and outstanding 337 shares at December 31, 2003 and June 30, 2004	-
Class B preferred stock, $.001 par value, authorized 200,000 Shares, issued and outstanding 167 shares at December 31, 2003 and June 30, 2004	-
Class C preferred stock, $.001 par value, authorized 25,000,000 shares, issued and outstanding 4,050 at December 31, 2003 and 1,350 shares at June 30, 2004	4
Class D preferred stock, $.001 par value, authorized 20,000,000 Shares, issued and outstanding 5,440,000 shares at December 31, 2003 and 4,490,000 shares at June 30, 2004	5,440
Class A Common Stock, $.001 par value, authorized 549,400,000 shares, issued and outstanding 66,488,975 at December 31, 2003 and 74,617,991 shares issued and 68,317,991 shares outstanding at June 30, 2004, in reserve 843 shares at December 31, 2003 and June 30, 2004	66,488
Class B Common Stock, $.001 par value, authorized 600,000 Shares, issued and outstanding 600,000 shares at December 31, 2003, and June 30, 2004	600
Additional paid in capital	13,086,976
Less notes receivable - common stock	(51,096)
Deficit accumulated during the development stage	(14,539,195)
TOTAL STOCKHOLDERS' (DEFICIT)	(1,430,783)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$ 198,276

See accompanying notes

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

	For the Three Months Ended June 30, 2003	For the Three Months Ended June 30, 2004	For the Six Months En[ded] June 30, 2003	June 30, 200[4]
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudi[ted])
REVENUES				
Sale of fatigue fuses	$ -	$ -	$ -	$
Sale of royalty interests	-	-	-	
Research and development revenue	-	3,066	-	7
Test services	-	-	-	
TOTAL REVENUES	-	3,066	-	7
COSTS AND EXPENSES				
Research and development	70,478	241,656	101,714	40
General and administrative	198,041	145,857	536,479	93
TOTAL COSTS AND EXPENSES	268,519	387,513	638,193	1,33
INCOME (LOSS) FROM OPERATIONS	(268,519)	(384,447)	(638,193)	(1,26
OTHER INCOME (EXPENSE)				
Interest income	13,198	3,156	26,384	
Interest expense	(46,261)	(75,119)	(92,522)	(12
Forgiveness of indebtedness	-	-		
Loss on abandonment of joint venture	-	-	-	
TOTAL OTHER INCOME	(33,063)	(71,963)	(66,138)	(11
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND PROVISION FOR INCOME TAXES	(301,582)	(456,410)	(704,331)	(1,37
PROVISION FOR INCOME TAXES	-	-	(800)	
NET INCOME (LOSS)	$ (301,582)	$ (456,410)	$ (705,131)	$ (1,37
PER SHARE DATA				
Basic income (loss) before extraordinary item				
BASIC NET (LOSS) PER SHARE	$ (2.14)	$ (0.01)	$ (5.49)	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	141,110	67,006,008	128,439	67,00

See accompanying notes

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

	For the Three Months Ended June 30, 2003	For the Three Months Ended June 30, 2004	For the Si[x Months Ended] Ju[ne 30,] 2003
	(Unaudited)	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (301,582)	$ (456,410)	$ (705,131
Adjustments to reconcile net income (loss) to net cash provided (used) in operating activities			
Depreciation and amortization	2,285	2,107	4,570
Accrued interest income	(13,198)	(3,156)	(25,205
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	-	31,280	-
(Increase) decrease in employee advances	-	(1,339)	1,433
(Increase) decrease in prepaid expense	-	152	-
Loss on sale of equipment	-	-	-
Issuance of common stock for services	102,211	170,627	234,461
Issuance of stock for agreement modification	-	-	-

Forgiveness of Indebtedness	-	-	-
Increase (decrease) in accounts payable and accrued expenses	25,867	(25,748)	35,966
Increase in legal fees secured by note payable	-	-	
Interest accrued on note payables	45,574	49,683	91,147
Increase in research and development sponsorship payable	-	-	-
(Increase) in note for litigation settlement	-	-	-
(Increase) in Deposits	-	-	-
TOTAL ADJUSTMENTS	162,739	223,606	342,372
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(138,843)	(232,804)	(362,759
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds From sale of equipment	-	-	-
Purchase of property and equipment	-	(677)	-
Proceeds from sale of securities	-	-	-
Purchase of securities	-	-	-
Proceeds from foreclosure	-	-	-
Investment in joint ventures	-	-	-
Payment for license agreement	-	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	(677)	-

See accompanying notes

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

	For the Three Months Ended June 30,		For the Si[x Months Ended] Ju[ne 30,]
	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)

CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock	$ 29,988	$ 18,556	$ 140,342
Costs incurred in offerings	(10,312)	(2,785)	(33,358
Purchase of Company's common stock for cancellation	(7,788)	(974)	(23,508
Sale of common stock warrants	-	-	-
Sale of preferred stock	33,900	-	64,500
Sale of redeemable preferred stock	-	-	-
Capital contributions	-	-	-
Payment on proposed reorganization	-	-	-
Loans to officer	-	3,000	-
Repayments from officer	-	(3,000)	-
Increase in loan payable-others	10,000	310,000	10,000
CASH FLOWS FROM FINANCING ACTIVITIES:	55,788	324,797	157,976
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(83,055)	91,316	(204,783
BEGINNING BALANCE CASH AND CASH EQUIVALENTS	130,054	28,133	251,782
ENDING BALANCE CASH AND CASH EQUIVALENTS	$ 46,999	$ 119,449	$ 46,999

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 consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of the Company as of June 30, 2004, and the results of its operations and cash flows for the six-month periods and three-month periods ended June 30, 2004 and 2003. The operating results of the Company on a semi-annual and quarterly basis may not be indicative of operating results for the full year.

On September 23, 2003, the Company's Board of Directors declared a 1,000 for 1 reverse stock split of its Class A Common Stock and all classes of its Preferred Stock. The financial statements have been retroactively 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 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 accounting principles generally accepted in the United States 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.

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 June 30, 2004, the Company is owed by its President, Mr. Robert M. Bernstein, $88,192 for various advances made to him including accrued interest. Advances are assessed interest at a rate of 10% per annum, are unsecured, and due on demand. Accrued interest recognized as income for the three-months ended June 30, 2003 and 2004 were $2,524 and $2,159.. Accrued interest recognized as income for the six-months ended June 30, 2003 and 2004 were $3,816 and $4,252.

Note 4. Intangibles

Intangible assets consist of the following:

	Period of Amortization	June 30, 2003	June 30, 2004
Patent Costs	17 Years	$ 28,494	$ 28,494
License Agreement (See Note 5)	17 Years	6,250	6,250
Website	5 Years	5,200	5,200

	39,944	39,944
Less Accumulated Amortization	(28,882)	(30,998)
	$ 11,062	$ 8,946

Amortization charged to operations for the three-months ended June 30, 2003 and 2004 were $529, and $529, respectively. Amortization charged to operations for the six-months ended June 30, 2003 and 2004 were $1,058, and $1,058, 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 $1,025,000 has been funded through June 30, 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, the Company's President and Chief Financial Officer 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, an affiliate of Palisades, or his designated successor. This loss of voting rights would create 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 June 30, 2004, the Company was advanced $310,000 from Palisades. The balance of the debenture at June 30, 2004 was $1,065,457 including accrued interest. Interest charged to operations for the three-months ended June 30, 2003 and 2004 pertaining to this obligation were $0 and $19,274 respectively. Interest charged to operations for the six-months ended June 30, 2003 and 2004 pertaining to this obligation were $0 and $35,124, respectively.

Note 6. Stock Activity

On April 23, 2004, the Company amended its Certificate of Incorporation increasing the number of authorized common shares to 1,750,000,000 and number of authorized preferred shares to 50,000,000.

During the quarter ended June 30, 2004, the Company issued 729,276 shares of its common stock. Of the common shares issued, 500,000 shares were issued through the conversion of 500,000 shares of the Company's Class D Preferred, 2,700 shares were issued through the conversion of 2,700 shares of the Company's Class C Preferred, 50,000 shares were issued to a former attorney of the Company in settlement of fees due him totaling $39,467, 18,576 shares were issued for cash totaling $18,556, 133,000 shares were issued for consulting services valued at $145,875, and 25,000 shares were issued to note holder of the Company for no consideration.

Of the 133,000 shares issued for services, 130,000 shares were issued subject to a three-year restriction to sale or transfer the shares from date of issuance. As theses share cannot be sold or transferred for three years, the Company valued the shares at 30% of the market price of the shares on date of issuance. The same three-year restriction exists for the 25,000 shares issued to a note holder that is owed $25,688 by the Company and is past due. The 25,000 shares were valued at $24,750 (30% of market value at date of issuance and this amount was charged to operations as an expense.

Also during the quarter, the Company entered into negotiations with Gisbex Holding for possible funding, the terms of which are currently under discussion. As part of the negotiations, the Company delivered two stock certificates, one certificate is for 5,300,000 shares and the other one is for 1,000,000 shares. Each certificate bears a legend that the shares were issued without consideration and are restricted from being transferred, sold or have any voting rights. If Gisbex consummates the transaction and funds are received, then these two certificates will be replaced with new ones bearing no restrictive legends. If a transaction with Gisbex is not consummated, the 6,300,000 shares will returned to the Company for cancellation. Due to the lack of consideration and the restrictions placed on these shares, the Company does not consider the 6,300,000 shares issued to Gibex to be outstanding.

Also during the quarter ended June 30, 2004, the Company purchased 260 shares of common stock from a shareholder for $974. These shares were returned to treasury and canceled.

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 conversion price under the Warrants to purchase Class A Common Stock from $50 per share to $1 per share and reduced purchase price under the Class B Warrants to purchase Class A Common Stock from $100 per share to $2 per share.

During the quarter ended June 30, 2003, the Company received $63,888 net of offering costs in exchange for the issuance of 3,500 shares of its Class A common stock and 3,400 shares of its Class C convertible preferred stock. Each share of Class C preferred is convertible into one share of Class A common. In addition, during the quarter, the Company issued 2,650 shares of its Class A common stock for legal services valued at $26,500, 7,571 shares of Class A common for consulting services valued at $75,711, and 1,180 shares of Class A common in connection with its Regulation S offering valued at $11,803. 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 4,242 shares of its Class A common stock to the University of Pennsylvania pursuant to the anti-dilution provision of the Company's agreement with the University.

Also during the quarter ended June 30, 2003, the Company purchased 185 shares of its Class A common stock from various shareholders on the open market for $7,788 which were subsequently cancelled. Also during the quarter, the 100,000 shares held in reserve pertaining to the Straight Documentary Credit with Allied Boston were return to the Company's treasury and cancelled.

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Item 2. Management's discussion and analysis of financial conditions and results of operations

Results of Operations for the Six Months Ended June 30, 2004 and 2003

The Company generated $70,335 of revenue under its two research and development contracts during the six-months ended June 30, 2004. During the six-months ended June 30, 2003, the Company did not generate any revenue with the exception of interest income.

During the six month period ended June 30, 2004, the Company incurred $403,242 in development costs compared to $101,714 during the same period last year. Of the $403,242 incurred in 2004, $61,127 pertains to salaries, $34,206 was incurred in the purchase of supplies and materials, and $307,909 was incurred for outside services of which $125,100 was paid through the issuance of 120,000 shares of the Company's restricted common stock. Of the $101,714 incurred in 2003, $50,714 pertains to salaries and $40,000 relates to fees paid for services through the issuance of 4,250 shares of the Company's common stock.

General and administrative costs were $930,275 and $536,479, respectively, for the six-month periods ended June 30, 2004 and 2003.

Major costs incurred during 2004, included officer's salary of $96,000 of which $36,000 was accrued, office salaries of $21,445, professional fees of $93,001, consulting fees of $625,630, travel of $16,821, telephone expense of $8,336, rent of $11,735, and office expense of $18,884.

Of the $625,630 in professional fees, $51,655 was paid in cash or accrued and the remaining $573,975 was paid through the issuance of 638,000 shares of the Company's common stock.

Major costs incurred during 2003, included officer's salary of $60,000 of which $29,000 was accrued, office salaries of $24,573, professional fees of $227,117, consulting fees of $125,282, travel of $12,386, telephone expense of $8,441, rent of $14,088, and office expense of $12,460.

Of the $227,117 in professional fees, $95,617 was paid in cash or accrued and the remaining $131,500 was paid through the issuance of 8,650 shares of the Company's common stock. Of the $125,282 incurred in consulting fees, $67,321 was paid in cash or accrued and $57,961 was paid through the issuance of 3,821 shares of the Company's common stock.

Interest earned during the six-months ended June 30, 2004 and 2003 of $6,246 and $26,384, respectively, consists primarily of accrued interest earned on promissory notes due from the Company's President and a Director on stock purchases and advances. The decrease in interest income for 2004 as compared to 2003 pertain to the December 2003 cancellation of interest-bearing promissory notes due from the

Company's President and Secretary totaling $465,000 for the return to the Company of the shares purchased for the respective promissory notes.

Interest expense for the six-months ended June 30, 2004 and 2003 totaled $120,733 and $95,522, respectively. Significantly all of interest expenses during these periods pertain to interest accrued on promissory notes due by the Company.

Results of Operations for the Three Months Ended June 30, 2004 and 2003

During the three-month period ending June 30, 2004, the Company generated $3,066 of revenue from its research contract. Interest earned during the three months ended June 30, 2004 and 2003 totaled $3,156 and $13,198, respectively. Interest earned primarily consists of accrued interest earned on promissory notes due from the Company's President and a Director on stock purchases.

During the three-month period ended June 30, 2004, the Company incurred $241,656 in development costs. Development costs incurred during the same three-month period of 2003 amounted to $70,478. Of the $241,656 incurred in 2004, $30,677 pertains to salaries, $1,470 was incurred in the purchase of supplies and materials, and $209,509 was incurred for outside services of which $125,100 was paid through the issuance of 120,000 shares of the Company's restricted common stock.

General and administration costs were $145,857 and $198,041, respectively, for the three-month periods ended June 30, 2004 and 2003.

The major costs incurred during the three-month period in 2004, consisted of officer's compensation of $48,000 of which $18,000 was accrued. Other expenses incurred during the three-months ended June 30, 2004 included professional fees of $11,137, consulting fees of $34,211, travel expenses of $6,908, telephone expense of $4,631, office expense of $8,765, and rent of $8,765.

Of the $34,211 in consulting fees, $13,436 was paid in cash or accrued and the remaining $20,775 was paid through the issuance of 13,000 shares of the Company's common stock.

The major costs incurred during the three-month period in 2003, consisted of officer's compensation of $30,000 of which $29,000 was accrued. Other expenses incurred during the three-months ended June 30, 2003 included professional fees of $65,345, consulting fees of $58,127, travel expenses of $5,810, telephone expense of $4,124, office expense of $8,663, and rent of $7,044.

Of the $65,345 in professional fees, $38,845 was paid in cash or accrued and the remaining $26,500 was paid through the issuance of 2,650 shares of the Company's common stock. Of the $58,127 incurred in consulting fees, $22,416 was paid in cash or accrued and $35,711 was paid through the issuance of 3,571 shares of the Company's common stock.

Interest expense for the three-months ended June 30, 2004, totaled $75,119 as compared to $46,261 incurred during the same period in 2003.

Liquidity and Capital Resources

Cash and cash equivalents as of June 30, 2004 and 2003 were $119,449 and $46,999, respectively. During the six-months ended June 30, 2004, the Company received a total of $801,868, which consisted of $95,312 from its two research and development contracts, $18,556 through the sale of 18,576 shares of its common stock, $685,000 in advances on the Company's convertible debenture, and a $3,000 repayment from the Company's President. During the same six-months, the Company used $722,647 in its operations, purchased office equipment for $677, used $2,785 in its Regulation S offering, made a $3,000 advance to its President and used $974 to purchase its 260 shares of common stock from a shareholder.

During the six-months ended June 30, 2003, the Company received a total of $214,841, which consisted of $204,841 through the sale of 14,049 shares of its common stock and 4,074 shares of its preferred stock, and a loan from a third party of $10,000. During the six month period, the Company used $362,759 in its operations, used $33,358 in its Regulation S offering, and used $23,508 to purchase its 997 shares of common stock from the open market.

As of July 16, 2004, the Company has sufficient cash resources to fund approximately 3 to 4 months of current operating expenses. Without an infusion of capital through the sale of additional shares of its stock, the Company may not be able to continue operating after its current cash is depleted.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

n/a.

Part II. Other Information

Item 2. Changes in Securities

During the quarter ended June 30, 2004, the Company issued 7,029,016 shares of its common stock. Of the common shares issued, 500,000 shares were issued through the conversion of 500,000 shares of the Company's Class D Preferred, 2,700 shares were issued through the conversion of 2,700 shares of the Company's Class C Preferred, 50,000 shares were issued to a former attorney of the Company in settlement of fees due him totaling $39,467, 18,576 shares were issued cash totaling $18,556, 133,000 shares were issued for consulting services valued at $145,875, and 25,000 shares were issued to note holder of the Company for no further consideration. As part of the negotiations,

with Gisbex Holding, the Company delivered 6,300,000 common shares. These 6,300,000 shares are not transferable, have no voting rights, and are not considered part of the 68,317,991 shares outstanding as of June 30, 2004. Also during the quarter the Company purchased from a shareholder 260 shares of its common stock which was subsequently cancelled.

For the period from July 1, 2004 through July 16, 2004, the Company issued 1,047,000 shares of its common stock for $123,500.

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