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MATERIAL TECHNOLOGIES INC /CA/
Form 10-Q
August 13, 2001

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OF 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended: June 30, 2001

Commission file number: 33-23617

MATERIAL TECHNOLOGIES, INC.

(Exact name of registrant 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)
(Zip Code)

(310) 208-5589

(Registrant's telephone number including area code)

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

Common

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 or Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this form 10-K. []

The aggregate market value of the voting stock held by Non-affiliates of the registrant at July 31, 2001 was \$1,547,964.

Documents incorporated by reference-None.

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

=====

| | 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) |
| REVENUES | | | | |
| Sale of Fatigue Fuses | \$ - | \$ - | \$ - | \$ - |
| Sale of Royalty Interests | - | - | - | - |
| Income from Research Contracts | 277,308 | 346,295 | 458,155 | 611,111 |
| Test Services | - | - | - | - |
| TOTAL REVENUES | 277,308 | 346,295 | 458,155 | 611,111 |
| COSTS AND EXPENSES | | | | |
| Research and Development | 260,469 | 261,003 | 351,087 | 471,111 |
| General and Administrative | 110,324 | 1,602,771 | 308,158 | 2,141,111 |
| TOTAL COSTS AND EXPENSES | 370,793 | 1,863,774 | 659,245 | 2,612,222 |
| INCOME (LOSS) FROM OPERATIONS | (93,485) | (1,517,479) | (201,090) | (2,001,111) |
| OTHER INCOME (EXPENSE) | | | | |
| 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

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

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.

REGISTRANT

/s/ Robert M. Bernstein

ROBERT M. BERNSTEIN, PRESIDENT AND CHIEF
FINANCIAL OFFICER

DATE: JULY 31, 2000

11