MATERIAL TECHNOLOGIES INC /CA/
Form 10-K
March 26, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

Commission file number - 33-23617

MATERIAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4622822
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

Suite 707, 11661 San Vicente Boulevard, Los Angeles, California	90049
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (310) 208-5589

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

Title of each class	Name of each exchange on which registered
None	

Securities Registered pursuant to section 12(g) of the Act:
Common Stock
(Title of Class)

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 of Regulation S-K (Sec.229.405 of this chapter) 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 to this Form 10-K. [ ]

State the aggregate market value of the voting stock and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)

The aggregate market value of the common stock held by non-affiliates of the registrant as of March 20, 2002, was $ $3,255,772 based on the average of the bid and asked prices of $.16 as reported by the Over The Counter Electronic Bulletin Board on such date.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the last practicable date.

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As of March 20, 2002, there were 146,258,978 shares of common stock, $.001 par value issued and outstanding of which 100,000,000 shares are held in reserve pursuant to the terms of the Company's Straight Documentary Credit (See Note 8i to the accompanying financial statements).

As of March 20, 2002, there were 100,000 shares of Class B Common Stock, $.001 par value issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

There is no annual report, proxy statement, or prospectus to incorporate by reference.

The S-1 Registration Statement for Material Technologies, Inc., effective July 31, 1997 with exhibits is incorporated by reference. The SB-2 Registration Statement and related amendment filed on February 7, 2002, for Material Technologies, Inc., with exhibits is also incorporated by reference

PART I
MATERIAL TECHNOLOGIES, INC.

ITEM 1. BUSINESS

Material Technologies, Inc. ("Matech" or "Company"), is engaged in research and development of metal fatigue detection, measurement, and monitoring technologies. As such, the Company is developing a comprehensive system of monitoring devices for metal fatigue measurement. Matech is a development stage company doing business as Tensiodyne Scientific Corporation.

The Company's efforts are dedicated to developing devices and systems that indicate the true fatigue status of a metal component. The Company has developed two products. The first is a small, extremely simple device that continuously integrates the effect of fatigue loading in a structural member. It is called a Fatigue Fuse (FFTM). The second is an instrument that is intended to measure the amount of fatigue life remaining in an existing structural member. The company believes that nothing comparable to this instrument currently exists in materials technology. It is calledan Electrochemical Fatigue Sensor (EFSTM). Both devices are pioneering technology in the fatigue field that we believe provides cutting-edge solutions in materials technology. Both products are protected by patents. Another product currently under development is a Borescope equipped with an EFS.

The Company was formed as a Delaware corporation on March 4, 1997. It is the successor to the business of Material Technology, Inc., a Delaware corporation, also doing business as Tensiodyne Scientific, Inc., ("Matech 1") and Matech 1 was the successor to the business of Tensiodyne Corporation that began developing the Fatigue Fuse in 1983. The Company's two predecessors, Tensiodyne

Corporation and Matech 1 were engaged in developing and testing the Fatigue Fuse and, beginning in 1993, developing the EFS.

DESCRIPTION OF TECHNOLOGIES

BACKGROUND

Fatigue is a consequence of a metal object undergoing repeated cyclic strain. In a commercial context this strain and concomitant stress comes about as a result of a large number of cycles of loading and unloading. Sudden fracture can result. Fatigue damage and the resulting compromise of stability and integrity of the member experiencing fatigue presents the potential for structural failure and extreme danger. Objects such as bridges and airplane wings are subject to fatigue, and it is obvious that sudden fracture of such structures would have disastrous results. It is presently not possible, under any generally acceptable theory of fatigue phenomena, to predict by analysis alone when the limit is reached and when a fracture may occur. Further, in normal usage, damage occurs cumulatively, at microscopic levels, and can only be detected in the early stages at a time when dire results can be avoided by examining the microscopic structure.

This difficulty has caused designers of structures subject to fatigue to be extremely conservative by designing structures in a manner which maintains the stresses presented in critical areas of a structure at a level well below the known endurance limits of the material employed. In many instances this results in extreme expense. In spite of this "over designing", catastrophic fatigue failures still occur. Thus there is a need for a means of measuring the state of fatigue life since the best available methods of analysis are very inadequate.

THE FATIGUE FUSE

The Fatigue Fuse is designed to be affixed to a structure to give warnings as preselected portions of the fatigue life have been used up (i.e., how far to failure the structure has progressed). It warns against a condition of widespread generalized cracking due to fatigue. It has been proven to work as expected; however, additional application engineering is required before beginning a marketing campaign. It is estimated this effort will cost approximately $600,000 and will take 6-12 months to complete.

The Fatigue Fuse is a thin piece of metal similar to the material being monitored. It consists of a series of parallel metal strips connected to a common base, much as fingers are attached to a hand. Each "finger" has a different geometric pattern called "notches" defining its boundaries. Each finger incorporates a design specific notch near the base. By applying the laws of physics to determine the geometric contour of each notch, the fatigue life of each finger is finite and predictable. When the fatigue life of a finger (Fuse) is reached, the Fuse breaks.

By implementing different geometry for each finger in the array, different increments of fatigue life are observable. Typically, notches will be designed to facilitate observing increments of fatigue life of 10% to 20%. By mechanically attaching or bonding these devices to different areas of the structural member of concern, the Fuse undergoes the same fatigue history (strain cycles) as the structural member. Therefore, breakage of a Fuse indicates that an increment of fatigue life has been reached for the structural member. The notch and the size and shape of the notch concentrate energy on each finger. The Fuse is intimately attached to the structural member of interest. Therefore, the Fuse experiences the same load history as the member.

Management believes that the Fatigue Fuse will be of value in monitoring aircraft, ships, bridges, conveyor systems, mining equipment, cranes, etc. No special training will be needed to qualify individuals to report any broken segments of the Fatigue Fuse to the appropriate engineering authority for necessary action. The success of the device is contingent upon Matech's successful development and marketing of the Fatigue Fuse, and no assurance can be given that Matech will be able to overcome the obstacles relating to introducing a new product to the market. To determine its ability to produce and market the Fatigue Fuse, Matech needs substantial additional capital and no assurance can be given that needed capital will be available.

In a new structure we can generally assume there is no fatigue and can thus design the fatigue fuse for 100% of its life potential. But in an existing structure, one that has experienced loading, we must determine the fatigue

status of that structural member so we can design the Fatigue Fuse to monitor the remaining fatigue life potential. The EFS is dedicated to that purpose.

ELECTROCHEMICAL FATIGUE SENSOR ("EFS")

In August 1993, Tensiodyne, a predecessor of the Company, entered into two agreements, a license agreement and a development agreement, with the University of Pennsylvania regarding a new invention designed to measure electrochemically the status of fatigue of a structure without knowing the structure's past loading history. Under the license agreement, 12,500 shares of Tensiodyne's common stock were issued, a 5% royalty on sales of this product was granted, and under the development agreement Tensiodyne agreed to pay $11,112 per month for 18 months, for a total payment of $200,000. As of this date, no payments have been made on this obligation. On December 17, 1997, the Company and the University modified the terms of the licensing agreement and related obligation. The terms of the modified agreements include an increase in the University's royalty to 7% of the sale of related products, additional shares of our Common Stock to equal 5% of the Company's outstanding common stock until the Company receives an additional $2,000,000 in paid in capital, and to pay to the University 30% of any amounts the Company raises in excess of $150,000 (excluding amounts received on government grants or contracts) up to $200,000 plus interest at 1.5% per month from June 30, 1997.

The EFS is a device that employs the principle of electrochemical/mechanical interaction to measure the state of fatigue damage in a metal structural member. It is expected to provide a means for determining the fatigue status of that member so that appropriate action (monitor, replacement, or repair) can be taken before structural failure occurs.

The EFS functions by treating the location of interest (the target) associated with the structural member as an electrode of an electrochemical cell. To complete the electro-cellular reaction, an electrolyte, in the form of a low corrosion gel, is placed in contact with the target. By imposing a constant voltage-equivalent circuit as the control mechanism for the electrochemical reaction - at the target surface - current flows as a function of stress action. The EFS is always a dynamic process; therefore stress action is required, e.g.: to measure a bridge structural member it is necessary that cyclic loads be imposed, as normal traffic on the bridge would do. The results are a specific set of current waveforms and amplitudes that is expected to characterize and report fatigue damage.

Stress points are very often located in difficult-to-access places for humans.

Therefore, it has become desirable to miniaturize the process and develop a means for delivery to inaccessible areas. In order to address this development issue, the Company utilizes borescope technology, which is a technology that is currently under development. The Company is highly dependent on this technology for the marketing of our products.

DEVELOPMENT OF TECHNOLOGIES

STATUS OF THE FATIGUE FUSE

The development and application sequence for the Fatigue Fuse and EFS is (a) Basic Research, (b) Exploratory Development, (c) Advanced Development, (d) Prototype Evaluation, (e) Application Demonstration, and (f) Commercial Sales and Service. The Fatigue Fuse came first. The inventor, Professor Maurice Brull, conducted the Basic Research at the University of Pennsylvania. Matech conducted the Advanced Development, including variations of the adhesive bonding process, and fabricating a laboratory-grade remote recorder for finger separation events that monitor the functioning of the Fatigue Fuse. The next step, Prototype Evaluation, encompassing empirical tailoring of Fuse parameters to fit the actual spectrum loading expected in specific applications, needs to be done. The associated tests include both coupon specimens and full-scale structural tests with attached Fuses. A prototype of a flight qualifiable operational separation event recorder application was designed, fabricated, and

successfully demonstrated. The next tasks will be to prepare a mathematical analysis for more efficient selection of Fuse parameters and to conduct a comprehensive test program to prove the ability of the Fatigue Fuse to accurately indicate fatigue damage when subjected to realistically large variations in spectrum loading. The final tasks prior to marketing will be an even larger group of demonstration tests.

The Fatigue Fuse is at its final stages of testing and development for its flight-qualified application. To begin marketing the Fuse will take from 6 to 12 months and cost approximately $600,000, including technical and beta testing and final development. If testing, development, and marketing are successful, management estimates Matech should begin receiving revenue from the sale of the Fatigue Fuse within a year of receiving these funds. Management cannot estimate the amount of revenue that may be realized from sales of the Fuse.

To date, certain organizations have included Matech's Fatigue Fuse in test programs. Already completed are tests for welded steel civil bridge members conducted at the University of Rhode Island. In 1996, Westland Helicopter, a British firm, tested the Fatigue Fuse on helicopters. That test was successful, with the legs of the Fuses failing in sequence as predicted.

STATUS OF THE EFS

The EFS currently has certain limitations. To obtain meaningful measurements, the device requires that at least 50% of the fatigue life has occurred. Also, the device has only been perfected for commercial use with mild and soft steels. This limits the use of EFS presently to such applications as bridges, ships, cranes, etc. Use in more exotic structures such as aircraft and turbine engines applications is currently precluded. Although there is a vast body of testing supporting successful use of this methodology, for selected aluminum alloys, to date, there has not been any confirmed success in aircraft and turbine engines. Management cannot assure that the method will work in the field.

GOVERNMENT FUNDED EFS PROGRAMS

In August 1996, the Company executed a teaming agreement with Southwest Research Institute (SWRI) and the University of Pennsylvania for research, development and EFS enhancement efforts. On February 25, 1997, SWRI was awarded a $2.5 million Phase I contract to "determine the feasibility of the EFS to improve the U. S. Air Force capability to perform durability assessments of military aircraft, including air frames and engines through the application of the EFS to specific military aircraft alloys." Matech's directly subcontracted share of this award was approximately $500,000. But, the EFS was enhanced by the entire funding used by SWRI and UPa. On June 18, 1998 Universal Technology Corporation (UTC), a new Matech associate, was awarded a second contract in the amount of $2,061,642 to "determine the applicability of the EFS to improve the U. S. Air Force capability to perform durability assessments of military aircraft, including both air frames and engines through the application of the EFS to specific military aircraft alloys." Matech's share of this award was approximately $538,000, but, the EFS was enhanced by the entire funding used by UTC, SWRI and other subcontractors to Matech. On February 5, 1999_a third contract in the amount of $2,000,000 was awarded to UTCto continue and expand the efforts for turbine engines. Matech's directly subcontracted share was approximately $382,000. The EFS was similarly enhanced by the entire awarded program. A fourth contract was awarded to UTC on November 3rd, 2000 to continue the borescope and EFS technologies, as well as alternate means of fatigue sensing. Matech's directly subcontracted share of this contract is approximately $700,000.

Accordingly, over the last 4 years approximately $8.5 million was awarded to conduct extensive engineering to enhance the performance of the EFS for government aircraft/engine applications. The results of this research are encouraging and provide a basis for the Company and its partners to obtain additional funding. No assurance can be given, however, that such funding will be received.

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The Company continues in its efforts to raise funds from numerous sources, including various state and federal governmental agencies and/or private or public offerings of securities. At this time, however, the Company has no firm agreements or commitments that sufficient capital will be available in order to continue our research, development or operations

COMMERCIAL APPLICATIONS OF THE COMPANY'S TECHNOLOGIES

No commercial application of Matech's products has been arranged to date, but the technology has matured to a point where it can, with further development, in the opinion of management, be applied to certain markets. Matech's technology is applicable to many market sectors such as bridges and aerospace as well as ships, cranes, power plants, nuclear facilities, chemical plants, mining equipment, piping systems, and "heavy iron." Matech has chosen to begin commercialization in the bridge market. The second market sector that will be pursued is aerospace. The aerospace industry is concerned with aluminum alloys and titanium alloys. This market opportunity will follow a different time line, budget, and market model. There can be no assurance of success until our technologies and our products are successfully installed in the field and have passed required testing and validation.

THE BRIDGE MARKET

In the U.S. alone there are over 610,000 bridges of which over 260,000 are rated by the Federal Highway Administration as requiring major repair, rehabilitation, or replacement. Although there are normal business imperatives, the market is essentially macro-economically and government policy driven. In the opinion of management, "only technology can provide the solution." The need for increased spending accelerates significantly each year as infrastructure ages. Analysis by infrastructure economic experts, including the Federal Highway Administration, confirms that $9 billion per year, for bridges alone, is the minimum required to maintain the status quo. Since that amount has not been available, and a backlogged repair bill of more than $358 billion has already accrued, greater efficiencies in the management of current budgets are the only solution. In the 1991 ISTEA initiative (Intermodal Surface Transportation and Efficiency Act) and recently in the $200 billion 1998 TEA-21 initiative (Transportation Equity Act) Bridge Management Systems have been mandated as a matter of policy.

MANUFACTURING

Certain manufacturers are capable of producing the Fatigue Fuse and EFS at reasonable cost. No assurance can be given, however, that these devices will be successfully manufactured, that they can be commercially produced, that they will perform to management's expectations, or that they will be successfully marketed. Moreover, significant competition may develop.

PATENTS

Matech is the assignee of four patents originally issued to Tensiodyne Corporation. The first was issued on May 27, 1986, and expires on May 27, 2003. It is titled "Device for Monitoring Fatigue Life" and bears United States Patent Office Numbers 4,590,804. The second patent, titled "Method of Making a Device for Monitoring Fatigue Life" was issued on February 3, 1987 and expires February 3, 2004, United States Patent Office Number 4,639,997. The third patent, titled "Metal Fatigue Detector" was issued on August 24, 1993 and expires on August 24, 2010, United States Patent Number 5,237,875. The fourth patent, titled "Device for Monitoring the Fatigue Life of a Structural Member and a Method of Making Same," was issued on June 14, 1994 and expires on June 14, 2011, United States Patent Number 5,319,982. In addition, the Company owns a fifth patent titled "Device for Monitoring the Fatigue Life of a Structural Member and a Method of Making Same" with United States Patent Number 5,425,274.

PRODUCT DISTRIBUTION METHODS

Provided there are funds to support such activities, as to which no assurance can be given, Matech intends to exhibit the Fatigue Fuse and the Electrochemical

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Fatigue Sensor at various trade shows and will also market its products directly to end users, including aircraft manufacturing and aircraft maintenance companies, crane manufactures and operators, certain state regulatory agencies charged with overseeing bridge maintenance, companies engaged in manufacturing and maintaining large ships and tankers, and the military. Although management intends to undertake marketing, dependent on the availability of funds, within and with out the United States, no assurance can be given that any such marketing activities will be implemented, and accordingly we can make no assurance that significant revenue can be generated by the Company in the marketing and sales of the Fatigue Fuse or the EFS.

COMPETITION

Other technologies exist which indicate fatigue damage. Single cracks larger than a minimum size can be found by nondestructive inspection methods such as dye penetrant, radiography, eddy current, acoustic emission, and ultrasonics. Tracking of load and strain history, to subsequently estimate fatigue damage by computer processing, is possible with recording instruments such as strain gauges and counting accelerometers. These methods have been used for 40 years and also offer the advantage of having been accepted in the market, whereas Matech's products remain largely unproven for some currently indeterminable period. Companies marketing these alternate technologies include Magnaflux Corporation, Kraut-Kremer-Branson, Dunegan-Endevco, and MicroMeasurements. These companies have more substantial assets, greater experience, and more resources than Matech, including but not limited to established distribution channels and an established computer base. The familiarity and loyalty to these technologies may be difficult to dislodge. Because Matech is still in its development stage, it is unable to predict whether its technologies will be successfully developed and commercially attractive in potential markets.

EMPLOYEES

The Company has four employees, Robert M. Bernstein, President and Chief Executive Officer, a Secretary, and two part time engineers. In addition, the Company retains consultants for specialized work such as an accountant who oversees the Company's government contracts.

ITEM 2. PROPERTIES

The Company leases an office at 11661 San Vicente Blvd., Suite 707, Los Angeles, California, 90049. The space consists of 830 square feet and will be adequate for the Company's current and foreseeable needs. The total rent is payable at $2,348 per month through May 31, 2002. The Company has extended its lease through December 31, 2002 at the same rent.

Matech owns a remote monitoring system and certain equipment that is being used by the University of Pennsylvania for instructional and testing purposes. The Company determined that the system has no future use and probably cannot be sold. Therefore, the Company charged its full costs of $97,160 to operations in 1998.

ITEM 3. LEGAL PROCEEDINGS

a) On April 30, 2001, Stephen Beck, a former consultant filed a complaint against the Company and its President (Stephen Forest Beck vs. Robert M. Bernstein, Material Technologies, Inc. etal. Los Angeles Superior Court No. BC249547, filed April 30, 2001) alleging breach of contract, a declaration of his contract rights, and fraud. The complaint all relates to a February 8, 1995, consulting agreement and amendments thereto, under which Mr. Beck was to provide assistance in the Company obtaining a government appropriations, funding and contracts and/ or private funding for Matech. Mr. Beck now claims that over $1.5 million in contingent consulting fees are immediately due, as Matech has obtained funding through four government programs since 1995. In addition, he is seeking punitive damages in an unspecified amount.

Counsel, who is representing the Company in this lawsuit, believes that the likelihood of Mr. Beck winning any compensation is poor based upon federal laws and the merits of his case. Trial is set to begin on May 20, 2002.

b) On April 30, 2001, the Company filed a complaint against Mr. Beck (Material Technologies, Inc. v Stephen Forrest Beck, L.A. Superior Court No BC249495) for the recission and/or voiding Beck's consulting agreement, and amendments thereto, the return of 195,542 shares of common stock issued to him pursuant to the above indicated consulting contract, and attorney's fees, interest, and the cost of the lawsuit. The case has been consolidated with the above-reference suit and also goes to trial on May 20, 2002.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

NONE

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the Over-the-Counter Electronic Bulletin Board maintained by the NASD ("Bulletin Board")Its symbol is MTEY.

From January 2000 through December 31, 2001, Matech's Common Stock was quoted between a low bid of $.08 per share and a high bid of $2.875 per share on the Bulletin Board. Such over-the-counter quotations reflect inter-dealer prices, without retail markup, markdown, or commission and may not necessarily represent actual transactions. The following chart shows the high and low bid prices per share per calendar quarter from January 1999 to December 2001.

	High Bid Price (1)		Low Bid Price (1)	
First Quarter 2000	$	2.875	$	.343
Second Quarter 2000	$	1.437	$	.42
Third Quarter 2000	$	.54	$	.22
Fourth Quarter 2000	$	.312	$	.13
First Quarter 2001	$	.23	$	.09
Second Quarter 2001	$	.12	$	.08
Third Quarter 2001	$	.22	$	.084
Fourth Quarter 2001	$	.25	$	.10

(1)All bid prices were supplied to the Company by Smith Barney.

On December 31, 2001, there were 578 holders of record of the Company's common stock and one holder of its Class B common stock. Our Class B common stock is not quoted on the Bulletin Board.

No dividends on any of the Company's shares were declared or paid during 1999 nor are any dividends contemplated in the foreseeable future.

At various times during the year 2001 the Company issued common stock to various persons which issuances we believe to be exempt from registration under Section 4(2) of the Securities Act of 1933 or under Regulation D promulgated under the Securities Act of 1933, and comparable state law exemptions. Each and every such person that received shares of our common stock had a pre-existing relationship with Matech and has been associated with the Company in some way, is sophisticated in investment and financial matters, and is familiar with the Company, its business, and its financial position.

COMMON STOCK ISSUANCE 2002

Since the end of our last fiscal year, the Company has had a series of transactions resulting in the issuance of shares of our common stock, all of which we believe were exempt from registration under the Securities Act of 1933.

Each of these transactions is described below:

On January 10, 2002, the Company issued 20,000 shares of its common stock to a consultant for services rendered.

On January 17, 2002, the Company issued 213,500 shares of its common stock through its Regulation S offering.

On January 22, 2002, the Company issued 40,000,000 shares of its common stock to Allied Boston pursuant to the terms of the Straight Documentary Credit as discussed in Note 8(i) to the financial statements.

On January 25, 2002, the Company issued 15,000 shares of its common stock to a consultant for services rendered.

On January 30, 2002, the Company issued 296,500 shares of its common stock through its Regulation S offering.

On February 11, 2002, the Company issued 4,000 shares of its common stock to a consultant for services rendered.

Also on February 11, 2002, the Company issued 150,000 shares of its common stock to a consultant for services rendered.

On February 13, 2002, the Company issued 400,000 shares of its common stock to a consultant for services rendered.

On February 20, 2002, the Company issued 195,000 shares of its common stock through its Regulation S offering.

On February 27, 2002, the Company issued 50,000 shares of its common stock to a consultant for services rendered.

On February 28, 2002, the Company issued 250,000 shares of its common stock to a consultant for services rendered.

Also on February 28, 2002, the Company issued 100,000 shares of its common stock to a consultant for services rendered.

Also on February 28, 2002, the Company issued its Executive Assistant 25,000 shares of its common stock for services rendered.

Also on February 28, 2002 the Company issued 50,000 shares of its common stock to a consultant for services rendered.

On March 1, 2002, the Company issued 100,000 shares of its common stock to a consultant for services rendered.

Also on March 1, 2002, the Company issued 100,000 shares of its common stock to a consultant for services rendered.

Also on March 1, 2002, the Company issued 580,824 shares of its common stock through its Regulation S offering.

On March 12, 2002, the Company issued 5,000 shares of its common stock to a consultant for services rendered.

Also on March 12, 2002, the Company issued 80,000 shares of its common stock to a consultant for services rendered.

Also on March 12, 2002, the Company issued 80,000 shares of its common stock to a consultant for services rendered.

On March 13, 2002, the Company issued 125,000 shares of its common stock to a consultant for services rendered.

Also on March 13, 2002, the Company issued 150,000 shares of its common stock to a consultant for services rendered.

On March 19, 2002, the Company issued 150,000 shares of its common stock through its Regulation S offering.

On March 20, 2002, the Company issued 25,000 shares of its common stock to a consultant for services rendered.

In February 2002, the Company adopted the 2002 Stock Issuance/Stock Plan, and reserved 20,000,000 shares of its common stock for distribution under the Plan. Eligible Plan participants include employees, advisors, consultants, and officers who provide services to the Company. The option price shall be 100% of

the fair market value of a share of common stock at either, a) date of grant or such other day as the as the Board of Directors may determine. Options issued under this plan expire five years from date of grant.

COMMON STOCK ISSUANCES In 2001

During our last fiscal year, the Company has had a series of transactions resulting in the issuance of shares of our common stock, all of which we believe were exempt from registration under the Securities Act of 1933. Each of these transactions is described below:

On January 8, 2001, the Company issued 100,000 shares of its common stock to Mr. Campbell Laird, a member of the Company's advisory board, for consulting services.

Also on January 8, 2001, the Company issued 50,000 shares of its common stock to a consultant for services rendered.

On January 9, 2001, the Company issued 100,000 shares each to Mr. John Goodman and Mr. William Berks, two employees, pertaining to services rendered on the Company's research project. Mr. Goodman is also a member of the Company's Board of Directors.

On January 11, 2001, the Company issued 100,000 shares of its common stock to the attorney handling the Beck matter for legal services.

On February 19, 2001, the Company's Board of Directors authorized the issuance of 6,000,000 shares of its common stock to the Company's President for past compensation due.

On April 6, 2001, the Company issued a consultant 200,000 shares of its common stock for services rendered.

On April 17, 2001, the Company issued a consultant 250,000 shares of its common stock for services rendered.

On April 20, 2001, the Company issued to two consultant 50,000 shares each of its common stock for marketing services rendered.

On May 3, 2001, the Company issued 100,000 shares of its common stock to Mr. Berks for services rendered on the Company's research project.

Also on May 3, 2001, the Company issued 100,000 shares of its common stock to Mr. Thomas Root, a member of the Company's advisory board, for consulting services.

On June 8, 2001, the Company issued a consultant 1,000,000 shares of its common stock for past marketing services rendered.

On June 12, 2001, the Company issued its Executive Assistant 25,000 shares of its common stock for services rendered.

On July 5, 2001, the Company issued to an attorney 50,000 shares of its common stock for legal services rendered.

On July 26, 2001, the Company issued a consultant 200,000 shares of its common stock for services rendered.

On August 6, 2001, the Company issued to Mr. Samuel Schwartz, a member of the Company's advisory board, 125,000 shares of its common stock for services rendered.

On August 9, 2001, the Company issued 265,000 shares of its common stock to the attorney handling the Beck matter for legal services rendered.

On August 29, 2001, the Company issued 50,000 shares of its common stock to one consultant and 300,000 shares of its common stock to Mr. Samuel Schwartz, for services rendered.

On September 6, 2001, the Company issued a consultant 37,500 shares of its common stock for services rendered.

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On September 14, 2001, the Company issued a consultant 50,000 shares of its common stock for services rendered.

On September 19, 2001, the Company issued a consultant 125,000 shares of its common stock for services rendered.

On October 8, 2001, the Company issued to Mr. Goodman and Mr. Berks, 300,000 shares of its common stock each for services rendered in connection with the Company's research project.

On October 16, 2001, the Company issued a consultant 50,000 shares of its common stock for services rendered.

On October 18, 2001, the Company issued its Executive Assistant 20,000 shares of its common stock for services rendered.

On October 23, 2001, the Company issued to the attorney handling the Beck matter, 150,000 shares of its common stock for services rendered.

On October 24, 2001, the Company issued 60,000,000 shares of its common stock to Allied Boston pursuant to the terms of the Straight Documentary Credit as discussed in Note 8(i) to the financial statements.

On October 25, 2001, the Company issued 697,853 as additional fees pertaining to its Regulation S offering.

On October 30, 2001, the Company issued 4,538,458 shares of its common stock pursuant to its Regulation S offering.

On November 5, 2001, the Company issued 84,500 shares of its common stock pursuant to its Regulation S offering.

On November 6, 2001, the Company issued 350,000 shares of its common stock to an attorney assisting in the Beck matter for legal services rendered.

On November 14, 2001, the Company issued a consultant 150,000 shares of its common stock for services rendered.

On November 17, 2001, the Company issued to the same consultant 107,500 shares of its common stock for services rendered.

On November 19, 2001, the Company issued 10,000 shares of its common stock pursuant to its Regulation S offering.

On November 20, 2001, the Company issued 144,000 shares of its common stock pursuant to its Regulation S offering.

On November 28, 2001, the Company issued 90,000 shares of its common stock pursuant to its Regulation S offering.

On December 4, 2001, the Company issued 81,400 shares of its common stock pursuant to its Regulation S offering.

On December 20, 2001, the Company issued to three consultants a total of 530,000 shares of its common stock for marketing services rendered.

COMMON STOCK ISSUANCE 2000

On January 12, 2000, the Board authorized the issuance of up to 110,000 shares of Common Stock to a group of approximately 22 investors who were defrauded by a former consultant to the Corporation in exchange for an assignment of their

claims to the Corporation and a release of all claims against the Corporation. During January, February, and August 2000, the Company issued 65,028 shares of its common stock to these investors in exchange for an assignment and release of claims.

On January 27, 2000, the Board authorized the Corporation to issue 40,000 shares of Class B Common Stock to Robert M. Bernstein in exchange for 40,000 shares of Common Stock. On March 21, 2000, Mr. Bernstein returned to the Company 40,000 shares of Common stock in exchange for receiving 40,000 shares of Class B common stock. Mr. Bernstein, therefore, owns 100,000 shares of Class B Common Stock that has 500 votes per share. Therefore, Mr. Bernstein's Class B Common Stock has 50 million votes and gives him effective control of the Company.

On January 31, 2000, the Board authorized the issuance of 50,000 shares of Common Stock to David Haberman, a new member of the Corporation's advisory board.

On February 8, 2000, the Board authorized the issuance of 10,000 shares of Common Stock to a consultant for services.

On February 14, 2000, the Board authorized an amendment to the Corporation's

Articles of Incorporation increasing the authorized shares of Common Stock from 30 million to 100 million shares. On that same day, by consent, Mr. Bernstein and Mr. Freedman voted their shares to so amend the Articles.

On February 14 2000, the Board authorized the Corporation to increase the number of shares of common stock that may be issued under the Corporation's 1998 Stock Plan from 800,000 shares to 1,800,000 shares of common stock.

On February 28, 2000, the Company issued 200,000 of common stock to a consultant for financial services. Also on February 28, 2000, the Company issued 4,500 of common stock to a public relations consultant.

On March 9, 2000, the Company issued 100,000 of common stock to a consultant in cancellation of $100,000 due.

On March 13, 2000, the Company issued two consultants a total of 75,000 shares of common stock for services relating to the development of the fatigue fuse.

On March 29, 2000, the Company issued 50,000 shares of common stock to a consultant for services.

On April 11, 2000, the Company issued 15,000 shares of common stock to consultant relating to the operations of the Company joint venture.

On April 11, 2000, the Company issued 25,000 shares of common stock for advisory services.

On April 12, 2000, the Company filed a registration statement to increase the number of shares of common stock that may be issued under the Corporation's 1998 Stock Plan from 1,800,000 to 6,800,000 shares of common stock.

On April 28, 2000, the Company issued 30,000 shares of common stock for advisory services.

On May 4, 2000, the Company issued 12,529 shares of its common stock in exchange for 12,529 shares of its preferred stock. The preferred shares were subsequently cancelled.

On May 25, 2000, the Company issued its President 4,650,000 shares its common stock in exchange for $4,650 and a $1,855,350 non-recourse promissory note bearing interest at an annual rate of 8%. On the same day, the Company issued 350,000 shares its common stock to a Director in exchange for $350 and a $139,650 non-recourse promissory note bearing interest at an annual rate of 8%. Both notes mature on May 25, 2005, when the principal and accrued interest are due and payable.

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On July 13, 2000, the Company issued 40,000 shares of its common stock for legal services.

On October 27, 2000, the Company issued 4,183,675 shares to its President for future compensation pursuant to a Stock Escrow/Grant Agreement. Under the terms of the agreement, the President is required to hold these shares in escrow. While in escrow, the President cannot vote the shares but has full rights as to cash and non-cash dividends, stock splits or other change in shares. Any additional shares issued to the President by reason of the ownership of the 4,183,675 shares will also be escrowed under the same terms of the agreement. (See, Exhibit 4.3.)

On November 14, 2000, the Company issued 400,000 shares of common stock to a stockholder in the Company in exchange for $22,490.

On December 13, 2000, the Company's Board authorized the issuance of 250,000 shares of its common stock to an individual to settle a lawsuit brought against the Company. As that settlement has not been finalized as of the date of this filing, those shares have not yet been issued.

On December 19, 2000, the Company issued 200,000 shares of its common stock to a consultant.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data for the Company is derived from the Company's financial statements. The selected financial data should be read in conjunction with the Company's financial statements and the notes to the financial statements that are attached hereto.

	Fiscal Year Ending December 31,				
	1997	1998	1999	2000	2001
Net Sales	$ --	$ --	$ --	$ --	$ --
Income from Research Development Contract	$ 336,410	$ 373,324	$ 924,484	$ 635,868	$ 1,579,823
Income (Loss) from Continued Operations	$ (133,578)	$ (549,187)	$ (539,283)	$ (459,129)	$(2,432,638))
Income (Loss) from Continued Operations Per Common Share	$ (.03)	$ (.06)	$ (.04)	$ (.02)	$ (.07)
Basic Weighted Average - Common Shares Outstanding	4,551,258	8,782,808	12,242,534	18,900,019	33,640,393
Total Assets	$ 287,257	$ 233,746	$ 250,041	$ 108,776	$ 516,745
Total Liabilities	$ 618,582	$ 719,178	$ 870,586	$ 819,236	$ 1,154.696
Redeemable Preferred Stock	$ 150,000	$ --	$ --	$ --	$ --
Total Stockholders' Equity (Deficit)	$ (481,257)	$ (485,432)	$ (620,545)	$ (735,078)	$ (680,384)
Dividends	$ --	$ --	$ --	$ --	$ --

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of results of operations, capital resources, and liquidity pertains to the activities of the Company for the years ended December 31, 1999, 2000, and 2001.

RESULTS OF OPERATIONS FOR YEARS ENDED DECEMBER 31, 1999, 2000, AND 2001.

In 2001, the Company received $1,579,823 under two subcontracts on programs with the U.S. Air Force for application engineering and enhancement of the EFS. Also in 2001, the Company accrued interest income relating to the non-recourse notes to from the Company's President and a Director amounting to $98,297. In 2000, the Company received $635,868 under two subcontracts on programs with the U.S. Air Force for application engineering and enhancement of the EFS. Also in 2000, the Company accrued interest income relating to the non-recourse notes to from the Company's President and a Director amounting to $96,197. In 1999, the Company received $924,484 under two subcontracts on programs with the federal government for feasibility studies and application engineering and enhancement of the EFS.

COSTS AND EXPENSES

Research and development Costs were $1,284,928 for 2001, $496,501 for 2000, and $536,237 for 1999. Of the $1,284,928, $496,501 and $536,237 incurred in 2001, 2000 and 1999, $1,069,671, $406,823 and $436,888 related to subcontractor costs, respectively.

General and Administrative costs were $2,725,548 for 2001, $640,481 for 2000, and $875,444 for 1999.

In 2001, actual cash compensation paid to the Company's president totaled $90,000. The Company also accrued $30,000 in additional compensation due him. The Company charged to operations $1,500.000 due to a reduction in the balance of the non-recourse promissory notes due in connection with the purchase of the Company's common stock by the Company's President and a director. The Company also issued 6,000,000 shares to the President, valued at $420,000, for past compensation due him. Other expenses in 2001 included consulting fees of $225,363, legal of $209,486, accounting of $51,120, travel of $42,092, office salaries of $36,225, office expense of $34,880, rent of $29,468, telephone expense of $13,838, and the charge off of the Company's $33,000 investment in Antaeus Research LLC.

The major costs in 2000 were officer's salary of $127,183, consulting fees of $127,512, legal fees of $197,322, accounting and auditing fees of $23,063, interest expense of $60,634, and travel costs of $26,443.

The major costs in 1999 were officer's salary of $150,000, legal fees of $88,791, travel expenses of $60,055, accounting fees of $32,814, rent of $25,375, and office expense of $20,337.

LIQUIDITY AND CAPITAL RESOURCES

There has been little change in the Company's operations for the past three years. It still seeks capital for the development of its projects and to maintain its patents. The Company is still totally dependent on the willingness of the Company's President, Mr. Bernstein, and long time investors in the Company to loan the Company money or purchase additional securities from the Company. Over the next year, the Company hopes to receive additional funds from the U. S. Air Force. These funds, however, are not guaranteed. In 2001, the

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Company raised a net $286,567 through the issuance of 4,932,358 shares of its common stock through its Regulation S Offering. Also in 2001, the Company entered into an agreement with Allied Boston International for a Straight Documentary Credit for $12,500.000.The funding under this instrument is also not guaranteed. If the $12,500,000 is raised, Management believes the amount should be sufficient to fund the completion of its research projects and bring them to market. Although Mr. Bernstein intends to continue to loan the Company funds as required while it seeks additional financing, he is under no obligation to do so. The Company does not expect to receive any additional material financing from its other long time investors.

Any prediction of the likelihood or timing of obtaining the required funding would be highly speculative. The Company's ability to obtain such financing may depend on the results of the research contracts with the U.S. Air Force.

Cash and cash equivalents at December 31, 2001 were $174,469. During 2001, the Company received $1,328,079 from its research and development contract, $286,567 from the sale of its common stock, $678 in interest income and $42,800 in advances from the Company's president. In 2001, the Company spent $1,426,348 in its operations, $5,961 in the purchase of computer equipment and the development of a web site, and paid $53,300 to its president.

Cash and cash equivalents at December 31, 2000 were $1,934. During 2000, the Company received $746,732 from its research and development contract, $22,490 from the sale of its common stock, and $251,798 from the sale of DCH Technologies, Inc., shares. The Company's president advanced $8,000 and received $39,500 from the Company. In 2000, the Company spent $1,035,470 in its operations, and $15,000 was invested in Antaeus Research, LLC. 11

Cash and cash equivalents at December 31,1999 were $62,904. During 1999 the Company received $1.012,425 from its research and development contract and $150,000 from sale of its Common Stock. The Company's President advanced $102,198 of which $71,500 was repaid towards his loan account. The Company also received $7,405 as a deposit on the future sale of the Company's Common Stock. In 1999, the Company spent $1,122,550 in its operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS

Attached hereto and incorporated herein by reference are audited financial statements of the Registrant as of December 31, 2001, 2000, and 1999, prepared in accordance with Regulation S-X (17 CFR Sec.210)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANT ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, office, and principal occupation of the executive officers and directors of Matech and certain information relating to their business experiences are set forth below:

NAME	AGE	POSITION
Robert M. Bernstein	67	President/Chief Executive and Chief Financial Officer, Chairman of the Board
Joel R. Freedman	42	Secretary/Director
Dr. John Goodman	67	Chief Engineer/Director
William I. Berks	71	Vice President of Government Projects
Miles M. Larson	62	Government Contracts Auditor

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The Term of the directors and officers of Matech is until the next annual meeting or until their successors are elected.

ROBERT M. BERNSTEIN, PRESIDENT/CHIEF FINANCIAL OFFICER/CHAIRMAN OF THE BOARD. Robert M. Bernstein is 67 years of age. He received a Bachelor of Science degree from the Wharton School of the University of Pennsylvania in 1956. From August 1959 until his certification expired in August 1972, he was a Certified Public Accountant licensed in Pennsylvania. From 1961 to 1981, he was a consultant specializing in mergers, acquisitions, and financing. From 1981 to 1986, Mr. Bernstein was Chairman and Chief Executive Officer of Blue Jay Enterprises, Inc. of Philadelphia, PA, an oil and gas exploration company. In December 1985, he formed a research and development partnership for Tensiodyne, funding approximately $750,000 for research on the Fatigue Fuse. In October 1988 he became Chairman of the Board, President, Chief Financial Officer, and CEO of Matech 1 and retained these positions with the Company after the spin off from Matech 1 on July 31, 1997.

JOEL R. FREEDMAN, SECRETARY/DIRECTOR. Joel R. Freedman is 42 years of age. From October 1989 until the present, Mr. Freedmen holds the position of Secretary and a Director of the company. Mr. Freedman attends board meetings and provides advice to the Company as needed. Since 1983, he has been president of Genesis Advisors, Inc., an investment advisory firm in Bala Cynwyd, Pennsylvania. Since January 1, 2000, he has been a Senior Vice President of PMG Capital Corp., a securities brokerage and investment advisory firm in West Conshohocken, Pennsylvania. His duties there are a full-time commitment. Accordingly, he does not take part in Matech's daily activities. He is not a director of any other company.

DR. JOHN W. GOODMAN, CHIEF ENGINEER/DIRECTOR. Dr. John W. Goodman is 68 years of age. He is retired from TRW Space and Electronics and was formerly Chairman of the Aerospace Division of the American Society of Mechanical Engineers. He holds a Doctorate of Philosophy in Materials Science that was awarded with distinction by the University of California at Los Angeles in 1970. In 1957, he received a Masters of Science degree in Engineering Mechanics from Penn State University and in 1955 he received a Bachelor of Science degree in Mechanical Engineering from Rutgers University. From 1972 to 1987, Dr. Goodman was with the U. S. Air Force as lead Structural Engineer for the B-1 aircraft; Chief of the Fracture and Durability Branch, and Materials Group Leader, Structures Department, Aeronautical Systems Center, Wright-Patterson Air Force Base. From 1987 to December 1993, he was on the Senior Staff, Materials Engineering Department of TRW Space and Electronics. He has been Chief Engineer for Development of Matech's products since May 1993. Over the last four years he has consulted part time for the Company.

WILLIAM I. BERKS, VICE PRESIDENT OF GOVERNMENT PROJECTS. William Berks retired from TRW, Inc. in November 1992. Mr. Berks' last assignment was as a project manager in the Advanced Systems Division of TRW's Space and Technology Group. He managed the Structures and Mechanism Subsystem of the Universal Test Bed Project, which is a three axis stabilized advanced bus for large geostationary satellites. In a collateral assignment, he was responsible for planning a building and its equipment for the National Space Program Office of Taiwan, Republic of China, for the design, assembly, integration and test of small three axis spacecraft and each of their subsystems, and manpower planning for a spacecraft program. Recently he was the Chief Mechanical Engineer for the Space and Technology Group's commercial satellite operations. He served six years as Manager of the Mechanical Design Laboratory, the engineering design skill center for the design and development of spacecraft mechanical systems, which had as many as 350 individuals. For ten years he was Manager of the Advanced Systems Design Department, which was responsible for mechanical systems design for all spacecraft project. He was Assistant Projects Manager for Mechanical Subsystems for a major spacecraft program, which included preparation of plans, specifications and drawings, supervision of two major subcontracts, and responsibility for flight hardware fabrication and testing. Mr. Berks has also managed independent research and development projects (antennas, materials, solar arrays) and holds six patents. He has over 30 years of experience in spacecraft mechanical systems engineering. He was with TRW, Inc. for 26 years.

MILES M. LARSON, GOVERNMENT CONTRACTS AUDITOR. Miles Larson is a Certified Public Accountant in the state of California. In 1990 he was recipient of the Defense Contract Audit Agency (DCAA) Management Excellence Award which is bestowed annually to DCAA's most outstanding manager. In addition, Miles was the recipient of the DCAA Meritorious Service Award for outstanding contributions to the Agency's audit mission. (DCAA's 2nd highest award). He has twenty-five years of auditing experience with the DCAA and four years with the US Army Audit Agency. Mr. Larson has eight years experience working as a consultant with Pricewaterhouse/Coopers. He received a Master of Business Administration from the University of Southern California and a Bachelor of Science degree, Business Administration from California State University, Long Beach. Mr. Larson is also a graduate of the Senior Defense Management Program at Harvard University.

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ADVISORY BOARD

Since 1987, the Company and its predecessors have had an Advisory Board consisting of very senior experienced businessmen and technologists, most of whom are nationally prominent. These individuals consult with the Company on an as needed basis. Members of the Advisory Board serve at will. The Advisory Board advises Matech's Management on technical, financial, and business matters and may in the future be additionally compensated for these services. A brief biographical description of the members of the advisory board is as follows:

DR. LAWRENCE CHIMERINE. Dr. Chimerine is President of Radnor International Consulting Inc. in Radnor, PA. an economics consulting firm, and co-founder of igrandparents.com; from 1993 to 2000, he was Managing Director and Chief Economist of the Economic Strategy Institute in Washington DC; and He is the former Chairman, Chief Executive, and Chief Economist of Chase Econometrics and The WEFA Group. For more than 19 years, Dr. Chimerine has lent his advice and council to an impressive resume of Fortune 500 companies, financial institutions, and government agencies, providing private consultation on the state of the U.S. and world economics, specific industries, and sectors, and the impact of economic conditions on decision making, budgeting, and strategic planning. He has served on numerous corporate boards, is a member of various professional associations, and has held teaching positions at three universities. From 1965 to 1979, Dr. Chimerine was Manager of the U.S. Economic Research and Forecasting for the IBM Corporation. He left IBM to assume the chairmanship at Chase Economics and, in 1987, was appointed Chairman and CEO of the WEFA Group. Dr. Chimerine has served on numerous governmental advisory boards including the House of Representatives Task Force on International Competitiveness, the Census Advisory Committee, and the Economic Policy Board of the Department of Commerce. He is frequently called upon to testify on key economic issues before Congressional committees including the House and Senate Budget Committee, Joint Economic Committee, Senate Finance Committee, Senate Banking Committee, and the House Committee on Monetary Policy.

ADM. ROBERT P. COOGAN, USN (Ret.). Robert P. Coogan, age 75, retired from a distinguished naval career spanning 40 years during which he held numerous posts including: Commander U.S. Third Fleet, Commander Naval Air Force - U.S. Pacific Fleet, Commandant of Midshipmen - U.S. Naval Academy, and Chief of Staff - Commander Naval Air Force - U.S. Atlantic Fleet. From 1980 to 1991 he was with Aerojet General Company and served as Executive Vice President of Aerojet Electrosystems Co. from 1982-1991. He has his BS in Engineering from the US Naval Academy and MA in International Affairs from George Washington University.

ROBERT F. CUSHMAN, ESQ. Mr. Cushman is a partner in the Philadelphia office of Pepper Hamilton LLP, is also the permanent chairman of the Andrews Conference Group Construction Super Conference, and is the organizing chairman of the Forbes Magazine Conferences on Worldwide Infrastructure Partnerships, Rebuilding America's Infrastructure Conference, Alternative Dispute Resolution, the Forbes/ Council of the Americas Latin American Marketing Conference and the Forbes Environmental Super Conference.

DAVID HABERMAN. Mr. Haberman is the former chairman and co-founder of DCH Technology Inc., a company that specializes in hydrogen technology development,

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safety, process monitoring, and hydrogen fuel cell power applications. In 1996 William Richardson, then Secretary of the Department of Energy (DOE), appointed Mr. Haberman to represent the perspectives of commercial product developers and safety engineers on the Hydrogen Technical Advisory Board (HTAP). This panel, created by the Hydrogen Futures Act, reports directly to the Secretary of Energy and is responsible to the U.S. Congress to monitor the DOE's implementation of the National Hydrogen Program. As a director of the National Hydrogen Association (NHA), Mr. Haberman chairs the Implementation Planning Committee. He is a co-founder and president of the California Hydrogen Business Council, an American delegate and member of the International Standards Organization (ISO) Working Group on hydrogen system safety, and works to define the commercial future of hydrogen energy. DCHT's hydrogen sensors contribute to the Corporation's mission.

CAMPBELL LAIRD. Campbell Laird, age 63, received his Ph.D. in 1963 from the University of Cambridge. His Ph.D. thesis title was "Studies of High Strain Fatigue." He is presently Professor and graduate group Chairman in the Department of Materials, Science & Engineering at the University of Pennsylvania. His research has focused on the strength, structure, and fatigue of materials, in which areas he published in excess of 250 papers. He is co-inventor of the EFS.

T.Y. LIN. Mr. Lin graduated from Tangshan College, Jiaotong University, and received a M.S. degree in Civil Engineering from the University of California at Berkseley. Since 1934, he taught and practiced civil engineering in China and the U.S. and planned and designed highways, railways, and over 1,000 bridges and buildings in Asia and the Americas. He is known as Mr. Prestressed Concrete in the U.S., having pioneered both the technology and industry in the 1950s. He authored and co-authored three textbooks in structural engineering and more than 100 technical papers. He was the founder of T.Y. Lin International that provides design and analysis for all types of concrete and steel structures and pioneered the design of long-span structures, prestressing technology, and new design and construction methods over the past 40 years.

Y.C. YANG. Mr. Yang is a pioneer in "value engineering" which optimized many projects with economic te-designs. He is a recipient of the 1988 Jiaotong University Outstanding Alumnus Award, a citation from Engineering News Record, and the ACI Mason Award. With their partnership dating back to wartime China in the early 1940s, Mr. Lin and Mr. Yang established their international stature in the U.S. over the five decades that followed. In 1992, they formed the San Francisco, CA headquartered firm, Lin Tung-Yen China, Inc., to continue their tradition of excellence and innovation in structural and civil engineering and to serve as a bridge between East and West. The firm serves its clients through various tasks, ranging from planning and designs to construction management and the introduction of financing.

THOMAS V. ROOT. Mr. Root is President and CEO of Optim Incorporated, a company that develops, manufactures, markets, sells, and services flexible endoscopic products and solutions to medical and industrial markets. Optim Incorporated is ISO 2001-certified and also manufactures and markets a complete line of industrial fiberscopes to serve the remote inspection needs of aerospace, transportation, energy generation, law enforcement, and school security markets. Mr. Root has had 25 years of experience in all methods of nondestructive testing and was an NDT, Level III, member of the American Society for Nondestructive Testing (ASNT) Educational Council and Level III question committee. In addition, he is past chairman of ASNT CT Yankee, and former member of SAE Committee (k). His career began at General Dynamics in 1972 and after serving in the nondestructive test engineering and education departments he joined Technical Operations as manager of Technical Services in 1976. In 1978, Mr. Root co-founded Northeast NDE Company, a private distribution and service company committed to providing products and services for the development of nondestructive testing applications. After completing a sale transaction to Northeast NDE's treasurer, in 1990 Mr. Root founded Valtec Systems, a private firm, for the development and distribution of specialty nondestructive testing systems. In early 1996, he sold Valtec and became Vice President of Operations

and General Manager of the industrial products company of Applied Fiberoptics, Inc., the predecessor of Optim Inc. In 1997 he became the CEO of Optim.

SAMUEL I. SCHWARTZ. Samuel I. Schwartz, age 50, is presently President of Sam Schwartz Co., consulting engineers, primarily in the bridge industry. Mr. Schwartz received his BS in Physics from Brooklyn College in 1969, and his Masters in Civil Engineering from the University of Pennsylvania in 1970. From February 1986 to March 1990, was the Chief Engineer/First Deputy Commissioner, New York City Department of Transportation and from April 1990 to the present acted as a director of the Infrastructure Institute at the Cooper Union College, New York City, New York. From April 1990 to 1994 he was a Senior Vice President of Hayden Wegman Consulting Engineers, and is a columnist for the New York Daily

News.

NICK SIMIONESCU. Mr. Simionescu joined HNTB in 1974, one of the largest consulting engineering companies in the world, and is currently Vice President, Director of Business Development in the New York City Office. He has over 37 years of management, construction, design, inspection and detailing experience. Mr. Simionescu is very familiar with the New York City infrastructure. For nearly 28 years he has been working in New York City, primarily on projects with the New York City Department of Transportation and New York State Department of Transportation Regions 10 and 11. His projects have included management of the inspections of the Williamsburg, Brooklyn, Triborough, Manhattan, and Queensboro bridges. Additionally, he has been the Project Manager of Bridge Inspection for many other arterial and local bridges throughout New York. Mr. Simionescu's responsibilities with HNTB have involved a variety of National and International projects. He has been the Senior Structural Designer and Manager of bridges in South Carolina (800 Ft. span), Rhode Island (366 ft. span), Malaysia (740 ft.), and Florida (1300 ft.).

LIEUTENANT GENERAL JOE N. BALLARD. General Ballard is retired from the United States Army and has served as President and Chief Executive Officer of The Ravens Group, Inc., a business development, consulting, and executive level leadership service company, since March 2001. He received his MS in Engineering Management from the University of Missouri, BS in Electrical Engineering from Southern University, and he is a registered professional engineer. He served as Commanding General, US Army Corps of Engineers from 1996 until 2000, Chief of Staff US Army Training and Doctrine Command from 1995 until 1996, Commander of the US Army Engineer Center in Missouri from 1993 until 1995, Director of the Total Army Basing Study at the Pentagon from 1991 until 1993, and he was Commander of the 18th Engineering Brigade in Germany from 1988 until 1990. He has received many honors including the Deans of Historical Black Colleges and Minority Institutions Black Engineer of the Year in 1998, Honorary Doctorate of Engineering from the University of Missouri in 1999, Honorary Doctorate of Law L.L.D. from Lincoln University in 1998, Honorary Doctorate of Engineering from Southern University in 1999, and Fellow of the Society of American Military Engineers in 1999.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

On March 27, 2001, Mr. Robert Bernstein, Chief Executive Officer and Chairman filed a Form 5 relating to several transactions of stock issued to him in 2000 and a Form 4 for a January 2001 transaction. Mr. Bernstein was late in reporting these transactions.

On March 27, 2001, Dr. John Goodman, Director filed a Form 4 for a transaction in January 2001.

The Company is unaware of any other late filings or any other failures to file any Form 3, 4, or 5.

ITEM 11. EXECUTIVE COMPENSATION

Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restricted Stock Awards ($)	Options (SARs (#)	LTIP Payout($)	
Robert M.	1999	$ 150,000	$ --	$ --	$ --	--	$ --	$
Bernstein CEO	2000	$ 120,000	$ --	$ --	$ 4,183(1)	--	$ --	$

	2001	$ 120,000	$ --	$ --	$ 420,000(2)		$ --	$
John W. Goodman	1999	$ 23,384	$ --	$ --	$ 11,700(4)	--	$ --	$
Director and	2000	$ 26,614	$ --	$ --	$ --	--	$ --	$
Engineer	2001	$ 23,076	$ --	$ --	$ 50,500(5)	--	$ --	$

(1) In 2000, the Corporation issued to Mr. Bernstein as escrow holder 4,183,675 shares of its common stock, in part, for future compensation and subject to severe restrictions. (See, Exhibit 4.3.) The Company included the par value of the shares issued in Mr. Bernstein's 2000 compensation amounting to $4,183.

(2) In 2001, the Corporation issued Mr. Bernstein 6,000,000 shares for past compensation (see item 5). The Company valued these shares at $420,000.

(3) In 2001, the Company reduced the obligation from Mr. Bernstein to the Company on a non-recourse promissory note relating to the issuance of 4,650,000 shares of its common stock from $1,855,350 to $460,350.

(4) In 1999, the Corporation issued Mr. Goodman 142,000 shares of restricted common stock. These shares were valued at $11,700.

(5) In 2001, the Corporation issued Mr. Goodman 800,000 shares of restricted common stock. These shares were valued at $50,500.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN OWNERS AND MANAGEMENT AS OF DECEMBER 31, 2001

Security Ownership of Certain Beneficial Owners

The Company does not know of any non-affiliated person or "group" as that term is used in section 13(d)(3) of the Exchange Act that owns more than five percent of any class of the Company's voting securities.

Security Ownership of Management

CLASS OF STOCK	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Common Stock	Robert M. Bernstein, CEO Suite 707 11661 San Vicente Blvd. Los Angeles, CA 90049	15,896,022 Shares	37.4%(1)
	Joel R. Freedman, Director 1 Bala Plaza Bala Cynwyd, PA 19004	826,524 Shares	2.0%
	John Goodman, Director Suite 707	1,000,000 Shares	2.3%

	11661 San Vicente Blvd. Los Angeles, CA 90049		
	Directors and executive officers as a group (3 persons)	17,722,546 Shares	41.7%
Class B Common Stock	Robert M. Bernstein Suite 707 11661 San Vicente Blvd. Los Angeles, CA 90049	100,000 Shares	100.00%(2)

(1) Of these 15,896,022 shares, Mr. Bernstein has full rights to approximately 12,112,347 shares. The remaining 3,783,675 shares held are in escrow. On October 27, 2000, the Company issued 4,183,675 shares to Mr. Bernstein pursuant to a Stock Escrow/Grant Agreement. Under the terms of the agreement, the President is required to hold these shares in escrow. While in escrow, the President cannot vote the shares but has full rights as to cash and non-cash dividends, stock splits or other change in shares. Any additional shares issued to the President by reason of the ownership of the 4,183,675 shares will also be escrowed under the same terms of the agreement. Upon the exercise by certain holders of Company options or warrants or upon the need by the Company, in the sole discretion of the Board, to issue common stock to certain individuals or entities, the number of shares required for issuance to these holders will be returned from escrow by Mr. Bernstein thereby reducing the number of shares he holds. The shares held in escrow are non-transferable and will be granted to Mr. Bernstein only upon the exercise or expiration of all of the options and warrants, the direction of the Board, in its sole discretion, or the mutual agreement of Mr. Bernstein and the Board of Directors to terminate the agreement. The Company valued these shares at par. Upon the actual grant of the remaining shares to Mr. Bernstein, the shares issued will be valued at market value when issued and charged to operations as compensation. As of the date of this filing, 400,000 of these 4,183,675 shares had been transferred to satisfy a stock agreement. Accordingly, 3,783,675 of these escrowed shares are

included in the total of 15,896,022 shares beneficially owned by Mr. Bernstein. (See, Note 11 to Financial Statements.)

(2) Each of Mr. Bernstein's Class B Common Shares has 1,000 votes per share on any matter on which the common stockholders vote. Accordingly, the Class B common stock held by Mr. Bernstein equal 100 million shares of voting control . These votes give Mr. Bernstein voting control of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
(SEE NOTE 11 TO FINANCIAL STATEMENTS.)

From time to time, Robert M. Bernstein advanced funds to the Company. At December 31, 2000, all such advances had been repaid. The Board has approved paying Mr. Bernstein interest at the rate of 10% per year on his advances. Robert M. Bernstein is under no obligation to make further advances to the Company but may continue to so do at his sole discretion. (See, Note 11r to Financial Statements.)

In August, 1997, the Company's Board of Directors signed a resolution recognizing the Company's extreme dependence on the experience, contacts, and efforts of Mr. Bernstein and authorized to pay him a salary of $150,000 a year since 1991. In February 2001, the Company's Board of Directors authorized the issuance of 6,000,000 shares of its Common Stock to the Company's President for $420,000 of past compensation due to Mr. Bernstein under this resolution. This amount represents the difference between the $150,000 a year and the compensation actually accrued during the years 1991 through 2000.

On May 25, 2000, the Company issued its President 4,650,000 shares its common stock in exchange for $4,650 and a $1,855,350 non-recourse promissory note bearing interest at an annual rate of 8%. Approximately 1,500,000 of these shares are subject to an option to purchase by a third party. On the same day, the Company issued 350,000 shares its common stock to a Director Joel Freedman, in exchange for $350 and a $139,650 non-recourse promissory note bearing interest at an annual rate of 8%. Both notes mature on May 25, 2005, when the principal and accrued interest becomes fully due and payable.

On October 27, 2000, the Company issued 4,183,675 shares to its President for future compensation pursuant to a Stock Escrow/Grant Agreement. Under the terms of the agreement, the President is required to hold these shares in escrow. While in escrow, the President cannot vote the shares but has full rights as to cash and non-cash dividends, stock splits or other change in shares. Any additional shares issued to the President by reason of the ownership of the 4,183,675 shares will also be escrowed under the same terms of the agreement. Upon the exercise by certain holders of Company options or warrants or upon the need by the Company, in the sole discretion of the Board, to issue common stock to certain individuals or entities, the number of shares required for issuance to these holders will be returned from escrow by the President thereby reducing the number of shares he holds. The shares held in escrow are non-transferable and will be granted to the Company's President only upon the exercise or expiration of all of the options and warrants, the direction of the Board, in its sole discretion, or the mutual agreement by the President and the Board of Directors to terminate the agreement. The Company valued these shares at par. Upon the actual grant of the remaining shares to the President, the shares issued will be valued its market value when issued and charged to operations as compensation. (See, Exhibit 4.3.)

On January 9, 2001, the Company's Board of Directors authorizes the issuance of 100,000 shares of its common stock to William Berks, a part-time employee, for engineering and other services rendered to the Company.

On January 8, 2001, the Company's Board of Directors authorized the issuance of 100,000 shares of its common stock to Dr. Campbell Laird, an advisory board member, for services to the Company.

On January 9, 2001, the Company's Board of Directors authorized the issuance of 100,000 shares of its common stock to John Goodman, a director and part-time employee, for engineering and other services rendered to the Company.

On January 9, 2001, the Company's Board of Directors authorized the issuance of 100,000 shares of its common stock to William Berks, a part-time employee, for engineering and other services rendered to the Company.

On February 19, 2001, the Company's Board of Directors authorized the issuance of 6,000,000 shares of its common stock to the Company's President for past compensation due as discussed above.

On May 3, 2001, the Company's Board of Directors authorized the issuance of 100,000 shares of its common stock to Mr. William Berks for services rendered to the Company.

On June 12, 2001, the Company's Board of Directors authorized the issuance of 25,000 shares of its common stock to the company's executive assistant, for services rendered to the Company.

On October 8, 2001, the Company's Board of Directors authorized the issuance of 300,000 shares of its common stock each to Mr. William Berks and Mr. John Goodman for services rendered to the Company.

On Octoer 18, 2001, the Company's Board of Directors authorized the issuance of 20,000 shares of its common stock to the company's executive assistant, for services rendered to the Company.

On November 21, 2001, the Company's Board of Directors authorized the issuance of 400,000 shares of its common stock each to Mr. William Berks and Mr. John Goodman for services rendered to the Company.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS IN FORM 8-K

a. Exhibits.

EXHIBIT NO.	DESCRIPTION	PAGE NO.
3(i)	Certificate of Incorporation of Material Technologies, Inc.	Previously filed in connection with S-1 Registration Statement became effective on July 31, 199
	Certificate of Amendment, February 16, 2000	1
	Certificate of Amendment, July 12, 2000	3
	Certificate of Amendment, July 31, 2000	4
3(ii)	Bylaws of Material Technologies, Inc.	Previously filed with July 31, 1997 S-1
4.1	Class A Convertible Preferred Stock Certificate of Designations	Previously filed with July 31, 1997 S-1
4.2	Class B Convertible Preferred Stock Certificate of Designations	Previously filed with July 31, 1997 S-1
4.3	Material Technologies, Inc. Stock Escrow/Grant	6
10.1	License Agreement Between Tensiodyne Corporation and the Trustees of the University of Pennsylvania	Previously filed with July 31, 1997 S-1
10.2	Sponsored Research Agreement between Tensiodyne Corporation and the Trustees of the University of Pennsylvania	Previously filed with July 31, 1997 S-1

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10.3	Amendment 1 to License Agreement Between	Previously filed with July 31,

	Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania	1997 S-1
10.4	Repayment Agreement Between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania	Previously filed with July 31, 1997 S-1
10.5	Teaming Agreement Between Tensiodyne Scientific Corporation and Southwest Research Institute	Previously filed with July 31, 1997 S-1
10.6	Letter Agreement between Tensiodyne Scientific Corporation, Robert M. Bernstein, and Stephen Forrest Beck and Handwritten modification.	Previously filed with July 31, 1997 S-1
10.7	Agreement Between Tensiodyne Corporation and Tensiodyne 1985-1 R&D Partnership is incorporated by reference from Exhibit 10.3 of Material Technology, Inc.'s S-1 Registration Statement, File No. 33-83526, which became effective on January 19, 1996.	Previously filed
10.8	Amendment to Agreement Between Material Technology, Inc. and Tensiodyne 1985-1 R&D Partnership is incorporated by reference from Exhibit 10.6 of Material Technology, Inc.'s S-1 Registration Statement, File No. 33-83526 which became effective on January 19, 1996.	Previously filed
10.9	Agreement Between Advanced Technology Center of Southeastern Pennsylvania and Material Technology, Inc. is incorporated by reference from Exhibit 10.4 of Material Technology, Inc.'s S-1 Registration Statement, File No. 33-83526 which became effective on January 19, 1996.	Previously filed
10.10	Addendum to Agreement Between Advanced Technology Center of Southeastern Pennsylvania and Material Technology, Inc. is incorporated by reference from Exhibit 10.5 of Material Technology, Inc.'s S-1 Registration Statement, File No. 33-83526.	Previously filed
27	Financial Data Schedule	

b. Reports on Form 8-K - none.

c. Financial Statements - attached.

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SIGNATURES

Pursuant to the Requirements of Section 13 or 15(d) of the 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 TECHNOLOGY, INC.

By: /s/ Robert M. Bernstein

Robert M. Bernstein, President

Date: March 27, 2002

Pursuant to the requirements of the Securities Exchanges Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Robert M. Bernstein

Robert M. Bernstein,
President, Director, Chief Executive Officer, and Chief
Financial Officer (Principal Executive Officer, Principal
Financial Officer, and Principal Accounting Officer)

Date: March 27, 2002

By: /s/ Joel Freedman

Joel Freedman, Secretary and Director

Date: March 27, 2002

By: /s/ John Goodman

John Goodman, Director

Date: March 27, 2001

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

Contents

Independent Auditors' Report

Board of Directors
Material Technologies, Inc.
Los Angeles, California

We have audited the accompanying balance sheets of Material Technologies, Inc., (A Development Stage Company) as of December 31, 2000 and 2001, and the related statements of operations, stockholders' equity (deficit), and cash flows, for the years ended December 31, 1999, 2000, and 2001 and for the period from the Company's inception (October 21, 1983) through December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Material Technologies, Inc. as of December 31, 2000 and 2001, and the results of its operations, and its cash flows for the years ended December 31, 1999, 2000, and 2001, and for the period from Company's inception (October 21, 1983) through December 31, 2001, in conformity with generally accepted accounting principles.

s/s Jonathon P. Reuben CPA

Jonathon P. Reuben,
Certified Public Accountant
Torrance, California
February 8, 2002

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

ASSETS

	December 31, 2000	December 31, 2001
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,954	$ 174,469
Accounts Receivable	33,932	285,677
Advances to Officer	22,052	35,880

TOTAL CURRENT ASSETS	57,938	496,026
FIXED ASSETS		
Property and Equipment, Net of Accumulated Depreciation	2,990	2,708
OTHER ASSETS		
Investments	33,000	-
Intangible Assets, Net of Accumulated Amortization	12,712	15,663
Refundable Deposit	2,136	2,348
TOTAL OTHER ASSETS	47,848	18,011
TOTAL ASSETS	$ 108,776	$ 516,745

See accompanying notes.

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

LIABILITIES AND STOCKHOLDERS' (DEFICIT)

	December 31, 2000	2001
CURRENT LIABILITIES		
Legal Fees Payable	$ 209,306	$ 28
Fees Payable to R&D Subcontractor	20,474	19
Consulting Fees Payable	50,000	
Accounting Fees Payable	26,288	4
Other Payables	10,157	
Accrued Expenses	24,982	4
Accrued Wages Due Officer	40,000	7
Notes Payable - Current Portion	79,848	2
TOTAL CURRENT LIABILITIES	461,055	67
Payable on Research and Development Sponsorship	358,181	42
Notes Payable - Other	-	5
TOTAL LIABILITIES	819,236	1,15

STOCKHOLDERS' (DEFICIT)		
Class A Common Stock, $.001 Par Value, Authorized 199,900,000 Shares, 24.618,167 Shares Issued and Outstanding at December 31, 2000, and 102,433,378 Shares Issued at December 31, 2001, of which 42,433,378 Shares are Outstanding and 60,000,000 Shares are Held In Reserve (Note 8i)	24,618	4
Class B Common Stock, $.001 Par Value, Authorized 100,000 Shares, Outstanding 100,000 Shares	100	
Class A Preferred, $.001 Par Value, Authorized 50,000,000 Shares of Which 337,471 Shares are Outstanding at December 31, 2000, and 2001	337	
Additional Paid in Capital	5,909,782	6,99
Less Notes and Subscriptions Receivable - Common Stock	(2,133,251)	(73
Deficit Accumulated During the Development Stage	(4,512,046)	(6,94
TOTAL STOCKHOLDERS' (DEFICIT)	(735,078)	(68
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$ 108,776	$ 47

See accompanying notes.

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

	1999	2000	2001
REVENUES			
Sale of Fatigue Fuses	$ -	$ -	$
Sale of Royalty Interests	-	-	
Income from Research and Development Contract	924,484	635,868	1,579,
Test Services	-	-	
TOTAL REVENUES	924,484	635,868	1,579,
COSTS AND EXPENSES			
Research and Development	536,237	496,501	1,284,
General and Administrative	875,444	640,481	2,725,
TOTAL COSTS AND EXPENSES	1,411,681	1,136,982	4,010,
INCOME (LOSS) FROM OPERATIONS	(487,197)	(501,114)	(2,430,
OTHER INCOME (EXPENSE)			

Expense Reimbursed	-	-	
Interest Income	2,613	103,419	102,
Miscellaneous Income	-	-	
Loss on Sale of Equipment	-	-	
Loss on Abandonment of Interest in Joint Venture	-	-	(33,
Settlement of Teaming Agreement	-	-	
Litigation Settlement	-	-	
Interest Expense	(58,295)	(60,634)	(70,
Modification of Royalty Agreement	-	-	
Gain on Foreclosure	-	-	
Gain on Sale of Stock	4,396	-	
TOTAL OTHER INCOME	(51,286)	42,785	(1,
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND PROVISION FOR INCOME TAXES	(538,483)	(458,329)	(2,431,
PROVISION FOR INCOME TAXES	(800)	(800)	(
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(539,283)	(459,129)	(2,432,
EXTRAORDINARY ITEMS			
Forgiveness of Debt	-	-	
Utilization of Operating Loss Carry forward	-	-	
NET INCOME (LOSS)	$ (539,283)	$ (459,129)	$ (2,432,
PER SHARE DATA			
Income (Loss) Before Extraordinary Item	$ (0.04)	$ (0.02)	$ (
Extraordinary Items	-	-	
NET (LOSS) PER SHARE	$ (0.04)	$ (0.02)	$ (
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	12,242,534	18,900,019	33,640,

See accompanying notes.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	CLASS A COMMON		CLASS B COMMON		
	SHARES OUTSTANDING	AMOUNT	SHARES OUTSTANDING	AMOUNT	O
Initial Issuance of Common Stock October 21, 1983	2,408	$ 2	-	$ -	
Adjustment to Give Effect to Recapitalization on December 15, 1986					
Cancellation of Shares	(2,202)	(2)	-	-	

	206	-	-	-
Balance - October 21, 1983				
Shares Issued By Tensiodyne Corporation in Connection with Pooling of Interests	42,334	14	-	-
Net (Loss), Year Ended December 31, 1983	-	-	-	-
Balance, January 1, 1984	42,540	14	-	-
Capital Contribution	-	28	-	-
Issuance of Common Stock	4,815	5	-	-
Costs Incurred in Connection with Issuance of Stock	-	-	-	-
Net (Loss), Year Ended December 31, 1984	-	-	-	-
Balance, January 1, 1985	47,355	47	-	-
Shares Contributed Back to Company	(315)	(0)	-	-
Capital Contribution	-	-	-	-
Sale of 12,166 Warrants at $1.50 Per Warrant	-	-	-	-
Shares Cancelled	(8,758)	(9)	-	-
Net (Loss), Year Ended December 31, 1985	-	-	-	-

	CAPITAL IN EXCESS OF PAR VALUE	DEFICIT ACCUMULATED DEVELOPMENT STAGE
Initial Issuance of Common Stock October 21, 1983	$ 2,498	$ -
Adjustment to Give Effect to Recapitalization on December 15, 1986		
Cancellation of Shares	(2)	-
	2,496	-
Balance - October 21, 1983		
Shares Issued By Tensiodyne Corporation in Connection with Pooling of Interests	4,328	-
Net (Loss), Year Ended December 31, 1983	-	(4,317)
Balance, January 1, 1984	6,824	(4,317)
Capital Contribution	21,727	-
Issuance of Common Stock	10,695	-
Costs Incurred in Connection with Issuance of Stock	(2,849)	-
Net (Loss), Year Ended December 31, 1984	-	(21,797)

Balance, January 1, 1985	36,397	(26,114)
Shares Contributed Back to Company	-	-
Capital Contribution	200,555	-
Sale of 12,166 Warrants at $1.50 Per Warrant	18,250	-
Shares Cancelled	9	-
Net (Loss), Year Ended December 31, 1985	-	(252,070)

See accompanying notes and independent accountants' report.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	CLASS A COMMON		CLASS B COMMON	
	SHARES OUTSTANDING	AMOUNT	SHARES OUTSTANDING	AMOUNT
Balance, January 1, 1986	38,282	38	-	-
Net (Loss), Year Ended December 31, 1986	-	-	-	-
Balance, January 1, 1987	38,282	38	-	-
Issuance of Common Stock upon Exercise of Warrants	216	-	-	-
Net (Loss), Year Ended December 31, 1987	-	-	-	-
Balance, January 1, 1988	38,498	38	-	-
Issuance of Common Stock				
Sale of Stock (Unaudited)	2,544	3	-	-
Services Rendered (Unaudited)	3,179	3	-	-
Net (Loss), Year Ended December 31, 1988 (Unaudited)	-	-	-	-
Balance, January 1, 1989 (Unaudited)	44,221	44	-	-
Issuance of Common Stock				
Sale of Stock	4,000	4	-	-
Services Rendered	36,000	36	-	-
Net (Loss), Year Ended December 31, 1989	-	-	-	-
Balance, January 1, 1990	84,221	84	-	-
Issuance of Common Stock				
Sale of Stock	2,370	2	-	-

Services Rendered	6,480	7	-	-
Net Income, Year Ended December 31, 1990	-	-	-	-
Balance January 1, 1991	93,071	93	-	-
Issuance of Common Stock				

	CAPITAL IN EXCESS OF PAR VALUE	DEFICIT ACCUMULATED DEVELOPMENT STAGE
Balance, January 1, 1986	255,211	(278,184)
Net (Loss), Year Ended December 31, 1986	-	(10,365)
Balance, January 1, 1987	255,211	(288,549)
Issuance of Common Stock upon Exercise of Warrants	27,082	-
Net (Loss), Year Ended December 31, 1987	-	(45,389)
Balance, January 1, 1988	282,293	(333,938)
Issuance of Common Stock		
Sale of Stock (Unaudited)	101,749	-
Services Rendered (Unaudited)	70,597	-
Net (Loss), Year Ended December 31, 1988 (Unaudited)	-	(142,335)
Balance, January 1, 1989 (Unaudited)	454,639	(476,273)
Issuance of Common Stock		
Sale of Stock	1,996	-
Services Rendered	17,964	-
Net (Loss), Year Ended December 31, 1989	-	(31,945)
Balance, January 1, 1990	474,599	(508,218)
Issuance of Common Stock		
Sale of Stock	59,248	-
Services Rendered	32,393	-
Net Income, Year Ended December 31, 1990	-	133,894
Balance January 1, 1991	566,240	(374,324)
Issuance of Common Stock		

See accompanying notes and independent accountants' report.

MATERIAL TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	CLASS A COMMON SHARES OUTSTANDING	CLASS A COMMON AMOUNT	CLASS B COMMON SHARES OUTSTANDING	CLASS B COMMON AMOUNT
Sale of Stock	647	1	-	-
Services Rendered	4,371	4	-	-
Conversion of Warrants	30	-		
Conversion of Stock	(6,000)	(6)	60,000	60
Net (Loss), Year Ended December 31, 1991	-	-	-	-
Balance January 1, 1992	92,119	92	60,000	60
Issuance of Common Stock				
Sale of Stock	20,000	20	-	-
Services Rendered	5,400	5	-	-
Conversion of Warrants	6,000	6	-	-
Sale of Class B Stock	-	-	60,000	60
Issuance of Stock to Unconsolidated Subsidiary	4,751	5	-	-
Conversion of Stock	6,000	6	(60,000)	(60)
Cancellation of Shares	(6,650)	(7)	-	-
Net (Loss), Year Ended December 31, 1992	-	-	-	-
Balance January 1, 1993	127,620	127	60,000	60
Issuance of Common Stock				
Licensing Agreement	12,500	13	-	-
Services Rendered	67,030	67	-	-
Warrant Conversion	56,000	56	-	-
Cancellation of Shares	(31,700)	(32)	-	-
Net (Loss) for Year Ended December 31, 1993	-	-	-	-
Balance January 1, 1994	231,449	231	60,000	60
Adjustment to Give Effect to Recapitalization on				

	CAPITAL IN EXCESS OF PAR VALUE	DEFICIT ACCUMULATED DEVELOPMENT STAGE
Sale of Stock	273,335	-
Services Rendered	64,880	-
Conversion of Warrants	-	
Conversion of Stock	-	-
Net (Loss), Year Ended December 31, 1991	-	(346,316)
Balance January 1, 1992	904,455	(720,640)

Issuance of Common Stock		
Sale of Stock	15,980	-
Services Rendered	15,515	-
Conversion of Warrants	14,994	-
Sale of Class B Stock	14,940	-
Issuance of Stock to Unconsolidated Subsidiary	71,659	-
Conversion of Stock	-	-
Cancellation of Shares	7	-
Net (Loss), Year Ended December 31, 1992	-	(154,986)
Balance January 1, 1993	1,037,550	(875,626)
Issuance of Common Stock		
Licensing Agreement	6,237	-
Services Rendered	13,846	-
Warrant Conversion	304,943	-
Cancellation of Shares	(7,537)	-
Net (Loss) for Year Ended December 31, 1993	-	(929,900)
Balance January 1, 1994	1,355,039	(1,805,526)
Adjustment to Give Effect to Recapitalization on		

See accompanying notes and independent accountants' report.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	CLASS A COMMON		CLASS B COMMON	
	SHARES OUTSTANDING	AMOUNT	SHARES OUTSTANDING	AMOUNT
February 1, 1994	30,818	31	-	-
Issuance of Shares for Services Rendered	223,000	223	-	-
Sale of Stock	1,486,112	1,486	-	-
Issuance of Shares for the Modification of Agreements	34,000	34	-	-
Net (Loss) for the Year Ended December 31, 1994	-	-	-	-
Balance January 1, 1995	2,005,380	2,005	60,000	60
Issuance of Common Stock in Consideration for Modification of Agreement	152,500	153	-	-

Net (Loss) for the Year Ended December 31, 1995 -	-	-	-	-
Balance January 1, 1996	2,157,880	2,157	60,000	60
Issuance of Shares for Services Rendered	164,666	165	-	-
Sale of Stock	70,000	70	-	-
Issuance of Shares for the Modification of Agreements	250,000	250	-	-
Cancellation of Shares Held in Treasury	(62,000)	(62)	-	-
Net (Loss) for the Year Ended December 31, 1996	-	-	-	-
Balance January 1, 1997	2,580,546	2,580	60,000	60
Sale of Stock	100,000	100	-	-

	CAPITAL IN EXCESS OF PAR VALUE	DEFICIT ACCUMULATED DEVELOPMENT STAGE
February 1, 1994	385,393	-
Issuance of Shares for Services Rendered	-	-
Sale of Stock	23,300	-
Issuance of Shares for the Modification of Agreements	(34)	-
Net (Loss) for the Year Ended December 31, 1994	-	(377,063)
Balance January 1, 1995	1,763,698	(2,182,589)
Issuance of Common Stock in Consideration for Modification of Agreement	-	-
Net (Loss) for the Year Ended December 31, 1995 -	-	(197,546)
Balance January 1, 1996	1,763,698	(2,380,135)
Issuance of Shares for Services Rendered	16,301	-
Sale of Stock	173,970	-
Issuance of Shares for the Modification of Agreements	(250)	-
Cancellation of Shares Held in Treasury	(154,538)	-
Net (Loss) for the Year Ended December 31, 1996	-	(450,734)
Balance January 1, 1997	1,799,181	(2,830,869)

Sale of Stock	99,900	-

See accompanying notes and independent accountants' report.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	CLASS A COMMON		CLASS B COMMON	
	SHARES OUTSTANDING	AMOUNT	SHARES OUTSTANDING	AMOUNT
Conversion of Indebtedness	800,000	800	-	-
Class A Common Stock Issued in Cancellation of $372,000 Accrued Wages Due Officer	1,499,454	1,500	-	-
Issuance of Shares for Services Rendered	247,000	247	-	-
Adjustment to Give Effect to Recapitalization on 9-Mar-97	560,000	560	-	-
Net (Loss) for the Year Ended December 31, 1997	-	-	-	-
	5,787,000	5,787	60,000	60
Shares Issued in Cancellation of Indebtedness	2,430,000	2,430	-	-
Conversion of Options	500,000	500	-	-
Issuance of Shares for Services Rendered	1,121,617	1,122	-	-
Shares Issued in Cancellation of Redeemable Preferred Stock	50,000	50	-	-
Shares Returned to Treasury and Cancelled	(560,000)	(560)	-	-
Modification of Royalty Agreement	733,280	733	-	-
Issuance of Warrants to Officer	-	-	-	-
Net (Loss) for the Year Ended December 31, 1998	-	-	-	-
	10,061,897	$ 10,062	60,000	$ 60
Shares Issued in Cancellation of Indebtedness	2,175,000	2,175	-	-
Issuance of Shares for Services Rendered	1,255,000	1,255	-	-
Shares Issued in Modification				

CAPITAL IN EXCESS OF PAR VALUE	DEFICIT ACCUMULATED DEVELOPMENT STAGE

Conversion of Indebtedness	165,200	-
Class A Common Stock Issued in Cancellation of $372,000 Accrued Wages Due Officer	370,500	-
Issuance of Shares for Services Rendered	2,224	-
Adjustment to Give Effect to Recapitalization on 9-Mar-97	(560)	-
Net (Loss) for the Year Ended December 31, 1997	-	(133,578)
	2,436,445	(2,964,447)
Shares Issued in Cancellation of Indebtedness	167,570	-
Conversion of Options	124,500	-
Issuance of Shares for Services Rendered	111,040	-
Shares Issued in Cancellation of Redeemable Preferred Stock	149,950	-
Shares Returned to Treasury and Cancelled	560	-
Modification of Royalty Agreement	6,599	-
Issuance of Warrants to Officer	27,567	-
Net (Loss) for the Year Ended December 31, 1998	-	(549,187)
	$ 3,024,231	$ (3,513,634)
Shares Issued in Cancellation of Indebtedness	164,492	-
Issuance of Shares for Services Rendered	93,844	-
Shares Issued in Modification		

See accompanying notes and independent accountants' report.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	CLASS A COMMON		CLASS B COMMON	
	SHARES OUTSTANDING	AMOUNT	SHARES OUTSTANDING	AMOUNT
of Licensing Agreement	672,205	672	-	-
Sale of Stock	433,333	433	-	-
Net (Loss) for the Year Ended December 31, 1999	-	-	-	-
	14,597,435	$ 14,597	60,000	$ 60

Issuance of Shares for Services Rendered	699,500	699	-	-
Shares Issued to Investors Pursuant to Settlement Agreement	65,028	65	-	-
Shares Issued for Cash and Non-Recourse Promissory Notes	5,000,000	5,000	-	-
Shares Issued for Cash	400,000	400	-	-
Shares Issued in Cancellation of Indebtedness	100,000	100	-	-
Shares Issued as Compensation Pursuant to Escrow Agreement	4,183,675	4,184	-	-
Shares Returned from Escrow	(400,000)	(400)	-	-
Common Shares Converted into Class B Common	(40,000)	(40)	40,000	40
Preferred Shares Converted into Common	12,529	13	-	-
Net (Loss) for the Year Ended December 31, 2000	-	-	-	-
Balance December 31, 2000	24,618,167	$ 24,618	100,000	$ 100
Issuance of Shares for Services Rendered	6,185,000	6,185	-	-
Shares Issued for Cash	4,932,358	4,932	-	-
Shares Issued in Connection with Private Offering	697,853	698	-	-

	CAPITAL IN EXCESS OF PAR VALUE	DEFICIT ACCUMULATED DEVELOPMENT STAGE
of Licensing Agreement	(672)	-
Sale of Stock	173,107	-
Net (Loss) for the Year Ended December 31, 1999	-	(539,283)
	$ 3,455,002	$ (4,052,917)
Issuance of Shares for Services Rendered	83,251	-
Shares Issued to Investors Pursuant to Settlement Agreement	(65)	-
Shares Issued for Cash and Non-Recourse Promissory Notes	1,990,000	-
Shares Issued for Cash	281,294	-
Shares Issued in Cancellation of Indebtedness	99,900	-
Shares Issued as Compensation Pursuant to Escrow Agreement	-	-
Shares Returned from Escrow	400	-
Common Shares Converted into Class B Common	-	-
Preferred Shares Converted into Common Net (Loss) for the Year	-	-
Ended December 31, 2000	-	(459,129)

Balance December 31, 2000	$ 5,909,782	$ (4,512,046)
Issuance of Shares for Services Rendered	390,693	-
Shares Issued for Cash	281,635	-
Shares Issued in Connection with Private Offering	(698)	-

See accompanying notes and independent accountants' report.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	CLASS A COMMON		CLASS B COMMON	
	SHARES OUTSTANDING	AMOUNT	SHARES OUTSTANDING	AMOUNT
Shares Issued to Officer	6,000,000	6,000	-	-
Net (Loss) for the Year Ended December 31, 2001	-	-	-	-
Balance December 31, 2001	42,433,378	$ 42,433	100,000	$ 100

	CAPITAL IN EXCESS OF PAR VALUE	DEFICIT ACCUMULATED DEVELOPMENT STAGE
Shares Issued to Officer	414,000	-
Net (Loss) for the Year Ended December 31, 2001	-	(2,432,638)
Balance December 31, 2001	$ 6,995,412	$ (6,944,684)

See accompanying notes and independent accountants' report.

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

	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	$ (539,283)	$(459,129)	$(2,432,638
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation and Amortization	2,242	2,948	3,292
Interest Income Accrued on Stock Subcription Receivable	(1,432)	(98,557)	(98,298
Bad Debts	-		
Gain on Sale of Securities	(4,396)	-	-
Charge off of Investment in Joint Venture	-	-	33,000
Officer's and Director's Compensation on Stock Subscription Modification	-	-	1,500,000
Charge off of Deferred Offering Costs	-	-	-
Charge off Long-lived Assets due to Impairment	-	-	-
Gain on Foreclosure	-	-	-
Modification of Royalty Agreement	-	-	-
(Increase) Decrease in Receivables	57,941	112,364	(255,073
(Increase) Decrease in Prepaid Expenses	(268)	-	(212
Loss on Sale of Equipment	-		
Issuance of Common Stock for Services	95,100	88,133	816,878
Issuance of Common Stock for Agreement Modifications	-	-	-
Forgiveness of Indebtedness	-	-	-
Increase (Decrease) in Accounts Payable and Accrued Expenses	222,471	8,441	267,742
Interest Accrued on Notes Payable	57,500	57,062	67,718
Increase in Research and Development Sponsorship Payable	-	-	-
(Increase) in Note for Litigation Settlement	-	-	-
(Increase) in Deposits	-	-	-
TOTAL ADJUSTMENTS	429,158	170,391	2,335,047
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(110,125)	(288,738)	(97,591
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds From Sale of Equipment	-	-	-
Purchase of Property and Equipment	(1,490)	-	(5,961
Proceeds from Sale of Securities	4,396	-	-
Purchase of Securities	-	-	-
Proceeds from Foreclosure	-	-	-
Investment in Joint Venture	(18,000)	(15,000)	-
Payment for License Agreement	-	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(15,094)	(15,000)	(5,961
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Common Stock	150,000	274,288	366,126
Costs incurred in Offering	-	-	(79,559
Sale of Common Stock Warrants	-	-	-
Sale of Preferred Stock	-	-	-

Sale of Redeemable Preferred Stock	-	-	-
Capital Contributions	-	-	-
Payment on Proposed Reorganization	-	-	-
Loans From Officers	102,198	8,000	42,800
Repayments to Officer	(71,500)	(39,500)	(53,300
Increase in Loan Payable-Others	7,405	-	-

See accompanying notes.

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

	1999	2000	2001	From I (October Th Decembe
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 188,103	$242,788	$276,067	$
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	62,884	(60,950)	172,515	
BEGINNING BALANCE - CASH AND CASH EQUIVALENTS	20	62,904	1,954	
ENDING BALANCE - CASH AND CASH EQUIVALENTS	62,904	$ 1,954	$174,469	$

SUPPLEMENTAL INFORMATION:

A. Definition of Cash and Cash Equivalents

For the purpose of the statements of cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

B. Interest and Income Taxes Paid

	1999	2000	2001
Interest Paid During Period	$ 2,500	$ 2,565	$ 2,565
Income Taxes Paid	$ 0	$ 2,400	$ 800

C. Non Cash Investing and Financing Activities

During 1999, the Company issued 175,000 shares of its Class A Common Stock in exchange for the cancellation of the $66,667 of indebtedness due a consultant

During 1999, the Company issued 2,000,000 shares of its Class A Common

Stock to its President in exchange for the cancellation of $100,000 of indebtedness due him.

During 1999, the Company issued 100,000 shares of its Class A Common Stock to a consultant for $.35 a share, payable by a non-recourse, non-interest bearing promissory note payable on or before June 15, 2003, and is secured by the stock.

During 2000, a holder of 12,259 shares of the Company's Preferred Stock converted all of his shares into 12,259 shares of common.

Under a settlement agreement, during 2000, the Company issued 65,028 shares of common stock to investors who were defrauded by a former consultant of the Company.

During 2000, the Company issued to its President 4,650,000 shares of its common stock in exchange for $4,650 and a $1,855,350 promissory note bearing interest at 8% due May 2005. Shares issued were valued at $.40 per share.

During 2000, the Company issued to a Director 350,000 shares of its common stock in exchange for $350 and a $139,650 promissory note bearing interest at 8% due May 2005. Shares issued were valued at $.40 per share.

Through a stock grant, the Company in 2000 issued to its President 4,183,675 shares of its common stock for future compensation. These shares are held in escrow and have restrictive covenants.

During 2001, the Company issued 697,853 shares of its common stock as additional consideration in the raising of $365,496 through its private offering.

During 2001, the Company issued as collateral to a financial institution 60,000,000 shares of its common stock in connection with obtaining a Straight Documentary Credit in the amount of $12,500,000. The shares can not be sold until certain contingencies lapse (see Note 8i)

See accompanying notes.

MATERIAL TECHNOLOGIES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Material Technologies, Inc. (the "Company") was organized on March 4, 1997, under the laws of the state of Delaware.

The Company is in the development stage, as defined in FASB Statement 7, with its principal activity being research and development in the area of metal fatigue technology with the intent of future commercial application. The Company has not paid any dividends and dividends that may be paid in the future will depend on the financial requirements of the Company and other relevant factors.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Property and Equipment

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method for financial reporting purposes and for income tax reporting purposes.

b. Intangible Assets

Intangibles are amortized on the straight-line method over periods ranging from 5 to 20 years (see Note 3).

c. Net Loss Per Share

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" ("EPS") that established standards for the computation, presentation and disclosure of earnings per share, replacing the presentation of Primary EPS with a presentation of Basic EPS.

d. Pervasiveness of 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.

e) Fair Value of Financial Instruments

The Company estimates the fair value of its financial instruments at their current carrying amounts.

f) Concentration of Credit Risk

Currently, the Company's only source of income comes from its sub-contracts for Electrochemical Fatigue Sensor ("EFS") research with the United States Air Force contractors. The Company believes these contracts will continue through 2002.

g) 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.

h) Investment in Unconsolidated Subsidiaries

Investments in companies in which the Company has less than a 20% interest are carried at cost. The Company includes dividends received from those companies in other income. The Company applies dividends received in excess of the Company's proportionate share of accumulated earnings as a reduction of the cost of the investment.

i) Revenue Recognition

The Company recognizes revenue at the time services are rendered.

NOTE 3 - INTANGIBLES

Intangible assets consist of the following:

	Period of Amortization	December 31, 2000	2001
Patent Costs	17 Years	$ 28,494	$ 28,494
License Agreement (See Note 4)	20 Years	6,250	6,250
Website	5 Years	--	5,200
		34,744	39,944
Less Accumulated Amortization		(22,032)	(24,281)
		$ 12,712	$ 15,663

MATERIAL TECHNOLOGIES, INC.
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NOTES TO FINANCIAL STATEMENTS

Amortization charged to operations for 1999, 2000, and 2001, were $1,989, $1,989, and $2,249, respectively.

NOTE 4 - LICENSE AGREEMENT

The Company has entered into a license agreement with the University of Pennsylvania regarding the development and marketing of the EFS. The EFS is designed to measure electrochemically the status of a structure without knowing the structure's past loading history. The Company is in the initial stage of developing the EFS.

Under the terms of the agreement the Company issued to the University 12,500 shares of its common stock, and a 5% royalty on sales of the product. The Company valued the licensing agreement at $6,250. The license terminates upon the expiration of the underlying patents, unless sooner terminated as provided in the agreement. The Company is amortizing the license over 20 years.

In addition to entering into the licensing agreement, the Company also agreed to sponsor the development of the EFS. Under the Sponsorship agreement, the Company agreed to reimburse the University development costs totaling approximately $200,000 that was to be paid in 18 monthly installments of $11,112.

Under the agreement, the Company reimbursed the University $10,000 in 1996 for the cost it incurred in the prosecution and maintenance of its patents relating to the EFS.

The Company and the University agreed to modify the terms of the licensing agreement and related obligation. The modified agreements increase the University's royalty to 7% of the sale of related products, the issuance of additional shares of the Company's Common Stock to equal 5% of the outstanding stock of the Company as of the effective date of the modified agreements, and to pay to the University 30% of any amounts raised by the Company in excess of $150,000 (excluding amounts received on government grants or contracts) up to the amount owing to the University.

The parties agreed that the balance owed on the Sponsorship Agreement was $200,000 and commencing June 30, 1997, the balance due will accrue interest at a rate of 1.5% per month until the loan matures on December 16, 2001, when the loan balance and accrued interest become fully due and payable. In addition, under the agreement, Mr. Bernstein agreed to limit his compensation from the Company to $150,000 per year until the loan and accrued interest is fully paid. Interest charged to operations for 1999, 2000, and 2001, relating to this obligation was $43,303, $54,638, and $64,472, respectively. The balance of the note at December 31, 2000, and 2001, was $358,181 and $422.653, respectively,

As of December 31, 2001, the Company was required to issue additional 1,404,464 shares to the University pursuant to the revised agreement. The Company is currently in discussions with the University regarding the issuance of the shares and other related matters.

NOTE 5 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment:

	December 31, 2000	December 31, 2001
Office Equipment	$ 23,380	$ 24,142
Remote Monitoring System	--	--
Manufacturing Equipment	100,067	100,067
	123,447	124,209
Less: Accumulated Depreciation	(120,457)	(121,501)
	$ 2,990	$ 2,708

Depreciation charged to operations was $253, $959, and $1,044, in 1999, 2000, and 2001, respectively. The useful lives of office equipment for the purpose of computing depreciation are five years. Management will commence depreciating its manufacturing equipment upon the commencement of the manufacturing of its products.

The Company's equipment has been pledged as collateral on the agreement with Advanced Technology Center (See Note 8(b)).

NOTE 6 - NOTES PAYABLE

On May 27, 1994, the Company borrowed $25,000 from Mr. Sherman Baker, a current shareholder. The loan is evidenced by a promissory note that is assessed interest at major bank prime rate. The note matures on May 31, 2002, when principal and accrued interest become fully due and payable. The Company has pledged its patents as collateral against this loan.

As additional consideration for the loan, the Company granted to Mr. Baker, a 1% royalty interest in the Fatigue Fuse and a 0.5% royalty interest in the Electrochemical Fatigue Sensor. The Company has not placed a value on the royalty interest granted. The balance due on this loan as of December 31, 2000, and 2001, was $53,991, and $57,237, respectively. Interest charged to operations for 1999, 2000 and 200 was $4,640, $3,245, and $3,246, respectively.

In October 1996, the Company borrowed $25,000 from an unrelated third party. The loan was assessed interest at an annual rate of 11% and matured on October 15, 2000. In addition the Company issued warrants to the lender for the purchase of 2,500 shares of the Company's common stock at a price of $1.00 per share. The loan balance as of December 31, 2000 and 2001 was $25,527 and $25,527, respectively. Interest charged to operations on this loan in 1999, 2000, and 2001, were $2,750, $2,750, and $2,750, respectively.

The Company did not pay any amounts due on this note when it matured on October 15, 2000, and the note is in default.

NOTE 7 - INCOME TAXES

Income taxes are provided based on earnings reported for financial statement purposes pursuant to the provisions of Statement of Financial Accounting Standards No. 109 ("FASB 109").

FASB 109 uses the asset and liability method to account for income taxes. That requires recognizing deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax basis and financial reporting basis of assets and liabilities.

An allowance has been provided for by the Company which reduced the tax benefits accrued by the Company for its net operating losses to zero, as it cannot be determined when, or if, the tax benefits derived from these operating losses will materialize. As of December 31, 2001, the Company has unused operating loss carryforwards, which may provide future tax benefits in the amount of approximately $4,825,000 which expire in various years through 2021.

The Company's use of its net operating losses may be restricted in future years due to the limitations pursuant to IRC Section 382 on changes in ownership.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Company's commitments and contingencies are as follows:

a. On December 24, 1985, to provide funding for research and development related to the Fatigue Fuse, the Company entered into various agreements with the Tensiodyne 1985-I R & D Partnership. These agreements were amended on October 9, 1989, and under the revised

terms, obligated the Company to pay the Partnership a royalty of 10% of future gross sales. The Company's obligation to the Partnership is limited to the capital contributed to it by its partners in the amount of approximately $912,500 and accrued interest.

b. On August 30, 1986, the Company entered into a funding agreement with the Advanced Technology Center ("ATC"), whereby ATC paid $45,000 to the Company for the purchase of a royalty of 3% of future gross sales and 6% of sublicensing revenue. The royalty is limited to the $45,000 plus an 11% annual rate of return. At December 31, 2000, and 2001, the future royalty commitment was limited to $204,639 and $227,149, respectively.

The payment of future royalties is secured by equipment used by the Company in the development of technology as specified in the funding agreement.

c. On May 4, 1987, the Company entered into a funding agreement with ATC, whereby ATC provided $63,775 to the Company for the purchase of a royalty of 3% of future gross sales and 6% of sublicensing revenues. The agreement was amended August 28, 1987, and as amended, the royalty cannot exceed the lesser of (1) the amount of the advance plus a 26% annual rate of return or, (2) total royalties earned for a term of 17 years.

At December 31, 2000, and 2001, the total future royalty commitments, including the accumulated 26% annual rate of return, were limited to approximately $1,369,233, and $1,725,234, respectively. If the Company defaults on the agreement, then the obligation relating to this agreement becomes secured by the Company's patents, products, and accounts receivable, which may be related to technology developed with the funding.

d. In 1994, the Company issued to Variety Investments, Ltd. of Vancouver, Canada ("Variety"), and a 22.5% royalty interest on the Fatigue Fuse in consideration for the cash advances made to the Company by Variety.

In December 1996, in exchange for the Company issuing 250,000 shares of its Common Stock to Variety, Variety reduced its royalty interest to 20%. In 1998, in exchange for the Company issuing 733,280 shares of its Common Stock to Variety, Variety reduced its royalty interest to

5%.

e. In February 1995, the Company entered into an agreement with an unrelated third party for providing the idea of pursuing U.S. government appropriations, funding, and program contracts and subcontracts for the enhancement and application of the Company's technologies. He would receive a number of the Company's Common Stock

equal to 1/2% of the number of shares outstanding for his idea, and 2% of shares outstanding on the date of the first government funding or contract award, 15% of the amount of the total government program amounts awarded through August 7, 2001, and an appointment to the Company's Board of Directors. Funds due him are to be paid only when such funds become available to the Company from profits before taxes, interest and depreciation, and not from any U.S. government programs or appropriations.

The Agreement contains anti-dilution provisions relating to the shares to be issued that expire once $50,000 is paid. The Company's obligation to have this person as a Director expires once all amounts due are paid. The contingent amount due has been personally guaranteed by the Company's President and is secured by the Company's patents, subject to a prior lien in favor of the Company's President. The personal guarantee expires upon the individual receiving $100,000, which the Company believes occurred on May 1, 1998 when the third party was issued 244,427 shares of stock (2 % of shares outstanding).

The Company and the third part disagree as to the amount owed and the timing of payment under the Agreement, and attempted to settle the disagreements amicably in 2000-2001. But, on April 30, 2001 the third party sued the Company and its President to recover his 15% contingent fee immediately out of all government and private funding-which the Company believes voids the entire agreement, because the company believes that it violates federal public policy and also federal empowerment statutes prohibiting such a result, and no money would be due him. And, the Company counter-sued to recover 195,542 shares (2% outstanding) issued to him on May 1, 1998.

f. In 1999, the Company was notified that a former consultant used company materials to sell shares of the Company's stock to the public. The Consultant defrauded 25 investors out of $112,000. The Company had no knowledge of his actions. But in order to avoid potential litigation and have the ability to pursue the claims of these investors, the Company authorized issuance of up to 110,000 shares of its restricted Common Stock to these investors in exchange for the assignment of their respective claims to the Company and a release of any claims against the Company. During 2000, 65,028 shares of the Company's common stock were issued to these defrauded investors.

g. As discussed in Note 6, the Company granted a 1% royalty interest in the Company's Fatigue Fuse and a .5% royalty interest in its Electrochemical Fatigue Sensor to Mr. Sherman Baker as part consideration on a $25,000 loan made by Mr. Baker to the Company.

A summary of royalty interests that the Company has granted and are outstanding as of December 31, 2001, follows:

	Fatigue Fuse	Fatigue Sensor
Tensiodyne 1985-1 R&D Partnership	-- *	--
Advanced Technology Center		
Future Gross Sales	6.00%*	--
Sublicensing Fees	-- **	--
Variety Investments, Ltd	5.00%	--
University of Pennsylvania		
Net Sales of Licensed Products	--	7.00%
Net Sales of Services	--	2.50%
Sherman Baker	1.00%	0.50%
	12.00%	10.00%

* Royalties limited to specific rates of return as discussed in Notes 8(a) and (b) above.

** The Company granted 12% royalties on sales from sublicensing. These royalties are also limited to specific rates of return as discussed in Note 8(b) and (c) above.

h. Operating Leases

The Company leases its existing office under a non-cancelable lease, which expires on May 31, 2002.

Rental expense charged to operations for the years ended December 31, 1999, 2000, and 2001 was approximately $25,375, $23,129, and $29,468, which consisted solely of minimum rental payments.

In addition to rent, the Company is obligated to pay property taxes, insurance, and other related costs associated with the leased office.

Minimum rental commitments under the noncancelable leases expire as follows:

Year Ended 2002	$ 11,740

i. Straight Documentary Credit

On October 10, 2001, the Company entered into an arrangement whereby

MATERIAL TECHNOLOGIES, INC.
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NOTES TO FINANCIAL STATEMENTS

Allied Boston Group will provide the Company with a Straight Documentary Credit for $12,500,000. Under the terms of the commitment, the Company will pledge sufficient shares of its common stock to equal 125% of the Straight Documentary Credit. Under the initial terms, the shares were valued at $.27 per share. If the Company's stock price goes lower, then additional shares will be pledged. If the stock price goes to a $1.00 per share, then Allied Boston is required to liquidate a sufficient number of shares to pay off the amount funded through this Straight Documentary Credit. After the amount is paid off, Allied Boston will retain 25 million shares of the Company's common stock. Any remaining shares will be returned to the Company;

Upon funding through the Straight Documentary Credit, the Company is required to pay a Success Fee to Allied Boston in the amount of 8% of the amount funded of which 50% will be paid in cash and the remainder of the fee will be paid through the issuance of the Company's common stock to be valued at market value at the time of issuance. As long as the Documentary Credit is in force, Allied Boston will have 2 voting seats on the Company's Board. All out-of-pocket expenses pertaining to the issuance of the instrument will be borne by the Company.

In October 2001, the Company issued 60,000,000 shares of its common stock as collateral to Allied Boston pursuant to the terms of the agreement, and in January 2002, the Company issued 40,000,000 shares as additional collateral. As indicated the selling of these shares are contingent upon the occurrence of future events. Therefore the Company treats these shares as issued but not outstanding.

j) Litigation

1) On April 30, 2001, Stephen Beck, a former consultant filed a complaint against the Company and its President (Stephen Forest Beck vs. Robert M. Bernstein, Material Technologies, Inc. etal. Los Angeles Superior Court No. BC249547, filed April 30, 2001) alleging breach of contract a declaration of his contract rights, and fraud. The complaint all relates to a February 8, 1995, consulting agreement under which Mr. Beck was to provide assistance in the Company obtaining a government contract private funding. Mr. Beck claims that over $1.5 million in contingent consulting fees are immediately due, as Matech has obtained funding through four since 1995. In addition, he is seeking punitive damages in an unspecified amount.

   Counsel, who is representing the Company in this lawsuit, believes that the likelihood of Mr. Beck winning any compensation is poor based upon the merits of his case. Trial is set to begin on May 20, 2002.

2) On April 30, 2001, the Company filed a complaint against Mr. Beck (Material Technologies, Inc. v Stephen Forrest Beck, L.A. Superior Court No BC249495) for the recission of the consulting agreement the return of 195,542 shares of common stock issued to

him pursuant to the above indicated consulting contract, and attorney's fees, interest, and the cost of the lawsuit. The case has been consolidated with the above-reference suit and also goes to trial on May 20, 2002.

NOTE 9 - INVESTMENTS

a) The Company owns 65,750 shares of Class A Common Stock of Tensiodyne Corporation. At December 31, 2001, there was no market for these shares and the Company valued its interest at $0.

d) During 2001, the Company abandoned its 5% interest in Antaeus Research, LLC. and charged its total investment of $33,000 to operations. Prior to its abandonment, the Company accounts for this investment under the Cost Method.

NOTE 10 - STOCKHOLDERS' EQUITY

a. Common Stock

The holders of the Company's Common Stock are entitled to one vote per share of common stock held.

b. Class B Common Stock

The holders of the Company's Class B Common Stock are not entitled to dividends, nor are they entitled to participate in any proceeds in the event of a liquidation of the Company. However the holders are entitled to 1,000 votes for each share of Class B Common held.

c. Class A Preferred Stock

During 1991, the Company sold to a group of 15 individuals, 2,585 shares of $100 par value preferred stock and warrants to purchase 2,000 shares of common stock for a total consideration of $258,500.

In the Company's 1994 spin off, these shares were exchanged for 350,000 shares of the Company's Class A Convertible Preferred Stock and 300,000 shares of its Common Stock. The holders of these shares have a liquidation preference to receive out of assets of the Company, an amount equal to $.72 per one share of Class A Preferred Stock. Such amounts shall be paid upon all outstanding shares before any payment shall be made or any assets distributed to the holders of the common stock or any other stock of any other series or class ranking junior to the Shares as to dividends or assets.

These shares are convertible to shares of the Company's common stock at a conversion price of $.72 ("initial conversion price") per share of Class A Preferred Stock that will be adjusted depending upon the occurrence of certain events. The holders of these preferred shares shall have the right to vote and cast that number of votes which the holder would have been entitled to cast had such holder converted the shares immediately prior to the record date for such vote.

The holders of these shares shall participate in all dividends declared and paid with respect to the Common Stock to the same extent had such holder converted the shares immediately prior to the record date for such dividend.

In 2000, a holder of 12,259 shares of preferred stock exchanged these shares for 12,259 shares of the Company's common. The 12,259 shares of preferred were subsequently cancelled.

d. Issuances Involving Non-cash Consideration

All issuances of the Company's stock for non-cash consideration have been assigned a dollar amount equaling either the market value of the shares issued or the value of consideration received whichever is more readily determinable. The majority of the non-cash consideration received pertains to services rendered by consultants and others.

On February 4, 1999, the Company issued 175,000 shares in exchange for the cancellation of $66,667 of indebtedness due to a consultant. On March 5, 1999, the Company issued 50,000 shares to Mr. John Goodman for services rendered relating to the research and development projects. These shares were valued at $2,500. Also on March 5, 1999, the Company issued 50,000 shares to a consultant. These shares were valued at $2,500. On April 15, 1999, the Company issued 50,000 shares to a consultant. These shares were valued at $2,500. On June 9, 1999, the Company issued 2,000,000 shares to its President in exchange for canceling $100,000 of indebtedness due him. On May 27, 1999, the Company issued its director, Joel Freedman, 200,000 shares of stock from services. These shares were valued at $10,000. On June 21, 1999, the Company issued 100,000 shares to a consultant for $.35 a share payable by a non-recourse, non-interest bearing promissory note payable on or before June 15, 2003 and is secured by the 100,000 shares. The shares were valued at the present value of the note of $23,541. On June 12, 1999, the Company issued 200,000 shares to an attorney for services. These shares were valued at $10,000. On July 7, 1999, the Company issued 672,205 shares to the University of Pennsylvania pursuant to the terms of the modified licensing agreement as discussed in Note 4. These shares were valued at par. On August 23,

1999, the Company issued 50,000 shares to a consultant. These shares were valued at $2,500. On September 29, 1999, the Company issued 8,000 shares for public relations services. These shares were valued at

$400. On October 27, 1999, the Company issued 300,000 to its board of advisors. These shares were valued at $30,000. On November 12, 1999, the Company issued 25,000 shares to a consultant. These shares were valued at $2,500. On November 14, 1999, the Company issued 92,000 shares to Mr. John Goodman for services rendered in connection with the development of the fatigue fuse. These shares were valued at $9,200. On December 14, 1999, the Company issued 50,000 shares to a consultant. These shares were valued at $5,000. On December 21, 1999, the Company issued 20,000 shares to a consultant for public relations services. These shares were valued at $1,500. On December 21, 1999, the Company issued 10,000 shares to an individual who is on the Company's advisory board. These shares were valued at $1,000. On December 30, 1999, the Company issued 150,000 shares to a consultant. These shares were valued at $15,000.

On January 31, 2000, the Company issued 50,000 shares of common stock to a member of its advisory board. These shares were valued at $5,000. On February 8, 2000, the Company issued 10,000 shares of common stock to a consultant who assisted in developing the Company's web site. The Company valued these shares at $1,000. On February 28, 2000, the Company issued 200,000 of common stock to a consultant for financial services. These shares were valued at $20,000. Also on February 28, 2000, the Company issued 4,500 of common stock to a public relations consultant. These shares were valued at $4,500. On March 9, 2000, the Company issued 100,000 of common stock to a consultant in cancellation of $100,000 due. On March 13, 2000, the Company issued two consultants a total of 75,000 shares of common stock for services relating to the development of the fatigue fuse. These shares were valued at $7,500. On March 21, 2000, the Company's President returned to the Company 40,000 shares of Common stock in exchange for receiving 40,000 shares of Class B common stock. On March 29, 2000, the Company issued 50,000 shares of common stock to a consultant for financial services. These shares were valued at $10,000. On April 11, 2000, the Company issued 15,000 shares of common stock to consultant relating to the operations of the Company joint venture. These shares were valued at $3,000. On April 11, 2000, the Company issued 25,000 shares of common stock for advisory services. These shares were valued at $5,000. On April 28, 2000, the Company issued 30,000 shares of common stock for advisory services. These shares were valued at $12,000. On May 4, 2000, the Company issued 12,529 shares of its common stock in exchange for 12,529 shares of its preferred stock. The preferred shares were subsequently cancelled. On May 25, 2000, the Company issued its President 4,650,000 shares its common stock in exchange for $4,650 and a $1,855,350 non-recourse promissory note bearing interest at an annual rate of 8%. On the same day, the Company issued 350,000 shares its common stock to a Director in exchange for $350 and a $139,650 non-recourse promissory note bearing interest at an annual rate of 8%. Both notes mature on May 25, 2005, when the principal and accrued

interest becomes fully due and payable. On July 13, 2000, the Company issued 40,000 shares of its common stock for legal services. These shares were valued at $10,000. On October 27, 2000, the Company issued 4,183,675 to its President for futures services to be rendered pursuant to a stock grant and escrow agreement. As discussed further in Note 11, these shares are held in escrow, subject to substantial restrictions and the actual shares that may vest to the President could be substantially less then the number of shares placed in escrow. These shares were valued at par. On November 14, 2000, pursuant to the stock grant and escrow agreement, the President returned 400,000 shares of common stock to the Company that were subsequently cancelled. On the same day, 400,000 shares were issued in exchange for $22,490. On December 19, 2000, the Company issued 200,000 shares of its common stock to a consultant. These shares were valued at $10,000. During January and February 2000, the Company issued 65,028 shares of its common stock to investors who were defrauded by a former consultant of the Company. These shares were valued at par. In February 2000, the Company received $251,798 from the proceeds from the sale of shares of DCH Technologies, Inc. These shares were placed in a brokerage account in 1998 by a shareholder of the Company on the Company's behalf. The Company had no access to the account. Due to the restrictive covenants of the brokerage account, the Company did not reflect the transaction on its financial statements prior to 2000, when the shares were sold. The Company credited the proceeds to additional paid-in capital.

On January 9, 2001, the Company issued 100,000 shares of its common stock to a member of the Company's advisory board for consulting services. These shares were valued at $5,000. Also on January 9, 2001, the Company issued 50,000 shares of its common stock to a consultant for services rendered. These shares were valued at $2,500. On January 10, 2001, the Company issued 100,000 shares each to two employees pertaining to services rendered on the Company's research project. These shares were valued at $10,000. On January 11, 2001, the Company issued 100,000 shares of its common stock to an attorney for legal services. These shares were valued at $10,000. On March 6, 2001, the Company issued its President 6,000,000 shares of common stock for services rendered. These shares were valued at $420,000. On April 6, 2001, the Company issued a consultant 200,000 shares of its common stock for services rendered. These shares were valued at $10,000. On April 17, 2001, the Company issued a consultant 250,000 shares of its common stock for services rendered. These shares were valued at $12,500. On April 20, 2001, the Company issued to two consultant 50,000 shares each of its common stock for marketing services rendered. These shares were valued at $5,000. On May 3, 2001, the Company issued to one of employees 100,000 shares of its common stock for services rendered on the Company's research project. These shares were valued at $5,000. Also May 3, 2001, the Company issued a consultant 100,000 shares of its common stock for services rendered. These shares were valued at $5,000. On June 8, 2001, the Company issued a consultant 1,000,000 shares of its common stock for past

marketing services rendered. These shares were valued at $50,000. On June 12, 2001, the Company issued its Executive assistant 25,000 shares of its common stock for services rendered. These shares were valued at $1,250. On July 5, 2001, the Company issued an attorney 50,000 shares of its common stock for legal services rendered. These shares were valued at $10,000. On July 26, 2001, the Company issued a consultant 200,000 shares of its common stock for services rendered. These shares were valued at $9,100. On August 6, 2001, the Company issued a consultant 125,000 shares of its common stock for services rendered. These shares were valued at $8,125. On August 9, 2001, the Company issued an attorney 265,000 shares of its common stock for services rendered. These shares were valued at $26,500. On August 29, 2001, the Company issued 50,000 shares of its common stock to one consultant and 300,000 shares of its common stock to another consultant for services rendered. These shares were valued at $22,750. On September 6, 2001, the Company issued a consultant 37,500 shares of its common stock for services rendered. These shares were valued at $2,438. On September 14, 2001, the Company issued a consultant 50,000 shares of its common stock for services rendered. These shares were valued at $3,250. On September 19, 2001, the Company issued a consultant 125,000 shares of its common stock for services rendered. These shares were valued at $8,125. On October 8, 2001, the Company issued to two of its employees 300,000 shares of its common stock each for services rendered in connection with the Company research project. These shares were valued at $39,000. On October 16, 2001, the Company issued a consultant 50,000 shares of its common stock for services rendered. These shares were valued at $1,853. On October 18,, 2001, the Company issued its Executive assistant 20,000 shares of its common stock for services rendered. These shares were valued at $1,300. On October 23, 2001, the Company issued an attorney 150,000 shares of its common stock for services rendered. These shares were valued at $15,000. On October 25, 2001, the Company issued 697,853 as additional fees pertaining to its Regulation S offeringThese shares were valued at $48,850. On November 6, 2001, the Company issued an attorney 350,000 shares of its common stock for legal services rendered. These shares were valued at $35,000. On November 14, 2001, the Company issued a consultant 150,000 shares of its common stock for services rendered. These shares were valued at $9,750. On November 17, 2001, the Company issued to the same consultant 107,500 shares of its common stock for services rendered. These shares were valued at $6,988. On December 20, 2001, the Company issued to three consultants a total of 530,000 shares of its common stock for services rendered. These shares were valued at $34,450.

NOTE 11 - TRANSACTIONS WITH MANAGEMENT

a. During 1993, Mr. Bernstein exercised warrants to purchase 6,000 shares of the Company's common stock. Pursuant to the resolution on April 12, 1993, adjusting the per share amount from $10.00 to $2.50, Mr. Bernstein paid $60 and executed a five year non-interest bearing note to the Company for $14,940. The Note is non-recourse and the only security pledged for the obligation is the stock purchased. The promissory note was extended to the year 2003.

b. In 1999, the Company issued 2,000,000 shares of its Common Stock in exchange for the cancellation of $100,000 of indebtedness owed its President.

c. During 2000, the President advanced the Company $8,000 and received

$39,500 from the Company. The outstanding amount due from the President as of December 31, 2000 is $22,052. The amount of interest credited to operations for 2000 totaled $822.

As of December 31, 2000, the Company accrued $40,000 of unpaid compensation owed its President.

d. On May 25, 2000, the Company issued its President 4,650,000 shares its common stock in exchange for $4,650 and a $1,855,350 non-recourse promissory note bearing interest at an annual rate of 8%. On the same day, the Company issued 350,000 shares its common stock to a Director in exchange for $350 and a $139,650 non-recourse promissory note bearing interest at an annual rate of 8%. Both notes mature on May 25, 2005, when the principal and accrued interest becomes fully due and payable. At the date of issuance, the shares were valued by the Company at $.40 per share.

e. On October 27, 2000, the Company issued 4,183,675 shares to its President for future compensation pursuant to a Stock Escrow/Grant Agreement. Under the terms of the agreement, the President is required to hold these shares in escrow. While in escrow, the President cannot vote the shares but has full rights as to cash and non-cash dividends, stock splits or other change in shares. Any additional shares issued to the President by reason of the ownership of the 4,183,675 shares will also be escrowed under the same terms of the agreement.

Upon the exercise by certain holders of Company options or warrants or upon the need by the Company, in the sole discretion of the Board, to issue common stock to certain individuals or entities, the number of shares required for issuance to these holders will be returned from escrow by the President thereby reducing the number of shares he holds. The shares held in escrow are non-transferable and will be granted to the Company's President only upon the exercise or expiration of all of the options and warrants, the direction of the Board, in its sole discretion, or the mutual agreement by the President and the Board of Directors to terminate the agreement. The Company valued these shares at par. Upon the actual grant of the remaining shares to the President, the shares issued will be valued its market value when issued and charged to operations as compensation. As of December 31, 2001, 400,000 of these shares were issued to a unrelated third part

f. On February 19, 2001, the Company issued its President 6,000,000 shares of common stock for services rendered. These shares were valued at $420,000.

g. In June 2001, the Company's Board of Directors authorized the reduction in the amount owed by the President and a Director on non-recourse promissory notes referred to in footnote (d) above to $460,350 and $34,650, respectively. The reduction was due to the substantial reduction in the market value of the Company's stock. The $1,500,000 reduction was charged to general and administrative expenses.

h. During 2001, the President advanced the Company $42,000 and received $53,300 from the Company. The outstanding amount due from the President as of December 31, 2001 is $35,880. The amount of interest credited to operations for 2001 totaled $3,327.

For 2001, the Company accrued $30,000 of unpaid compensation owed its President.

NOTE 12 - STOCK-BASED COMPENSATION PLANS

a In 1996, the Company adopted the 1996 Stock Option Plan and reserved 1,700,000 shares of Common Stock for distribution under the Plan. Eligible Plan participants include employees, advisors, consultants, and officers who provide services to the Company. A Committee appointed by the Company's Board of Directors determines the option price and the number of shares subject to each option granted. In the case of Incentive Stock Options granted to an optionee who owns more than 10% of the Company's outstanding stock, the option price shall be at least 110% of the fair market value of a share of common stock at date of grant. In 2000, the Company increased the number of reserved shares to 6,800,000.

In 1998, the Company granted options to acquire 900,000 shares of which 500,000 shares were exercised for $125,000. In addition, under the Plan, the Company issued additional 50,000 shares for consulting services. The Company charged the fair value of the 50,000 shares of $5,000 to operations.

In 1999, the Company granted options to acquire 775,000 shares of Common Stock through the Plan. The Company did not issue any shares in 1999 under the Plan.

b. In 1998, the Company adopted the 1998 Stock Plan and reserved 800,000 shares of Common Stock for distribution under the plan. The Plan was adopted to provide a means by which the Company could compensate key employees, advisors, and consultants by issuing them stock in exchange

for services and thereby conserve the Company's cash resources. A Committee of the Board of Directors determines the value of the services rendered and the related number of shares to be issued through the Plan for these services. In 2000, the Company increased the number of reserved shares to 6,800,000.

In 1998, the Company issued 310,000 shares of Common Stock through the plan in exchange for consulting services. The Company valued these shares at $31,000, the fair value of the services rendered.

c) In February 2002, the Company adopted the 2002 Stock Issuance/Stock Plan, and reserved 20,000,000 shares of its common stock for distribution under the Plan. Eligible Plan participants include employees, advisors, consultants, and officers who provide services to the Company. The option price shall be 100% of the fair market value of a share of common stock at either, a) date of grant or such other day as the as the Board may determine. Options issued under this plan expire 5 years from date of grant.

The following is summary of the 1996 and 1998 Stock option plans:

	1996 STOCK OPTION PLAN		1998 STOCK OPTION PLAN		1998 STOCK PL	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WE A EX
OUTSTANDING DEC 31, 1998	-	$ -	350,000.00	$ -	-	$
GRANTED	-	$ -	750,000.00	$ 0.25	-	$
EXERCISED	-	$ -	100,000.00	$ 0.35	-	$
FORFIETED	-	$ -	-	$ -		$
OUTSTANDING DEC 31, 1999	-	$ -	1,000,000.00	$ -	$ -	$
GRANTED	-	$ -	-		$6,800,000.00	$
EXERCISED	-	$ -	50,000.00	$ 0.25	$5,894,500.00	$
FORFIETED	-	$ -	-	$ -		
OUTSTANDING DEC 31, 2000	-	$ -	950,000.00	$ -	$ 905,500.00	$
GRANTED	-	$ -	-			$
EXERCISED	-	$ -	950,000.00	$ 0.10	$ 905,500.00	$
FORFIETED	-	$ -	-	$ -		$
OUTSTANDING DEC 31, 2001	-	$ -	-	$ -	$ -	$

WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED DURING 1999	$ 0.00
WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED DURING 2000	$ 0.00
WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED DURING 2001	$ 0.00

NOTE 13 - SUBSEQUENT EVENTS

On January 9, 2002, the Company issued 14,300 shares of its common stock through its Regulation S offering.

On January 10, 2002, the Company issued 20,000 shares of its common stock to a consultant for services rendered.

On January 17, 2002, the Company issued 213,500 shares of its common stock through its Regulation S offering.

On January 22, 2002, the Company issued 40,000,000 shares of its common stock to Allied Boston pursuant to the terms of the Straight Documentary Credit as discussed in Note 8(i) to the financial statements.

On January 25, 2002, the Company issued 15,000 shares of its common stock to a consultant for services rendered.

On January 30, 2002, the Company issued 296,500 shares of its common stock through its Regulation S offering.

On February 11, 2002, the Company issued 4,000 shares of its common stock to a consultant for services rendered.

Also on February 11, 2002, the Company issued 150,000 shares of its common stock to a consultant for services rendered.

On February 13, 2002, the Company issued 400,000 shares of its common stock to a consultant for services rendered.

On February 20, 2002, the Company issued 195,000 shares of its common stock through its Regulation S offering.

On February 27, 2002, the Company issued 50,000 shares of its common stock to a consultant for services rendered.

On February 28, 2002, the Company issued 250,000 shares of its common stock to a consultant for services rendered.

Also on February 28, 2002, the Company issued 100,000 shares of its common stock to a consultant for services rendered.

Also on February 28, 2002, the Company issued its Executive Assistant 25,000 shares of its common stock for services rendered.

Also on February 28, 2002 the Company issued 50,000 shares of its common stock to a consultant for services rendered.

On March 1, 2002, the Company issued 100,000 shares of its common stock to a consultant for services rendered.

Also on March 1, 2002, the Company issued 100,000 shares of its common stock to a consultant for services rendered.

Also on March 1, 2002, the Company issued 580,824 shares of its common stock through its Regulation S offering.

On March 12, 2002, the Company issued 5,000 shares of its common stock to a consultant for services rendered.

Also on March 12, 2002, the Company issued 80,000 shares of its common stock to a consultant for services rendered.

Also on March 12, 2002, the Company issued 80,000 shares of its common stock to a consultant for services rendered.

On March 13, 2002, the Company issued 125,000 shares of its common stock to a consultant for services rendered.

Also on March 13, 2002, the Company issued 150,000 shares of its common stock to a consultant for services rendered.

On March 19, 2002, the Company issued 150,000 shares of its common stock through its Regulation S offering.

On March 20, 2002, the Company issued 25,000 shares of its common stock to a consultant for services rendered.