MATERIAL TECHNOLOGIES INC /CA/
Form 10-K/A
January 21, 2004

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

FORM 10K/A2

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

For the fiscal year ended December 31, 2002

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	n/a

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. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes _____ No X _____

The aggregate market value of the common stock held by non-affiliates of the registrant as of March 20, 2003, was $1,301,361 based on the average of the bid and asked prices of $.015 as reported by the Over The Counter Electronic Bulletin Board on such date.

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As of March 20, 2003, there were 117,928,688 shares of common stock, $.001 par value issued and outstanding. In addition, At March 20, 2003, the Company held in reserve 101,342,800 of which 100,000,000 shares were held pursuant to the terms of the Company's Straight Documentary Credit (See Note 9i to the accompanying financial statements) and 1,342,800 shares were held in reserve pursuant to the terms of the settlement with a consultant (see Note 9j of the financial statements .

As of March 20, 2003, there were 300,000 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

We are engaged in research and development of metal fatigue detection, measurement, and monitoring technologies. As such, we are developing a comprehensive system of monitoring devices for metal fatigue measurement. We are a development stage company doing business as Tensiodyne Scientific Corporation.

Our efforts are dedicated to developing devices and systems that indicate the true fatigue status of a metal component. We have developed two products, with a third product now under development. The first is a small, extremely simple device that continuously integrates the effect of fatigue loading in a structural member, called a Fatigue Fuse. The second an instrument that detects very small cracks and is intended to determine crack growth rates, is the Electrochemical Fatigue Sensor. It has demonstrated that it can detect cracks, in the laboratory, as small as 10 microns (0.0004 inches), which is smaller than

any other practical technologies, as acknowledged by the United States Air Force and confirmed by Rockwell Scientific Corporation. We believe that nothing comparable to this instrument currently exists in materials technology.

Both devices are pioneering technology in the fatigue field that we believe provide cutting-edge solutions in materials technology. Both products are protected by patents: we hold the patents on the Fatigue Fuse and license the technology on the Electrochemical Fatigue Sensor (see "Our Patent Protections".)

Another product currently under development is a videoscope, which comprises a fiber optic bundle and light source together with a working channel, through which certain non-destructive test sensors such as ultrasound and/or eddy current devices can be passed, to inspect visually or manually inaccessible regions of structures such as the interior of jet turbine engines.

The fiber optic bundle provides very clear video resolution, utilizing a video camera integrated in the videoscope handle. Images are then displayed on a monitor and can be recorded. The videoscope is derived from similar devices in wide use in medicine.

Its uniqueness is its small diameter and its capability for applying multiple sensors, such as ultrasound and/or eddy current. Developed to inspect internal components of fully assembled jet turbine engines using the existing inspection holes in assembled engine outer surfaces, it can be used to access remote areas of bridges and other structures to monitor fatigue and other cracks, permitting good visual access to otherwise inaccessible areas.

We were 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. Material Technology, Inc. was the successor to the business of Tensiodyne Corporation that began developing the fatigue fuse in 1983. Our two predecessors, Tensiodyne Corporation and Material Technology, Inc. were engaged in developing and testing the Fatigue Fuse and, beginning in 1993, developing the Electrochemical Fatigue Sensor.

On January 22, 2003, we formed Matech International, Inc., a wholly owned subsidiary. On March 13, 2003, we formed another wholly owned subsidiary, Matech Aerospace, Inc..We formed Matech International for the purpose of granting it a comprehensive agreement that licenses all manufacturing and marketing rights to our products and technologies in all commercial markets outside of the Untied States in exchange for a royalty equal to 7 % of gross sales generated by the subsidiary. We formed Matech Areospace, Inc. for the purpose of granting it the same comprehensive license as we granted to International only Aerospace will be granted manufacturing and marketing rights within the United States in exchange for a7% royalty on all gross sales generated by it.

THE FATIGUE FUSE

The Fatigue Fuse is designed to be affixed to a structure to give warnings as pre-selected 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.

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 and wear history as the member. Methods are available for remote indication of Fuse fracturing.

We believe 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 our successful development and marketing of the Fatigue Fuse, and no assurance can be given that we 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, we need substantial additional capital and no assurance can be given that needed capital will be available.

In a new structure, we 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 and wear, 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 ELECTROCHEMICAL FATIGUE SENSOR ("EFS")

The EFS is a device that employs the principle of electrochemical/mechanical interaction to find cracks. It is an instrument that detects very small cracks and is intended to determine crack growth rates. The Electrochemical Fatigue Sensor has demonstrated in the laboratory that it can detect cracks as small as 10 microns (0.0004 inches), which is smaller than any other practical technologies, as acknowledged by the United States Air Force and Rockwell Scientific Corporation. We believe that nothing comparable to this instrument currently exists in materials technology.

The EFS functions by treating the location of interest (the target) associated with the structural member as an electrode of an electrochemical cell. 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 i.e., fatigue cracks.

THE VIDEOSCOPE

Stress points are very often located in difficult-to-get-at places for humans. Therefore, it has become desirable to miniaturize the process and develop a means for delivery to inaccessible areas. The videoscope comprises a fiber optic bundle and light source together with a working channel through which certain non-destructive test sensors such as ultrasound and/or eddy current devices can

be passed, to inspect visually or manually inaccessible regions of structures. The device as presently implemented has a maximum diameter of 6 mm (0.236 inches) and length of 1.5m (60 inches.). Contained within this diameter is a working channel of 2.8 mm (0.11 inches) diameter, through which proprietary eddy current or ultrasonic sensors may be passed and used to examine areas of interest.

The videoscope's uniqueness is its small diameter and its capability for applying multiple non-destructive test sensors. Developed to inspect internal components of fully assembled jet turbine engines using the existing inspection holes in assembled engine outer surfaces, it can be used to access remote areas of bridges and other structures to monitor fatigue and other cracks, permitting good visual access to otherwise inaccessible areas.

During the quarter ended December 31, 2002, we announced preliminary discussions to launch a joint venture with Optim, Incorporated of Sturbridge, Massachusetts, which is intended to commercially introduce a new borescope product known as the OptiSpec Flaw Detection System. This new product combines remote visual inspection with ultrasonic and eddy current non-destructive testing methods which rapidly and accurately determine if the observed indication is, in fact, a flaw that merits evaluation or repair. Optim, Incorporated designs, manufactures, markets and sells flexible endoscopy products for both the medical and industrial markets. Our discussions with Optim, Incorporated have resulted in a preliminary arrangement whereby we may enter into a formal supply and license agreement with Optim enabling us to access technology developed by Optim for our planned marketing and distribution of the OptiSpec Flaw Detection System. Our early planning for our borescope product includes our recent formation of a wholly-owned subsidiary, Matech Aerospace, Inc., from which we intend to further develop, market and distribute our borescope products. We are uncertain at this juncture when a formal supply and license agreement will be entered into with Optim and if entered into, the extent to which revenues may be generated from the commercial development of the OptiSpec Flaw Detection System and when product sales will begin. No assurances can be given by us at this time that we will be in a position to develop and market the OptiSpec Flaw Detection System.

DEVELOPMENT OF OUR 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. We conducted the advanced development, including variations of the adhesive bonding process, and fabricating a laboratory-grade remote recorder for finger separation events that constitute proper functioning of the Fatigue Fuse. The next step, prototype evaluation, that encompasses empirical tailoring of Fuse parameters to fit the actual spectrum loading expected in specific applications, needs to be done. The tests associated with further development of the Fatigue Fuse include full-scale structural tests with attached Fuses. A prototype of the Fatigue Fuse has been designed, fabricated, and successfully demonstrated. The next tasks will be to

prepare an 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 measuring stresses and strains in fatiguing metal. 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. To begin marketing, the Fuse will take from six to 12 months and cost approximately $600,000, including technical and beta testing and final development. If testing, development, and marketing are successful, we estimate we should begin receiving revenue from the sale of the Fatigue Fuse within a year of receiving the $600,000. However, we cannot estimate the amount of revenue that may be realized from sales of the Fuse, if any.

To date, certain organizations have included our Fatigue Fuse in test programs. We have already completed the 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.

The Fatigue Fuse has been at this stage for the past several years as the Company has not had the necessary financial resources to finalize its development and commence marketing.

Status of the EFS

The existence and size of very small cracks can be determined by EFS, and in this regard it appears superior in resolution to other current non-destructive testing techniques. It has succeeded in regularly detecting cracks as small as 40 microns in a titanium alloy, in a laboratory environment, as verified by a scanning electronic microscope, and has proven to be capable of detecting cracks down to 10 microns, as acknowledged by the Materials Laboratory at Wright Patterson Air Force and confirmed by evaluations at Rockwell Scientific Corporation. This is much smaller than the capability of any other practical non-destructive testing method for structural components. There is also a vast body of testing supporting successful use of this technology with selected aluminum alloys. However, additional testing is required to verify EFS' crack detection capabilities under various industrial environments which are more representative of actual structures in the field, like a highway bridge or aircraft fuselage.

Joint Technology Venture with Integrated Technologies, Inc.

By agreement dated January 1, 2003, a new co joint venture subsidiary we formed, Integrated Technologies, Inc. a Delaware corporation and Austin Tech, LLC, a Texas limited liability company, entered into a license agreement. We own 51% of the outstanding capital stock of Integrated Technologies, Inc. and Austin Tech, LLC owns the remaining 49% of the outstanding capital stock. We jointly formed Integrated Technologies, Inc. for the purpose of jointly developing, marketing and licensing a new brand of remote transmittal monitoring products from our combined technologies. Integrated Technologies, Inc. as the licensee of the technologies owned by Austin Tech, LLC, has also entered into a form of license agreement directly with us for the purpose of having access to our technologies for joint development purposes. The license agreements granted to Integrated

Technologies, Inc. by Austin Tech, LLC and by us, expire on January 1, 2005 unless terminated earlier under the provisions of the agreements. The terms of the licenses granted to Integrated Technologies, Inc. are exclusive, royalty free and are geographically limited to certain territories described in the license agreements, which include the United States, Canada, Middle Eastern countries, several Northern European countries, Mexico and Brazil.

GOVERNMENT CONTRACT FUNDING

Historically, we have generated contract revenue by seeking research and development contracts awarded by agencies of the United States government, such as the U.S. Air Force. In developing our contract revenue, we have enlisted the assistance of research and development partners that have used us as subcontractors in the research and development effort. In August 1996, we executed an agreement entitled, "Teaming Agreement," with the Southwest Research Institute and the University of Pennsylvania for coordinated research and development efforts.

We have also entered into similar relationships with Universal Technology Corporation, which is a government contractor that acts as a pass-through or monitor of our contracts. Universal Technology Corporation has acted as the prime contractor with the Air Force, and we function as a first tier subcontractor. Other than our association with these groups as research and development partners, we have no other affiliation. Our contract revenue from all sources of research and development agreements concluded in the third quarter of fiscal year 2002, and we do not have any additional contract revenue anticipated during the next 12 months.

On February 25, 1997, the Southwest Research Institute was awarded from the United States Air Force, a $2,500,000 phase one 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. Our share of this award was approximately $550,000. On June 18, 1998 Universal Technology Corporation, one of our contracting partners, 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. Our share of this award was approximately $538,000. On February 5, 1999, a third contract in the amount of $2,000,000 was awarded to Universal Technology Corporation to continue and expand the efforts for turbine engines. Our directly subcontracted share was approximately $382,000. A fourth contract was awarded to Universal Technology Corporation on November 3, 2000 in the amount of approximately $2,000,000 to continue the borescope and EFS technologies, as well as alternate means of fatigue sensing. This fourth contract has been fully performed. Our directly subcontracted share is approximately $700,000. Accordingly, over the last four years we have been awarded approximately $8,500,000 in research and develop services covering the EFS. The results of this research are encouraging and provide a basis for us and our contract partners to obtain additional funding. However, we cannot provide any assurance that additional contract revenue will be generated by us or received in the future.

COMMERCIAL MARKETS FOR OUR PRODUCTS AND TECHNOLOGIES

No commercial application of our products has been arranged to date, but the technology has matured to a point where we believe it can be applied to certain markets. Our 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. We anticipate that our planned supply and licensing arrangement with Optim, Incorporated for the commercial sale and distribution of the OptiSpec Flaw Detection System, will begin to generate material product sales from the borescope, in the third quarter of the current fiscal year. We cannot provide assurances that the marketing and distribution of the OptiSpec Flaw Detection System will in fact occur at any specific time in the future due to the possibility that we may not enter into a formal agreements with Optim Incorporated or if we do, we may experience delays or difficulties in the initial marketing, sales and distribution of the product. Nor can we provide assurances that our results of operations and our financial condition will materially improve from the planned commercial distribution of the OptiSpec Flaw Detection System.

APPLICATION OF OUR TECHNOLOGIES FOR BRIDGES

Our EFS and fatigue fuse products primarily address the detection of fatigue in structures such as bridges. In the United States alone there are more than 610,000 bridges of which over 260,000 are rated by the Federal Highway Administration as requiring major repair, rehabilitation, or replacement. Our EFS and Fatigue Fuse products can be effectively used as fatigue detection devices for all metal bridges located within the United States. Our detection devices also address maintenance problems associated with bridge structures.

Although there are normal business imperatives, the bridge market is essentially macro-economically and government policy driven. In our opinion, only technology can provide the solution. The need for increased spending accelerates significantly each year as infrastructure ages. The Federal government has mandated bridge repair and detection through the passage of the Intermodal Surface Transportation and Efficiency Act in 1991 and again recently in the $200 billion, 1998 Transportation Equity Act. We do not currently have contracts in place to install our fatigue detection products on bridge structures within the United States.

OUR PATENT PROTECTIONS

We are 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, we own a fifth patent, titled "Device for Monitoring the Fatigue Life of a Structural Member and a Method of Making Same," which was issued June 20, 1995, United States Patent Number 5,425,274, and expires June 20, 2012.

OUR PATENTS ARE ENCUMBERED

The patents described in the preceding section are pledged as collateral to secure the repayment of loans extended to us or indebtedness that we currently owe. On August 30, 1986, we entered into a funding agreement with the Advanced Technology Center, whereby ATC paid $45,000 to us 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, 2001, and 2002, the future royalty commitment was limited to $227,149 and $252,136, respectively. The payment of future royalties is secured by equipment we use in the development of technology as specified in the funding agreement, however, no lien against our equipment or our patents in favor of ATC vests until we generate royalties from product sales.

On May 4, 1987, we entered into a funding agreement with ATC whereby ATC provided $63,775 to us for the purchase of a royalty of 3% of future gross sales and 6% of sublicensing revenue. 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. As with our first agreement with ATC, no lien or encumbrance against our assets, including our patents, vests in favor of ATC until we generate royalties from product sales. If we were to default on these payments to ATC, our obligations relating to these agreements then become secured by our patents, products and accounts receivable. At December 31, 2001, and 2002, the total future royalty commitments, including the accumulated 26% annual rate of return, were limited to approximately $1,725,234, and $2,173,795, respectively.

On May 27, 1994, we borrowed $25,000 from Sherman Baker, one of our shareholders. We gave Mr. Sherman a promissory note due May 31, 2002 and we pledged our patents as collateral to secure the repayment of this note. As of the date of this prospectus, there is a first priority security interest in our patents as collateral for the repayment of the amounts we owe to Mr. Baker. As additional consideration for this loan, we granted to Mr. Baker, a 1% royalty interest in the fatigue fuse and a 0.5% royalty interest in the Electrochemical Fatigue Sensor. We are in default of the repayment terms of the note held by Mr. Baker, and at March 31, 2003, we owe Mr. Baker approximately $60,000 in principal and accrued interest. Mr. Baker has not taken any action to foreclose his interest in the collateral and we are in discussions with Mr. Baker, with the expectation that we will cure any default in the note he holds and avoid any foreclosure of his security interest held in our patents. We believe, that although we have not yet cured our defaults on the loans to Mr. Baker, our current communications with him suggest that Mr. Baker does not have the present intention of foreclosing on the patents as collateral or the pursuit of legal action against us to collect the balance due under our note.

DISTRIBUTION OF OUR PRODUCTS

Subject to available financing, we intend to exhibit the Fatigue Fuse and the Electrochemical Fatigue Sensor at various aerospace trade shows and intend to also market our 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 we intend to undertake marketing, dependent on the availability of funds, within and without the United States, no assurance can be given that any such marketing activities will be implemented.

COMPETITION

Other technologies exist which measure and indicate fatigue damage. Single cracks larger than a minimum size can be found by nondestructive inspection methods such as dye penetrate, 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 our products remain largely unproven. Companies marketing these alternate technologies include Magnaflux Corporation, Kraut-Kermer-Branson, Dunegan-Endevco, and Micro Measurements. These companies have more substantial assets, greater experience, and more resources than ours, including, but not limited to, established distribution channels and an established customer base. The familiarity and loyalty to these technologies may be difficult to dislodge. Because we are still in the development stage, we are unable to predict whether our 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.

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 June 30, 2003. The Company has an option to extend the lease at the same rent through December 31, 2003.

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

None.

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 2001 through December 31, 2002, 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 2001 to December 2002.

	High Bid Price (1)	Low Bid Price (1)
First Quarter 2001	$ .23	$ .09
Second Quarter 2001	$ .12	$ .08
Third Quarter 2001	$ .22	$ .084
Fourth Quarter 2001	$ .25	$ .10
First Quarter 2002	$ .27	$ .10
Second Quarter 2002	$ .10	$ .07
Third Quarter 2002	$ .02	$ .02
Fourth Quarter 2002	$ .015	$ .015

On December 31, 2002, there were 733 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 the years 2001 or 2002, nor are any dividends contemplated in the foreseeable future.

At various times during the years 2001 and 2002, 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 ISSUANCES IN 2003

On January 7, 2003, the Company issued 260,000 shares of its common stock to Mr. Stephen Beck pursuant to the anti-dilution provisions of his settlement agreement.

On January 22, 2003, the Company issued 2,000,000 shares of its common stock for legal services.

On January 23, 2003, the Company issued 312,500 shares of its common stock for consulting services.

On January 30, 2003, the Company issued 2,046,933 shares of its common stock through its Regulation S offering.

On February 10, 2003, the Company issued 2,549,620 to various consultants pertaining to its Regulation S offering.

On March 4, 2003, the Company issued 1,500,000 shares of its common stock for legal services.

On March 11, 2003, the Company issued 300,000 shares of its common stock for consulting services.

On March 11, 2003, the Company issued 1,500,000 shares of its common stock for legal services.

On March 11, 2003, the Company cancelled 260,000 of its common stock that was held in reserve for issuance to Mr. Beck pursuant to the anti-dilution provisions of his settlement agreement.

COMMON STOCK ISSUANCES IN 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 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 9(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 180,000 shares of its common stock to a consultant for services rendered.

Also on March 12, 2002, the Company issued 180,000 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 for legal services. 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 The Company's executive assistant.

On March 26, 2002, the Company issued to two members of its advisory board a total of 469,918 shares of its common stock for consulting services rendered.

On March 26, 2002, the Company issued 1,096,476 shares of its common stock to the University of Pennsylvania pursuant to the terms of its licensing agreement.

On March 27, 2002, the Company issued its executive assistant 25,000 shares of its common stock.

On March 31, 2002, the Company issued 4,000 shares its common stock for clerical services rendered.

On April 1, 2002, the Company issued to 120,000 shares of its common stock for legal services rendered.

On April 5, 2002, the Company issued 2,046,580 shares of its common stock through its Regulation S offering.

On April 10, 2002, the Company issued to 42,100 shares of its common stock for legal services rendered.

On April 12, 2002, the Company issued to 105,000 shares of its common stock for legal services rendered.

On April 22, 2002, the Company issued 154,100 shares of its common stock through its Regulation S offering.

On April 23, 2002, the Company issued 550,000 shares of its common stock for consulting services rendered.

On May 6, 2002, the Company issued 674,267 shares of its common stock to various consultants.

On May 6, 2002, the Company issued 215,000 shares of its common stock for legal services rendered.

On May 8, 2002, the Company issued 415,000 shares of its common stock through its Regulation S offering.

On May 10, 2002, the Company issued 115,000 shares of its common stock for legal services rendered.

On May 17, 2002, the Company issued 400,000 shares of its common stock for consulting services rendered.

On May 21, 2002, the Company issued 1,000,000 shares of its common stock for legal services rendered.

On May 27, 2002, the Company issued 562,704 shares of its common stock through its Regulation S offering.

On May 29, 2002, the Company issued 50,000 shares of its common stock for consulting services rendered.

On June 3, 2002, the Company issued 150,000 shares of its common stock for consulting services rendered.

On June 3, 2002, the Company issued 50,000 shares of its common stock for legal services rendered.

On July 3, 2002, the Company issued 1,000,000 shares of its common stock for legal services rendered.

On July 3, 2002, the Company issued 250,000 shares of its common stock for consulting services rendered.

On July 8, 2002, the Company issued 200,000 shares of its common stock for legal services rendered.

On July 8, 2002, the Company issued 200,000 shares of its common stock for consulting services rendered.

On July 26, 2002, the Company issued 1,000,000 shares of its common stock TO Mr. Stephen Beck for services rendered pursuant to a settlement agreement.

On July 26, 2002, the Company issued 3,563,300 shares of its common stock through its Regulation S offering.

On August 5, 2002, the Company issued 2,000,000 shares of its common stock to two employees for services rendered in connection for the development of the fatigue fuse.

On August 5, 2002, the Company issued 230,000 shares of its common stock for legal services.

On August 14, 2002, the Company issued 1,000,000 shares of its common stock for legal services.

On August 16, 2002, the Company issued 749,260 shares of its common stock through its Regulation S offering.

On August 29, 2002, the Company issued 1,000,000 shares of its common stock for legal services.

On September 5, 2002, the Company issued 300,000 shares of its common stock for consulting services rendered.

On September 5, 2002, the Company placed in reserve 2,000,000 shares of its common stock pursuant to the terms of the settlement agreement with Stephen Beck.

On September 5, 2002, the Company issued 75,000 shares of its common stock for legal services.

On September 5, 2002, the Company issued 771,040 shares of its common stock for services rendered in connection with its Regulation S offering.

On September 10, 2002, the Company issued 2,000,000 shares of its common stock for consulting services.

On September 11, 2002, the Company issued 1,000,000 shares of its common stock for legal services.

On September 11, 2002, the Company issued 2,500,000 shares of its common stock for legal services.

On October 7, 2002, the Company issued 2,500,000 shares of its common stock for consulting services.

On October 7, 2002, the Company issued its executive assistant 50,000 shares of its common stock.

On October 10, 2002, the Company issued 500,000 shares of its common stock for services rendered in connection with its Regulation S offering.

On October 18, 2002, the Company issued 11,445,872 shares of its common stock through its Regulation S offering.

On October 29, 2002, the Company issued 250,000 shares of its common stock for consulting services.

On November 6, 2002, the Company issued 1,077,500 shares of its common stock through its Regulation S offering.

On November 25, 2002, the Company issued 912,000 shares of its common stock through its Regulation S offering.

On December 5, 2002, the Company issued 650,000 shares of its common stock for consulting services.

On December 5, 2002, the Company issued 250,000 shares of its common stock for legal services.

On December 15, 2002, the Company issued 1,000,000 shares of its common stock to a member of the Company's advisory board.

On December 16, 2002, the Company issued 1,000,000 shares of its common stock for legal services.

On December 17, 2002, the Company issued 3,950,000 shares of its common stock through its Regulation S offering.

On December 18, 2002, the Company issued 13,000,000 shares of its common stock to its president for past services.

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 2001, 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.

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 9(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.

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,			
	1998	1999	2000 (restated)	2001 (restated)
Net Sales	$ --	$ --	$ --	$ --
Income from Research Development Contract	$ 373,324	$ 924,484	$ 635,868	$ 1,579,823

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Income (Loss) from Continued Operations	$	(549,187)	$	(539,283)	$	(1,241,690)	$	(3,546,574)
Income (Loss) from Continued Operations Per Common Share	$	(.06)	$	(.04)	$	(.06)	$	(.11)
Basic Weighted Average - Common Shares Outstanding		8,782,808		12,242,534		18,900,019		33,640,393
Total Assets	$	233,746	$	250,041	$	108,776	$	516,282
Total Liabilities	$	618,582	$	719,178	$	870,586	$	819,236
Redeemable Preferred Stock	$	--	$	--	$	--	$	--
Total Stockholders' Equity (Deficit)	$	(485,432)	$	(620,545)	$	(710,459)	$	(680,414)
Dividends	$	--	$	--	$	--	$	--

Statements of operations for the years 2000 and 2001 have been restated to reflect shares issued at the respective share's market value at date of issuance.

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, 2000, 2001, and 2002.

RESULTS OF OPERATIONS FOR YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002

In 2002, we completed our two subcontracts on programs with the United States Air Force for application engineering and enhancement of the EFS and earned $461,323. In 2001, and 2000, we earned $1,579,823, and $635,868, respectively, from the same two subcontracts. In 2002, interest income totaled $52,782 of which $729 was earned from investments and the remaining $52,053 was accrued on loans due the Company from its President, and from stock subscriptions due from the President, a Director, and third party. In 2001, interest income totaled

$102,283, of which $657 was from investments and the remaining $101,626 was accrued on loans due the Company from its President, and from stock subscriptions due from the President, a Director, and third party. In 2000, interest income was $103,419, the majority of which pertains to interest accruing on subscriptions due from the Company's president and a director. The major difference in the amount of accrued interest in 2002 as compared to 2001 and 2000 pertains to the June 2001 modification of certain stock subscription agreements that reduced the amounts due from the President and a Director from $1,995,000 to $495,000. Our sole source of contract revenue from our research and development contracts with the United States Air Force concluded in the second quarter of 2002 and we have not replaced any contract revenue since that contract concluded.

COSTS AND EXPENSES

Expenses for 2001 and 2000 have been restated to reflect the value of all services which were compensated through the issuance of our common stock at the quoted market price of the shares issued on the date of issuance.

Research and development costs were $665,435, $1,493,628, and $496,501, for 2002, 2001, and 2000, respectively. Of the R&D costs incurred, $400,201, $1,069,671, and $409,823 related to subcontractor costs, for the years 2002, 2001, and 2000,respectively. General and administrative costs were $3,581,706, $3,632,769, and $1,381,047 for 2002, 2001, and 2000, respectively.

In 2002, actual cash compensation paid to our president, Mr. Bernstein, totaled $110,018. We also accrued an additional $9,982 in additional compensation. In addition, the Company issued Mr. Bernstein 13,000,000 shares of its common stock for past services valued at $260,000. Legal fees in 2002 amounted to $1,922,861 of which $1,599,200 relates to the settlement of the Beck matter. Of the $1,599,200, $1,481,895 is evidenced by a promissory note, $112,193 was paid through the issuance of 2,027,639 shares of our common stock, and $5,112 paid in cash. We also incurred $314,729 in the filing of our registration statement on SB-2 of which $297,500 was paid through the issuance of 7,750,000 shares and $17,229 was paid in cash. Other expenses in 2002 included consulting services of $940,160 of which $662,098 was paid through the issuance of 10,881,118 shares of our common stock, Other expenses in 2002 included consulting services of $940,160 of which $662,098 was paid through the issuance of 10,881,118 shares of our common stock, office salaries of $36,968, telephone expense of $23,284, travel expenses of $57,797, accounting and auditing fees of $71,317, and rent of $28,176.

In 2001, actual cash compensation paid to our president totaled $90,000. We also accrued $30,000 in additional compensation due to Mr. Bernstein. We charged to operations $1,500,000 due to a reduction in the balance of the non-recourse promissory note due to us by Mr. Bernstein and another director, Joel Freedman, in connection with their purchases of our common stock. Initially, we agreed to issue 4,650,000 and 350,000 shares of our class "A" common stock to Messrs. Bernstein and Freedman, respectively, in exchange for their issuance to us of non-recourse promissory notes in the amount of $1,855,350 by Mr. Bernstein and $139,650 by Mr. Freedman. At the time of their purchase of our shares, the market price of our common stock was approximately $.60 per share. Both promissory notes mature on May 25, 2005 and accrued interest at 8% per annum. On June 18, 2001, we authorized the $1,500,000 reduction of the combined principal

amount of these notes since the market value of our common stock declined to approximately $.10 per share. This reduction and charge to operations was deemed to be fair and reasonable under the circumstances.

We issued 6,000,000 shares of restricted common stock to Mr. Bernstein during 2001, valued at $1,128,000, for past compensation due to him. Previously, the financial statements have reflected the value of the shares at $420,000, the fair market value of the services rendered. The change in the value of shares issued to Mr. Bernstein relates to a comment received by the Company from the Securities and Exchange Commission indicating that all shares issued in the exchange for services will be valued at the quoted market price of the shares issued on the date of issuance. These 6,000,000 shares have been issued subject to certain restrictions limiting the President's ability to sell or transfer the shares.

Other expenses in 2001 included consulting fees of $477,671, of which $281,635 was paid through the issuance of 2,275,000 shares of our common stock, legal fees of 256,736 of which $138,750 was paid through the issuance of 915,000 shares of our common stock, accounting fees of $51,120, travel expenses of $42,092, office salaries of $36,225, office expense of $34,880, rent of $29,468, telephone expense of $13,838, and a write off of our $33,000 investment in Antaeus Research, LLC.

The major costs in 2000 were officer's salary of $127,183, consulting fees of $856.202, legal fees of $206,198, accounting and auditing fees of $23,063, and travel costs of $26,443.

Interest charged to operations for 2002, 2001 and 2000, amounted to $118,460 and $70,468, and $60,634, respectively. Of the $118,460 incurred in 2002, $76,078 was accrued on the note due to the University of Pennsylvania and $37,271 was accrued on the note due for legal fees on the Beck mater. Of the $70,468 incurred in 2001, $64,472 was accrued on the note due to the University of Pennsylvania. Of the $60,634 incurred in 2000, $54,638 was accrued on the note due to the University of Pennsylvania.

LIQUIDITY AND CAPITAL RESOURCES

In 2002, we raised $892,261 net of offering costs through the issuance of 28,046,766 shares of our common stock through a Regulation S offering. and 143,250 shares of our preferred stock. We also received $175,646 during 2002 from our subcontracts with the Air Force . Of the $1,067,907 we received, we used $927,439 in our operations, we advanced $33,547 to our president and paid $29,608 for equipment

In 2001, we 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.

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.

As of December 31, 2002, the Company's liquid assets totaled $251,782. At the Company's current level of spending in meeting its operating overhead, these funds should allow the Company to continue operating through the second quarter of 2003. Although the Company will continue to attempt to raise capital in order to fund subsequent month's operations, no assurance can be made that these funds will be raised.

CRITICAL ACCOUNTING ISSUES

The discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In consultation with its Board of Directors, the Company has identified two accounting policies that it believes are key to an understanding of its financial statements. These are important accounting policies that require management's most difficult, subjective judgments.

The first critical accounting policy relates to revenue recognition. Income from the Company's subcontracts with the Air Force is recognized at the time services are rendered and billed for.

The second critical accounting policy relates to research and development expense. Costs incurred in the development of the Company's fatigue fuse and sensor are expensed as incurred.

The third critical accounting policy relates to the valuation of non-monetary consideration issued for services rendered. The Company values all services rendered in exchange for its common stock at the quoted price of the shares issued at date of issuance. All other services provided in exchange for other non-monetary consideration is valued at either the fair value of the services received or the fair value of the consideration relinquished, whichever is more readably determinable.

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, 2002, 2001, and 2000, 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.

ITEM 9A. CONTROLS AND PROCEDURES.

Material Technologies, Inc. management, including the Principal Executive Officer and Principal Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c) and 15d-14(c). This evaluation was conducted within 90 days prior to the filing of this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date the Principal Executive Officer and Principal Financial Officer completed their evaluation.

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	68	President/Chief Executive and Chief Financial Officer, Chairman of the Board
Joel R. Freedman	43	Secretary/Director
Dr. John Goodman	68	Chief Engineer/Director
William I. Berks	72	Vice President of Government Projects

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 68 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 Material Technology, Inc., a predecessor of the company, and retained these positions with the Company after the July 31, 1997 spin off.

JOEL R. FREEDMAN, SECRETARY/DIRECTOR. Joel R. Freedman is 43 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 BERKS, VICE-PRESIDENT OF GOVERNMENT PROJECTS. He managed the previous Matech contracts for the development of EFS at the University of Pennsylvania, Southwest Research Institute, and Optim, Inc. Mr. Berks has a B. Aero. E and MS in Applied Mechanics from Polytechnic Institute of New York and MS in Industrial Eng., Stevens Institute of Technology . With Matech since 1997. He has over 30 years ` experience in spacecraft mechanical systems engineering. He retired from TRW in November 1992 where he was employed for 26 years in a variety of management positions: 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: Manager of the Advanced Systems Design Department, which was responsible for mechanical systems design for all spacecraft project: Assistant Project 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. He holds six patents.

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:

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.

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.

During 2001, we issued Dr. Laird 100,000 shares of our common stock which were valued at $18,800 for services rendered in connection with the development of our EFS.

During 2002, we issued Dr. Laird 234,959 shares of our common stock which were valued at $32,894 for services rendered in connection with the development of our 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 Berkeley. 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.

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.

During 2001, we issued Mr. Schwartz 125,000 shares of our common stock which were valued at $16,250 for consulting services rendered in connection with our technology for bridges.

During 2002, we issued Mr. Schwartz 1,000,000 shares of our common stock which were valued at $30,000 for consulting services rendered in connection with our technology for bridges.

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.).

During 2002, we issued Mr.Simionescu 250,000 shares of our common stock which were valued at $67,500 for consulting services rendered in connection with our technology for bridges.

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.

HENRYKA MANES. Ms. Manes is the Founder and President of H. Manes & Associates, a consulting firm that enables environmental and high technology companies to export their products worldwide. She has a wide-range of experience with projects in more than 20 countries in Asia, Africa, Eastern Europe and South America. Prior to founding HMA, Ms. Manes was Director of Operations for the American Jewish Joint Distribution Committee's International Development Program and has worked with the World Bank, United States Agency for International Development, and the United Nations Development Program. Ms. Manes received her B.A. from Macalester College in St. Paul, MN, and did her graduate work at the University of Minnesota, Minneapolis, MN.

During 2002, we issued Ms. Manes 500,000 shares of our common stock which were valued at $17,500 for consulting services rendered in connection with the development of foreign markets for our products, when developed.for commercial application.

DR. A. EMIN AKTAN. Dr. Aktan is the John Roebling Professor of Infrastructure Studies at Drexel University Department of Civil Engineering and Architecture. He is the director of Drexel Intelligent Infrastructure & Transportation Safety Institute. His research interest is system identification and health monitoring for management of civil infrastructure systems (CIS) while generating fundamental knowledge regarding the actual behavior and loading environments of constructed facilities. Dr. Aktan received a Ph.D. in Earthquake Structural Engineering from the University of Illinois at Urbana-Champaign in 1973 and served as a Post-Doctorate associate at University of California at Berkeley for five years. Dr. Aktan has held faculty positions at Middle East Technical University, Louisiana State University and University of Cincinnati before joining Drexel University.

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.

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ITEM 11. EXECUTIVE COMPENSATION

Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restricted Stock Awards ($)	O (S
Robert M. Bernstein CEO	2000	$ 120,000	$ --	$ --	$ 4,183 (1)	
	2001	$ 120,000	$ --	$ --	$ 1,128,000 (2)	
					$ 1,395,000 (3)	
	2002	$ 120,000	$ --	$ --	$ 200 (4)	
					$ 260,000 (5)	
John W. Goodman	2000	$ 26,614	$ --	$ --	$ --	
Director and	2001	$ 23,076	$ --	$ --	$ 147,600 (6)	
Engineer	2002	$ 17,945	$ --	$ --	$ 40,000 (7)	
William Berks	2000	$ --	$ --	$ 39,235	$ --	
Vice-President	2001	$ 55,388	$ --	$ --	$ 147,600 (6)	
of Government	2002	$ 70,301	$ --	$ --	$ 40,000 (7)	
Projects						

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN OWNERS AND MANAGEMENT AS OF DECEMBER 31, 2002

Securities authorized for issuance under equity compensation plans.

Plan category	Number of securities To be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining for available for future issuance under equity compensation plans (excluding securities reflected in column a)
	(a)	(b)	(c)
Equity Compensation plans approved by shareholders	n/a	n/a	n/a
Equity Compensation plans not approved by shareholders	n/a	n/a	n/a

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	27,800,966 Shares	25.45%(1)
	Joel R. Freedman, Director 1 Bala Plaza Bala Cynwyd, PA 19004	626,471 Shares	.57%

	John Goodman, Director Suite 707	2,000,000 Shares	1.83%

	11661 San Vicente Blvd. Los Angeles, CA 90049		
	William Berks, Vice President Government Projects Suite 707 11661 San Vicente Blvd. Los Angeles, CA 90049	2,000,000 Shares	1.83%
	Directors and executive officers as a group (3 persons)	32,427,437 Shares	29.68%
Class B Common Stock	Robert M. Bernstein Suite 707 11661 San Vicente Blvd. Los Angeles, CA 90049	300,000 Shares	100.00%(2)

(1) Of these 27,800,966 shares, Mr. Bernstein has full rights to approximately 25,339,291 shares. The remaining 2,461,675 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, 1,722,000 of these 4,183,675 shares had been transferred to satisfy a stock agreement. Accordingly, 2,461,675 of these escrowed shares are included in the total of 26,544,847 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.)

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 of past compensation due to Mr. Bernstein under this resolution. These shares were originally valued at $360,000 which represents the difference between the $150,000 a year and the compensation actually accrued during the years 1991 through 2000. However, the 6,000,000 shares have been revalued to $1,128,000 using the market price of the shares at date of issuance.

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. In June 2001, the Company's Board of Directors authorized the reduction in the amount owed by the President and a Director on these non-recourse promissory notes 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 operations as compensation.

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. Due to the restrictions imposed on these shares, the Company valued these shares at par and charged the $4,183 to operations..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 October 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.

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

On March 20, 2002, the Company issued 25,000 shares of its common stock to The Company's executive assistant.

On August 5, 2002, the Company's Board of Directors authorized the issuance of 1,000,000 shares of its common stock each to Mr. John Goodman and Mr. William Berks for services rendered to the Company.

On October 7, 2002, the Company issued its executive assistant 50,000 shares of its common stock.

On December 6, 2002, the Company issued 200,000 shares of its Class B common stock to its president in consideration for the relinquishment of his interest in the Company's patents.

On December 18, 2002, the Company issued 13,000,000 shares of its common stock to its president in consideration for past services. The shares were issued under a 1997 Board resolution in which Mr. Bernstein's compensation was increased to $150,000 a year with $120,000 being paid presently with the remaining $30,000 a year being paid only when the Company was financially able to make such payments. As the Company's financial position has not improved, Mr. Bernstein agreed to take the accrued compensation in stock. The 13 million shares issued have been valued at $260,000. The sale and transferability of the shares are restricted for a three year period in which Mr. Bernstein must remain working for the Company. If he terminates his employment during this three year period, then the 13 million shares will be returned 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 S-1 Registration Statement tha effective on July 31, 1997.
	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
10.3	Amendment 1 to License Agreement Between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania	Previously filed with July 31, 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	Previously filed

Technology, Inc.'s S-1 Registration Statement,
File No. 33-83526.

b. Reports on Form 8-K - none.

c. Financial Statements - attached.

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 23, 2003

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 23, 2003

By: /s/ Joel Freedman

Joel Freedman, Secretary and Director

Date: March 23, 2003

By: /s/ John Goodman

John Goodman, Director

Date: March 23, 2003

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

Contents

Independent Auditor's Report

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

I have audited the accompanying balance sheets of Material Technologies, Inc., (A Development Stage Company) as of December 31, 2001 and 2002, and the related statements of operations, stockholders' equity (deficit), and cash flows, for the years ended December 31, 2000, 2001, 2002, and for the period from the Company's inception (October 21, 1983) through December 31, 2002. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States. These standards require that I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Material Technologies, Inc. as of December 31, 2001 and 2002, and the results of its operations, and its cash flows for the years ended December 31, 2000, 2001, 2002, and for the period from the Company's inception (October 21, 1983) through December 31, 2002, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discuss in Note 15 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency, which raises substantial doubt about the its ability to continue as a going concern. Management's plans regarding those matters also are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

s/s Jonathon P. Reuben CPA

Jonathon P. Reuben,
Certified Public Accountant
Torrance, California
March 7, 2003

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

	December 31, 2001 (Restated)
ASSETS	
CURRENT ASSETS	

Cash and cash equivalents	$ 174,469	$
Receivable due on research contract	285,677	
Receivable from officer	35,880	
Employee receivable	-	
Prepaid expense	-	
TOTAL CURRENT ASSETS	496,026	
FIXED ASSETS		
Property and equipment, net of accumulated depreciation	2,708	
OTHER ASSETS		
Intangible assets:		
Patents and other, subject to amortization	15,200	
Refundable deposit	2,348	
TOTAL OTHER ASSETS	17,548	
TOTAL ASSETS	$ 516,282	$

See accompanying notes

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

		December 31, 2001 (Restated)	
LIABILITIES AND STOCKHOLDERS' (DEFICIT)			
CURRENT LIABILITIES			
Legal fees payable	$	282,950	$
Fees payable to R&D subcontractor		196,043	
Accounting fees payable		42,417	
Other accounts payable		14,326	
Accrued expenses		43,213	
Accrued officer wages		70,000	
Notes payable - current portion		25,688	
Payable on research and development sponsorship		422,653	
Loans payable - others		57,406	
TOTAL CURRENT LIABILITIES		1,154,696	
LONG-TERM DEBT		-	
STOCKHOLDERS' EQUITY (DEFICIT)			
Class A Common Stock, $.001 par value, authorized 399,700,000 shares, issued and outstanding 42,433,378 at December 31, 2001 and 109,228,185 shares at December 31, 2002, Shares held in reserve 60,000,000 at December 31, 2001 and 101,602,800 at December 31, 2002		42,433	
Class B Common Stock, $.001 par value, authorized 300,000 Shares, issued and outstanding 100,000 shares at December 31, 2001, and 300,000 at December 31, 2002		100	
Preferred stock, $.001 par value, authorized 50,000,000 Shares, issued and outstanding 337,471 shares at December 31, 2001, and 480,721 shares issued and outstanding at December 31, 2002		337	
Additional paid in capital		8,851,436	
Less notes receivable - common stock		(731,549)	
Deficit accumulated during the development stage		(8,801,171)	
TOTAL STOCKHOLDERS' (DEFICIT)		(638,414)	
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$	516,282	$

See accompanying notes

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

	For the Year Ended December 31		
	2000	2001	
	(Restated)	(Restated)	
REVENUES			
Sale of fatigue fuses	$ -	$ -	$
Sale of royalty interests	-	-	
Research and development revenue	635,868	1,579,823	
Test services	-	-	
TOTAL REVENUES	635,868	1,579,823	
COSTS AND EXPENSES			
Research and development	496,501	1,493,628	
General and administrative	1,381,047	3,632,769	
TOTAL COSTS AND EXPENSES	1,877,548	5,126,397	
INCOME (LOSS) FROM OPERATIONS	(1,241,680)	(3,546,574)	
OTHER INCOME (EXPENSE)			
Interest income	103,419	102,283	
Interest expense	(60,634)	(70,468)	
Loss on abandonment of interest in joint venture	-	(33,000)	
TOTAL OTHER INCOME	42,785	(1,185)	
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND PROVISION FOR INCOME TAXES	(1,198,895)	(3,547,759)	
PROVISION FOR INCOME TAXES	(800)	(800)	
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(1,199,695)	(3,548,559)	
EXTRAORDINARY ITEMS			
Forgiveness of indebtness	-	-	
NET INCOME (LOSS)	$ (1,199,695)	$ (3,548,559)	$
PER SHARE DATA			
Basic income (loss) before extraordinary item	$ (0.06)	$ (0.11)	$
Basic extraordinary items	-	-	

BASIC NET INCOME (LOSS) PER SHARE	$ (0.06)	$ (0.11)	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	18,900,019	33,640,393	

See accompanying notes

Material Technologies, Inc.
(A Development Stage Company)
Statement of Stockholders' Equity (Deficit)

	Class A Common		Class B Common		Preferred St	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding	A
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)	-	-	-

See accompanying notes and independant accountants' report.

Material Technologies, Inc.
(A Development Stage Company)
Statement of Stockholders' Equity (Deficit)

	Class A Common		Class B Common		Preferred St
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding
Net (Loss), Year Ended December 31, 1985	-	-	-	-	-
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	2,544	3	-	-	-
Services Rendered	3,179	3	-	-	-
Net (Loss), Year Ended December 31, 1988	-	-	-	-	-
Balance, January 1, 1989	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	-	-	-

See accompanying notes and independant accountants' report.

Material Technologies, Inc.
(A Development Stage Company)
Statement of Stockholders' Equity (Deficit)

	Class A Common		Class B Common		Preferred St
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding
Services Rendered	6,480	7	-	-	-
Net Income, Year Ended December 31, 1990	-	-	-	-	-
Balance January 1, 1991	93,071	93	-	-	-
Issuance of Common Stock					
Sale of Stock	647	1	-	-	350,000
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	350,000
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	350,000
Issuance of Common Stock					
Licensing Agreement	12,500	13	-	-	-
Services Rendered	67,030	67	-	-	-

See accompanying notes and independant accountants' report.

Material Technologies, Inc.
(A Development Stage Company)
Statement of Stockholders' Equity (Deficit)

	Class A Common		Class B Common		Preferred St	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding	A
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	350,000	
Adjustment to Give Effect to Recapitalization on 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	350,000	
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	350,000	
Issuance of Shares for Services Rendered	164,666	165	-	-	-	

See accompanying notes and independant accountants' report.

Material Technologies, Inc.
(A Development Stage Company)
Statement of Stockholders' Equity (Deficit)

	Class A Common		Class B Common		Preferred St
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding
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	350,000
Sale of Stock	100,000	100	-	-	-
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	350,000
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	-	-	-

See accompanying notes and independant accountants' report.

Material Technologies, Inc.
(A Development Stage Company)
Statement of Stockholders' Equity (Deficit)

	Class A Common		Class B Common		Preferred St
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding
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	350,000
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 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	350,000
Issuance of Shares for Services Rendered - as restated	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					

See accompanying notes and independant accountants' report.

Material Technologies, Inc.
(A Development Stage Company)
Statement of Stockholders' Equity (Deficit)

Class A Common		Class B Common		Preferred St
Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding

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	-	-	(12,529)
Net (Loss) for the Year Ended December 31, 2000 - restated	-	-	-	-	-
Balance December 31, 2000 - restated	24,618,167	$ 24,618	100,000	$ 100	337,471
Issuance of Shares for Services Rendered - restated	6,185,000	6,185	-	-	-
Shares Issued for Cash	4,932,358	4,932	-	-	-
Shares Issued in Connection with Private Offering	697,853	698	-	-	-
Shares Issued to Officer	6,000,000	6,000	-	-	-
Net (Loss) for the Year Ended December 31, 2001 - restated	-	-	-	-	-
	42,433,378	$ 42,433	100,000	$ 100	337,471
Issuance of Shares for Services Rendered	21,835,018	21,835	-	-	-
Issuance of Shares to University of Pennsylvania	1,096,476	1,096			
Shares issued in settlement of lawsuit	1,397,200	1,398	-	-	-

See accompanying notes and independant accountants' report.

Material Technologies, Inc.
(A Development Stage Company)
Statement of Stockholders' Equity (Deficit)

	Class A Common		Class B Common		Preferred St
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding
Shares Issued for Cash	28,046,766	28,047	-	-	143,250
Offering costs			-	-	-
Shares issued in canellation of President's interest in patents	-	-	200,000	200	-

Cancellation of shares in stock grant	(1,322,000)	(1,322)				
Shares issued to Company's president for past compensation	13,000,000	13,000				
Shares Issued in Connection with Private Offering	2,741,347	2,741	-	-	-	
Net (Loss) for the Year Ended December 31, 2002	-	-	-	-	-	
Balance - December 31, 2002	109,228,185	$ 109,228	300,000	$ 300	480,721	$

See accompanying notes and independant accountants' report.

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

	For the Year Ended December 31,		
	2000 (Restated)	2001 (Restated)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (1,199,695)	$ (3,548,559)	$
Adjustments to reconcile net income (loss) to net cash provided (used) in operating activities			

Depreciation and amortization	2,948	3,755
Accrued interest income	(98,557)	(98,298)
Gain on sale of securities	-	-
Charge off of investment in joint venture	-	33,000
Officers' and directors compensation on stock subscription modification	-	1,500,000
Issuance of common stock to officer for past services		
Charge off of deferred offering costs	-	-
Charge off of long-lived assets due to impairment	-	-
Modification of royalty agreement	-	-
Gain on foreclosure	-	-
(Increase) decrease in accounts receivable	112,364	(255,073)
(Increase) decrease in employee advances	-	-
(Increase) decrease in prepaid expense	-	(212)
Loss on sale of equipment	-	-
Issuance of common stock for services	828,699	1,932,336
Issuance of stock for agreement modification	-	-
Forgiveness of Indebtedness	-	-
Increase (decrease) in accounts payable and accrued expenses	8,441	267,742
Increase in legal fees secured by note payable	-	-
Interest accrued on note payables	57,062	67,718
Increase in research and development sponsorship payable	-	-
(Increase) in note for litigation settlement	-	-
(Increase) in Deposits	-	-
TOTAL ADJUSTMENTS	910,957	3,450,968
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(288,738)	(97,591)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From sale of equipment	-	-
Purchase of property and equipment	-	(5,961)
Proceeds from sale of securities	-	-
Purchase of securities	-	-
Proceeds from foreclosure	-	-
Investment in joint ventures	(15,000)	-
Payment for license agreement	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(15,000)	(5,961)

See accompanying notes

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

	For the Year Ended December 31, 2000 (Restated)	2001 (Restated)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock net of offering costs	$ 274,288	$ 366,126	$
Costs incurred in offerings	-	(79,559)	
Sale of common stock warrants	-	-	
Sale of preferred stock	-	-	
Sale of redeemable preferred stock	-	-	
Capital contributions	-	-	
Payment on proposed reorganization	-	-	
Loans From officer	8,000	42,800	
Officer advances and repayments	(39,500)	(53,300)	
Increase in loan payable-others	-	-	
CASH FLOWS FROM FINANCING ACTIVITIES:	242,788	276,067	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(60,950)	172,515	
BEGINNING BALANCE CASH AND CASH EQUIVALENTS	62,904	1,954	
ENDING BALANCE CASH AND CASH EQUIVALENTS	$ 1,954	$ 174,469	$

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. Accounts Receivable

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

b. Allowance for Doubtful Accounts

The allowance for doubtful accounts on accounts receivable is charged to income in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers. Accounts receivable are charged off against the allowance when collectibility is determined to be permanently impaired (bankruptcy, lack of contact, account balance over one year old, etc.).

c. Property and Equipment

Property and equipment are stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed. At the time property and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

Material Technologies, Inc. depreciates its property and equipment as follows:

Financial statement reporting - straight line method as follows:

Machinery	5 years
Computer equipment	3-5 years
Office equipment	5 years

Long-Lived Assets

As of January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposalof Long-Lived Assets," which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

b. 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.

c. Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

d) Fair Value of Financial Instruments

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

e) 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.

f) Revenue Recognition

During 2002, Significantly all of the Company's revenue was derived

from the Company's sub-contract with the United States Air Force relating to the further development of the Electrochemical Fatigue Fuse. Revenue on the sub-contract is recognized at the time services are rendered. The Company bills monthly for services pursuant to this sub-contract at which time revenue is recognized for the period that the respective invoice relates. The objective of the contract with the US Air Force is to further develop and validate a prototype Electrochemical Fatigue Sensor (EFS) to inspect turbine engine blades and components in the disassembled condition as well as without the need to disassemble the engine. The project builds on work performed through previous contracts with the Air Force. As required under the contract and previous contracts with the Air Force, the technical data and /or commercial computer software developed under the contracts will be delivered to the Government with "Other Than Unlimited Rights". Under the contracts, Material Technologies, Inc. has always maintained a proprietary interest in the development of the data and software for commercial use. The sub-contract expired in 2002.

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

g) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers cash and cash equivalents to include all stable, highly liquid investments with maturities of three months or less.

h) Income Taxes

The Company accounts for its income taxes under the provisions of Statement of Financial Accounting Standards 109 ("SFAS 109"). The method of accounting for income taxes under SFAS 109 is an asset and liability method. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

i) Recent Accounting Pronouncements

The FASB recently issued the following statements:

FASB 144 - Accounting for the Impairment or Disposal of Long-Lived Assets
FASB 145 - Rescission of FASB Statements 4, 44 and 64 and Amendment of FASB 13
FASB 146 - Accounting for Costs Associated with Exit or Disposal Activities
FASB 147 - Acquisitions of Certain Financial Institutions
FASB 148 - Accounting for Stock-Based Compensation

These FASB statements did not have, or are not expected to have, a material impact on the Company's financial position and results of operations.

Note 3 - Accounts Receivable

Accounts receivable consists entirely of amounts due under the Company's research and development sub-contract and consists of the following:

	December 31, 2001	December 31, 2002
Accounts Receivable	$ 285,677	$ 8,362
Less allowance for doubtful accounts	--	(8,362)
	$ 285,677	$ --

Note 4 - Intangibles

Intangible assets consist of the following:

	Period of Amortization	December 31, 2001	December 31, 2002
Patent Costs	17 Years	$ 28,494	$ 28,494
License Agreement (See Note 4)	17 Years	6,250	6,250

Website	5 Years	5,200	5,200
		39,944	39,944
Less Accumulated Amortization		(24,744)	(27,824)
		$ 15,200	$ 12,120

Amortization charged to operations for 2000, 2001, and 2002 were $1,989, and $2,249, and 3,080 respectively.

Estimated amortization expense for the remaining life of the contract is as follows:

2003	$2,116
2004	$2,116
2005	$2,116
2006	$1,856
2007	$1,076

Note 5 - 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 state of fatigue damage in a metal structural member. 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 17 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 2000, 2001, and 2002, relating to this obligation was $54,638, $64,472, and $76,078, respectively. The balance of the note at December 31, 2001, and 2002, was $422.653 and $498,731, respectively,

As of December 31, 2001, the Company was required to issue an 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. As indicated, the Note matured on December 16, 2001 and the Company has not made any payments and under the terms of the agreement is in default.

Note 6 - Property and Equipment

The following is a summary of property and equipment:

	December 31, 2001	December 31, 2002
Office and computer equipment	$ 24,142	$ 24,142
Manufacturing equipment	100,067	129,675
	124,209	153,817
Less: Accumulated Depreciation	(121,501)	(126,168)
	$ 2,708	$ 27,649

Depreciation charged to operations was $959, and $1,044, and $4,667, in 2000, 2001, and 2002, respectively. The Company's equipment has been pledged as collateral on the agreement with Advanced Technology Center (See Note 9(b)).

Note 7 - 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. The loan has not been paid and is now in default.

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, 2001, and 2002, was $57,237, and $58,859, respectively. Interest charged to operations for 2000, 2001 and 2002 was $3,245, $3,246, and $1,622, 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 2000, 2001, and 2002, 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 8 - 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. The allowance for 2000, 2001 and 2002 was $1,199,695, $3,548,559, and $3,852,296, respectively. As of December 31, 2002, the Company has unused operating loss carryforwards, which may provide future tax benefits in the amount of $12,653,467 which expire in various years through 2022.

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 9 - 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, 2001, and 2002, the future royalty commitment was limited to $227,149 and $252,136, 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, 2001, and 2002, the total future royalty commitments, including the accumulated 26% annual rate of return, were limited to approximately $1,725,234, and $2,173,795, 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"), 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. 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 9(b) and (c) above.

h. Operating Leases

The Company leases its existing office under a non-cancelable lease, which expires on June 30, 2003.

Rental expense charged to operations for the years ended December 31, 2000, 2001, and 2002 was approximately $23,129, $29,468, and $28,176 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 2003	$ 11,740

i. Straight Documentary Credit

On October 10, 2001, the Company entered into an arrangement whereby Allied Boston Group will provide the Company with a Straight Documentary Credit (a letter of 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. Further, this shares can not be voted on by Allied Boston until such time as the credit has been funded. Therefore as these shares can not be sold or voted, the Company treats the shares issued, held in reserve, and not outstanding.

As of the balance sheet date, the Credit has not been funded, however the Company is in discussions with funding sources.

j) Litigation

In July 2002, the Company settled its pending lawsuit with Mr. Beck. Under the terms of the settlement, Mr. Beck received 1,000,000 shares of the Company common stock. The shares to be issued are non-dilutive for a period of five years.. The Company valued the shares issued to Mr. Beck at $40,000, the quoted price of the shares on date of issuance was charged to operations, accordingly.

In addition, pursuant to the agreement that the Company had with the attorneys who represented it in this matter, a contingent fee of $1,481,895 became due them upon the settlement of the case. This fee, however, is payable out of the Company's earnings derived before interest, taxes, depreciation and amortization (EBIDA), limited each year to 25% of EBIDA. Unpaid amounts owed towards the fee accrue interest at a rate of 6% per annum until paid in full. The balance of this obligation at December 31 2002 including accrued interest is $1,519,166. Interest charged to operations for 2002 totaled $37,271.

As the amounts due the attorneys are paid out of profits and amounts paid annually are limited as indicated, management does not believe that the liability to the attorneys will have any impact on the Company's ability to continue operating. However, payments made to the attorneys will obviously have a impact on the Company's future cash flow that could limit the amounts spent on future projects or expansion.

Note 10 - Investments

a) The Company owns 65,750 shares of Class A Common Stock of Tensiodyne Corporation. At December 31, 2002, 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 11 - 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. Class C Preferred Stock

During 2002, the Company sold to its legal counsel 143,250 shares of its Class C preferred stock for $141,250. These shares are convertible to shares of the Company's common stock at a conversion price of $.50 per share. The shares accrue interest at 8% payable out of earnings before income tax, depreciation, and amortization. The accrued interest is cumulative. Dividends accrued but not actually payable at December 31, 2002 totaled $4,022.

e. Issuances Involving Non-cash Consideration

All issuances of the Company's stock for non-cash consideration have been assigned a dollar amount equaling the quoted market price of the shares at date of issuance.

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 $59,375. 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 $26,563. On February 28, 2000, the Company issued 200,000 of common stock to a consultant for financial services. These shares were valued at $381,250. Also on February 28, 2000, the Company issued 4,500 of common stock to a public relations consultant. These shares were valued at $8,578. 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 $140,625. 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 $81,250. 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 $15,469. On April 11, 2000, the Company issued 25,000 shares of common stock for advisory services. These shares were valued at $25,781. On April 28, 2000, the Company issued 30,000 shares of common stock for advisory services. These shares were valued at $26,250. 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 $21,875. 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 $37,500. 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 $18,800. 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 $9,400. 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 $31,200. 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 $12,500. On March 6, 2001, the Company issued its President 6,000,000 shares of common stock for services rendered. These shares were valued at $1,128,000. On April 6, 2001, the Company issued a consultant 200,000 shares of its common stock for services rendered. These shares were valued at $21,800. On April 17, 2001, the Company issued a consultant 250,000 shares of its common stock for services rendered. These shares were valued at $22,500. 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 $9,000. On May 3, 2001, the Company issued to one of its employee's 100,000 shares of its common stock for services rendered on the Company's research project. These shares were valued at $9,000. Also May 3, 2001, the Company issued a consultant 100,000 shares of its common stock for services rendered. These shares were valued at $9,000. 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. The balance due for the services. 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 $2,750. 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 $5,000. On July 26, 2001, the Company issued a consultant 200,000 shares of its common stock for services rendered. These shares were valued at $26,000. On August 6, 2001, the Company issued a consultant 125,000 shares of its common stock for services rendered. These shares were valued at $16,250. On August 9, 2001, the Company issued an attorney 265,000 shares of its common stock for services rendered. These shares were valued at $39,750. 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 $42,000. On September 6, 2001, the Company issued a consultant 37,500 shares of its common stock for services rendered. These shares were valued at $3,750. On September 14, 2001, the Company issued a consultant 50,000 shares of its common stock for services rendered. These shares were valued at $5,000. On September 19, 2001, the Company issued a consultant 125,000 shares of its common stock for services rendered. These shares were valued at $11,250. 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 $102,000. On October 16, 2001, the Company issued a consultant 50,000 shares of its common stock for services rendered. These shares were valued at $4,560. 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 $4,000. On October 23, 2001, the Company issued an attorney 150,000 shares of its common stock for services rendered. These shares were valued at $33,000. On October 25, 2001, the Company issued 697,853 as additional fees pertaining to its Regulation S offering.. These shares were valued at $118,635. 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 $56,000. On November 14, 2001, the Company issued a consultant 150,000 shares of its common stock for services rendered. These shares were valued at $33,000. 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 $16,125. 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 $90,325.

The value assigned to shares issued for services were charged to operations. Additional shares issued to the University of Pennsylvania were issued pursuant to a non-dilution provision of the agreement between the Company and the University and were valued at par and charged against paid-in capital. Shares issued in cancellation of indebtedness were charged against the balance of the debt owed, and shares issued relating to the Regulation S offering were charged against the related proceeds received.

On January 11, 2002, the Company issued a consultant 20,000 shares of its common stock for services rendered. These shares were valued at $3,200. On January 30, 2002, the Company issued a consultant 15,000 shares of its common stock for services rendered. These shares were valued at $2,850. On February 13, 2002, the Company issued 4,000 shares its common stock for clerical services rendered. These shares were valued at $760. On February 14, 2002, the Company issued a consultant 300,000 shares of its common stock for services rendered. These shares were valued at $72,000. On March 4, 2002, the Company issued its executive assistant 25,000 shares of its common stock. These shares were valued at $6,750. Also on March 4, 2002, the Company issued to six individuals a total of 650,000 shares of its common stock for consulting services rendered. These shares were valued at $175,500. On March 15, 2002, the Company issued 150,000 shares of its common stock for consulting services rendered. These shares were valued at $37,500. On March 18, 2002, the Company issued 150,000 shares of its common stock for consulting services rendered. These shares were valued at $22,500. On March 19, 2002, the Company issued to 125,000 shares of its common stock for legal services rendered. These shares were valued at $20,000. On April 2, 2002, the Company issued to two members of its advisory board a total of 469,918 shares of its common stock for consulting services rendered. These shares were valued at $65,789. On April 2, 2002, the Company issued its executive assistant 25,000 shares of its common stock. These shares were valued at $3,500. On April 4, 2002, the Company issued to 120,000 shares of its common stock for legal services rendered. These shares were valued at $16,800. On April 4, 2002, the Company issued 4,000 shares its common stock for clerical services rendered. These shares were valued at $560. On April 10, 2002, the Company issued to 42,100 shares of its common stock for legal services rendered. These shares were valued at $5,473. On April 12, 2002, the Company issued to 105,000 shares of its common stock for legal services rendered. These shares were valued at $14,000. On April 25, 2002, the Company issued 550,000 shares of its common stock for consulting services rendered. These shares were valued at $49,500. On May 10, 2002, the Company issued 215,000 shares of its common stock for legal services rendered. These shares were valued at $32,250. On May 10, 2002, the Company issued 115,000 shares of its common stock for legal services rendered. These shares were valued at $17,250. On May 21, 2002, the Company issued 400,000 shares of its common stock for consulting services rendered. These shares were valued at $36,000. On May 22, 2002, the Company issued 1,000,000 shares of its common stock for legal services rendered. These shares were valued at $90,000. On June 5, 2002, the Company issued 150,000 shares of its common stock for consulting services rendered. These shares were valued at $9,000. On June 5, 2002, the Company issued 50,000 shares of its common stock for legal services rendered. These shares were valued at $3,000. On June 6, 2002, the Company issued 50,000 shares of its common stock for consulting services rendered. These shares were valued at $3,000. On July 3, 2002, the Company issued 1,000,000 shares of its common stock for legal services rendered. These shares were valued at $50,000. On July 3, 2002, the Company issued 250,000 shares of its common stock for consulting services rendered. These shares were valued at $12,500. On July 8, 2002, the Company issued 200,000 shares of its common stock

for legal services rendered. These shares were valued at $8,000. On July 8, 2002, the Company issued 200,000 shares of its common stock for consulting services rendered. These shares were valued at $8,000. On July 26, 2002, the Company issued 1,000,000 shares of its common stock for consulting services rendered. These shares were valued at 40,000. On August 5, 2002, the Company issued 1,000,000 shares of its common stock to an employee for services rendered in connection for the development of the fatigue fuse. These shares were valued at $40,000. On August 5, 2002, the Company issued 1,230,000 shares of its common stock for legal services. These shares were valued at $49,200. On August 14, 2002, the Company issued 1,000,000 shares of its common stock for legal services. These shares were valued at $40,000. On August 29, 2002, the Company issued 1,000,000 shares of its common stock for legal services. These shares were valued at $30,000. On September 5, 2002, the Company issued 300,000 shares of its common stock for consulting services rendered. These shares were valued at $6,000. On September 5, 2002, the Company issued 75,000 shares of its common stock for legal services. These shares were valued at $1,500. On September 10, 2002, the Company issued 2,000,000 shares of its common stock for consulting services. These shares were valued at $60,000. On September 11, 2002, the Company issued 1,000,000 shares of its common stock for legal services. These shares were valued at $20,000. On September 12, 2002, the Company issued 2,500,000 shares of its common stock for legal services. These shares were valued at $50,000. On October 7, 2002, the Company issued 2,500,000 shares of its common stock for consulting services. These shares were valued at $75,000. On October 9, 2002, the Company issued its executive assistant 50,000 shares of its common stock. These shares were valued at $1,500. On October 29, 2002, the Company issued 250,000 shares of its common stock for consulting services. These shares were valued at $5,000. On December 6, 2002, the Company issued 650,000 shares of its common stock for consulting services. These shares were valued at $19,500. On December 6, 2002, the Company issued 250,000 shares of its common stock for legal services. These shares were valued at $7,500.. On December 16, 2002, the Company issued 1,000,000 shares of its common stock to a member of the Company's advisory board. These shares were valued at $30,000. On December 17, 2002, the Company issued 1,000,000 shares of its common stock for legal services. These shares were valued at $30,000. On December 18, 2002, the Company issued 13,000,000 shares of its common stock to its president for past compensation due hom. These shares were valued at $260,000.

The value assigned to shares issued for services were charged to operations. Shares issued for legal services included services rendered in connection with the Beck matter as discussed and preparation of the Company's registration statement. During 2002, the Company issued 2,042,080 shares of Class A Common Stock as additional consideration in connection with the Company's Regulation S offering. In addition, the Company issued 200,000 shares of the Company's Class B common shares to its President in consideration for the relinquishment of his total interest in the Company's patents. In addition, during 2002, the Company cancelled 450,000 shares of its common stock previously issued to consultants. The value assigned to these cancelled shares was $48,250 was credited against operations.

The Company also issued 1,397,500 shares of its Class A Common Stock to Mr. Stephen Beck pursuant to the anti-dilution provisions of the settlement agreement (see note 9(j)). During 2002, the Company cancelled 1,322,000 shares of originally issued to Mr. Bernstein pursuant to the Stock Escrow/Grant Agreement.

Note 12 - 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. 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.

c. 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.

d. 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 their market value when issued and charged to operations as compensation. As of December 31, 2002, 1,150,000 of these shares were issued to an unrelated third party.

The original issuance of these shares had no impact on the financial condition of the Company. As shares are issued out of escrow, the Company will value the shares at their fair market value or the value of the consideration received for the shares, whichever is more readably determinable. Currently, any shares issued to the President are contingent as discussed above.

e. On February 19, 2001, the Company issued its President 6,000,000 shares of common stock for services rendered. These shares were valued at $1,128,000.

f. 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 as compensation to the President.

g. 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.

h. During 2002, the Company issued 200,000 shares of its Class B common stock in exchange for the Company's President relinquishing all of the interest that he had in the Company's patents.

i. On December 18, 2002, the Company issued 13,000,000 shares of its common stock to its president for past compensation due hom. These shares were valued at $260,000.

j. During 2002, the Company cancelled 1,322,000 shares of originally issued to Mr. Bernstein pursuant to the Stock Escrow/Grant Agreement.

k. During 2002, the Company made advances to its President amounting to $34,826. The outstanding amount due from the President as of December

31, 2001 and 2002, is $35,880 and $76,109. The amount of interest credited to operations for 2001 and 20002 was $3,327 and $6,682, respectively.

Note 13 - Stock-Based Compensation Plans
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a. In 1996, the Company adopted the 1996 Stock Option Plan and during the year issued 70,000 shares of common stock through the plan for $174,040. The plan was transferred in the July 1997 spin off to Securephone, Inc.

b. In 1998, the Company adopted the 1998 Stock Option Plan and reserved a total of 1,700,000 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 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 60,000 shares for consulting services. The Company charged the fair value of the 60,000 shares of $6,000 to operations. The remaining 340,000 options were cancelled.

   In 1999, the Company granted options to acquire 750,000 shares of Common Stock through the Plan. During 1999 the Company issued 100,000 shares in exchange of a $35,000 non-interest bearing promissory note. The remaining 650,000 options were cancelled. The Company did not issue any shares in 1999 under the Plan.

c. In 1998, the Company also adopted the 1988 Stock Plan and reserved a total of 800,000 shares of common stock for distribution under the plan. In 2000, the Company increased the number of shares reserved to 6,800,000. 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 1998, the Company issued 310,000 share of common stock through the plan to various consultants for services rendered. The 310,000 shares were valued at $31,000. In 2000, the Company issued options for the issuance of 5,490,000 shares of common stock under the plan of which 4,650,000 shares were issued to its President and 350,000 shares were issued to its Secretary. The 4,650,000 shares were issued in exchange for $4,650 with the remaining balance due of $1,855,350 evidenced by an unsecured non-recourse promissory note bearing interest at an annual rate of 8%. The 350,000 shares were issued in exchange for $350 with the remaining balance due of $139,500 evidenced by an unsecured non-recourse promissory note bearing interest at an annual rate of 8%. In 2001, the balance of the two notes were reduced to $495,000 (See Tansactions with Management - Note 12c and f). Also in 2000, the Company issued 215,000 shares through the plan to various consultants. The 215,000 shares were valued at $124,500 and charged to operations. The options to acquire 275,000 shares were subsequently cancelled.

d. 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, date of grant or such other day as the Board may determine. During 2002, the Company issued options to acquire 13,475,000 shares of the Company's common stock of which non were exercised in 2002.

The following is a summary of the various plans' activities :

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	1998 Stock Plan		2002 Stock Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding Dec 31, 2000	275,000	$ 0.60	-	$ -
Granted	-	$ -	-	$ -
Exercised	-	$ -	-	$ -
Forfieted	-	$ -	-	$ -
Cancelled	-	$ -	-	$ -
Outstanding Dec 31, 2001	275,000	$ 0.60		
Granted	-	$ -	13,475,000	$ 0.06
Exercised	-	$ -	-	$ -
Forfieted	(275,000)	$ (0.60)	-	$ -
Cancelled	-	-	-	$ -
Outstanding Dec 31, 2002	-	$ -	13,475,000	$ 0.06

Weighted Average Fair Value of Options Granted During 200	$0.42
Weighted Average Fair Value of Options Granted During 2001	n/a
Weighted Average Fair Value of Options Granted During 2002	$0.01

In determining the fair value of the options granted during the respective years, the Black Scholes Option Pricing Model was used with the following assumptions determined:

	2000	2001	2002
Risk free interest rate:	5%	n/a	4%
Expected life:	3 years	n/a	1.5 years
Expected volatility	80%	n/a	34%

Note 14. Adjustments to Prior Periods

For the years 2000 and 2001, the Company changed its method in determining the value of the shares of stock it issued for non-monetary consideration to the quoted market price of the shares on date of issue. In addition, in 2001, the Company changed the life of its license for amortization purposes to 17 years. The adjustments are a result of correction of an error. The following is a reconciliation of net loss as restated for the 2000 and 2001 two years.

	2000	2001
Net loss as originally reported	$ (459,129)	$ (2,432,638)
Increase in operating loss due to changes in valuation of non-monetary consideration and amortization	(740,566)	(1,115,921)
Net loss as adjusted	$ (1,119,695)	$ (3,548,559)
Loss Per Share - as originally reported	$ (.02)	$ (.07)
Change due to adjustment	(.04)	(.04)
Loss per share as adjusted	$ (.06)	$ (.11)

Note 15 - Management's Discussion on Future Operations

Since its inception, the Company has had recurring losses totaling

$12,653,467. The Company has enough cash resources to meet its obligation for the next six-months. The Company is attempting to raise additional funding through the offering of its convertible preferred stock in a private placement. Management is also attempting to seek additional funding through debt offerings.