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Documents incorporated by reference-None.

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

=====

| | December 31, 2000 | | September 30, 2001 | |
|-------------------------------------|----------------------|----|-----------------------|-------------|
| | ----- | | ----- | (Unaudited) |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and Cash Equivalents | \$ 1,954 | \$ | 101,610 | |
| Receivable Due on Research Contract | 33,932 | | 186,183 | |
| Receivable from Officer | 22,052 | | 38,328 | |
| | ----- | | ----- | |

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| | | |
|-----------------------------|------------|------------|
| TOTAL CURRENT ASSETS | 57,938 | 326,121 |
| | ----- | ----- |
| FIXED ASSETS | | |
| Property and Equipment, Net | | |
| of Accumulated Depreciation | 2,990 | 2,272 |
| | ----- | ----- |
| OTHER ASSETS | | |
| Intangible Assets, Net of | | |
| Accumulated Amortization | 12,712 | 16,821 |
| Investments | 33,000 | 33,000 |
| Refundable Deposit | 2,136 | 2,136 |
| Deferred Offering Costs | - | 4,000 |
| | ----- | ----- |
| TOTAL OTHER ASSETS | 47,848 | 55,957 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 108,776 | \$ 384,350 |
| | ===== | ===== |

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

| | December 31, 2000 | September 2001 |
|--|----------------------|-------------------|
| | ----- | ----- |
| | | (Unaudited) |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Legal Fees Payable | \$ 209,306 | \$ 214,000 |
| Fees Payable to R&D Subcontractor | 20,474 | 133,000 |
| Consulting Fees Payable | 50,000 | 29,000 |
| Accounting Fees Payable | 26,288 | 29,000 |
| Other Accounts Payable | 10,157 | 2,000 |
| Accrued Expenses | 24,982 | 42,000 |
| Accrued Officer Wages | 40,000 | 80,000 |
| Notes Payable - Current Portion | 25,688 | 25,000 |
| Loans Payable - Others | 54,160 | 56,000 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 461,055 | 584,000 |
| Payable on Research and Development Sponsorship | 358,181 | 406,000 |
| | ----- | ----- |
| TOTAL LIABILITIES | 819,236 | 990,000 |
| | ----- | ----- |

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STOCKHOLDERS' (DEFICIT)

| | | |
|---|-------------|---------|
| Class A Common Stock, \$.001 Par Value, Authorized 199,000,000 Shares, Outstanding 24,618,167 at December 31, 2000, and 37,239,214 shares at September 30, 2001 | 24,618 | 37 |
| Class B Common Stock, \$.001 Par Value, Authorized 100,000 Shares, Outstanding 100,000 Shares at December 31, 2000, and September 30, 2001 | 100 | |
| Class A Preferred, \$.001 Par Value, Authorized 50,000,000 Shares Outstanding 337,471 Shares at December 31, 2000 and September 30, 2001 | 337 | |
| Additional Paid in Capital | 5,909,782 | 6,744 |
| Less Notes Receivable - Common Stock | (2,133,251) | (720) |
| Deficit Accumulated During the Development Stage | (4,512,046) | (6,668) |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' (DEFICIT) | (710,460) | (606) |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) | 108,776 | 384 |
| | ===== | ===== |

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MATERIAL TECHNOLOGIES, INC.
(A Development Stage Company)
Statement of Operations

| | For the Three Months Ended September 30, | | For th |
|----------------------------------|--|-------------|-----------|
| | 2000 | 2001 | 2000 |
| | (Unaudited) | (Unaudited) | (Unaudite |
| REVENUES | | | |
| Sale of Fatigue Fuses | \$ - | \$ - | \$ |
| Sale of Royalty Interests | - | - | |
| Research and Development Revenue | 143,781 | 427,004 | 601,9 |
| Test Services | - | - | |
| | ----- | ----- | ----- |
| TOTAL REVENUES | 143,781 | 427,004 | 601,9 |
| | ----- | ----- | ----- |
| COSTS AND EXPENSES | | | |
| Research and Development | 100,051 | 356,706 | 433,4 |
| General and Administrative | 117,477 | 258,597 | 443,7 |
| | ----- | ----- | ----- |
| TOTAL COSTS AND EXPENSES | 217,528 | 615,303 | 877,2 |
| | ----- | ----- | ----- |
| (LOSS) FROM OPERATIONS | (73,747) | (188,299) | (275,2 |
| | ----- | ----- | ----- |
| OTHER INCOME (EXPENSE) | | | |
| Expense Reimbursed | - | - | |
| Interest Income | 39,128 | 11,487 | 61,6 |

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| | | | |
|--|-------------|--------------|----------|
| Gain on Sale of Stock | - | - | 251,7 |
| Gain on Foreclosure | - | - | |
| Miscellaneous Income | - | - | |
| Modification of Royalty Agreement | - | - | |
| Loss on Sale of Equipment | - | - | |
| Interest Expense | (15,158) | (17,617) | (45,5 |
| Settlement of Teaming Agreement | - | - | |
| Litigation Settlement | - | - | |
| | ----- | ----- | ----- |
| TOTAL OTHER INCOME (EXPENSE) | 23,970 | (6,130) | 267,8 |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND PROVISION FOR INCOME TAXES | (49,777) | (194,429) | (7,4 |
| PROVISION FOR INCOME TAXES | - | - | (2,5 |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS | (49,777) | (194,429) | (9,9 |
| EXTRAORDINARY ITEMS | | | |
| Forgiveness of Debt | - | - | |
| Utilization of Operating Loss Carry forward | - | - | |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) | \$ (49,777) | \$ (194,429) | \$ (9,9 |
| | ===== | ===== | ===== |
| PER SHARE DATA | | | |
| Basic Income (Loss) Per Share Before Extraordinary Item Extraordinary Items | (0.00) | \$ (0.01) | (0. |
| | - | - | |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) | (0.00) | \$ (0.01) | (0. |
| | ===== | ===== | ===== |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 20,324,413 | 35,127,551 | 17,483,3 |
| | ===== | ===== | ===== |

See accompanying Notes

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

| | For the Three Months Ended | | For th |
|---|----------------------------|--------------|---------|
| | September 30, | | |
| | 2000 | 2001 | 200 |
| | ----- | ----- | ----- |
| | (Unaudited) | (Unaudited) | (Unaudi |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net (Loss) | \$ (49,777) | \$ (194,429) | \$ (9 |
| | ----- | ----- | ----- |
| Adjustments to Reconcile Net (Loss) to Net Cash Provided (Used) by Operating Activities | | | |
| Depreciation and Amortization | 737 | 738 | 2 |

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| | | | |
|--|-----------|----------|-------|
| Interest Income on Stock Subscriptions Receivable | (39,790) | (11,488) | (57) |
| Officer's Compensation on Stock Subscription Modification | - | - | - |
| Bad Debt | - | - | - |
| Gain on Sale of Marketable Securities | - | - | - |
| Gain on Real Estate Foreclosure | - | - | - |
| Charge off of Deferred Offering Costs | - | - | - |
| Charge off of Long-lived Assets Due Impairment | - | - | - |
| Charge off of Deferred Offering Costs | - | - | - |
| Loss on Sale of Equipment | - | - | - |
| Issuance of Common Stock for Services | 16,000 | 120,250 | 61 |
| Issuance of Stock for Agreement Modification | - | - | - |
| Forgiveness of Indebtedness | - | - | - |
| (Increase) Decrease in Accounts Receivable | 136,791 | 81,108 | 141 |
| (Increase) Decrease in Prepaid Expenses | (50,000) | - | (50) |
| Increase (Decrease) in Accounts Payable and Accrued Expenses | (123,788) | (85,145) | (109) |
| Interest Accrued on Note Payable | 703 | 811 | 2 |
| Increase in Research and Development Sponsorship Payable | 13,659 | 16,118 | 40 |
| (Increase) in Note for Litigation Settlement | - | - | - |
| (Increase) in Deposits | - | - | - |
| | ----- | ----- | ----- |
| TOTAL ADJUSTMENTS | (45,688) | 122,392 | 31, |
| | ----- | ----- | ----- |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (95,465) | (72,037) | 21 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds From Sale of Equipment | - | - | - |
| Proceeds from Sale of Marketable Securities | - | - | - |
| Purchase of Marketable Securities | - | - | - |
| Investment in Joint Venture | - | - | (15) |
| Purchase of Property and Equipment | - | (5,600) | - |
| Net Proceeds from Sale of Real Estate | - | - | - |
| Payment for License Agreement | - | - | - |
| | ----- | ----- | ----- |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | - | (5,600) | (15) |
| | ----- | ----- | ----- |

See accompanying Notes

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--------------------------------------|----------------------------|-------------|---------------------------|-------------|
| | September 30, | | September 30, | |
| | 2000 | 2001 | 2000 | 2001 |
| | ----- | ----- | ----- | ----- |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |

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| | | | | | | | | |
|---|----|-----------|------------|----|----------|----|----------|----|
| Issuance of Common Stock | \$ | - | \$ 230,309 | \$ | 5,000 | \$ | 230,309 | \$ |
| Costs incurred in Offering | | - | (47,281) | | - | | (47,281) | |
| Sale of Common Stock Warrants | | - | - | | - | | - | |
| Payment on Proposed Reorganization | | - | - | | - | | - | |
| Sale of Preferred Stock | | - | - | | - | | - | |
| Sale of Redeemable Preferred Stock | | - | - | | - | | - | |
| Capital Contributions | | - | - | | - | | - | |
| Loans From Officers | | - | 500 | | 3,000 | | 14,800 | |
| Repayments to Officer | | (11,000) | (10,000) | | (22,500) | | (28,800) | |
| Increase in Loans - Other | | - | - | | - | | - | |
| | | ----- | ----- | | ----- | | ----- | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | (11,000) | 173,528 | | (14,500) | | 169,028 | |
| | | ----- | ----- | | ----- | | ----- | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | (106,465) | 95,891 | | (8,121) | | 99,656 | |
| BEGINNING BALANCE CASH AND CASH EQUIVALENTS | | 161,248 | 5,719 | | 62,904 | | 1,954 | |
| | | ----- | ----- | | ----- | | ----- | |
| ENDING BALANCE CASH AND CASH EQUIVALENTS | \$ | 54,783 | \$ 101,610 | \$ | 54,783 | \$ | 101,610 | \$ |
| | | ===== | ===== | | ===== | | ===== | |

See accompanying Notes

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

NOTE 1. In the opinion of the Company's management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of the Company as of September 30, 2000 and 2001 and the results of operations and cash flows for the three-month and nine-month periods then ended. The operating results of the Company on a quarterly basis may not be indicative of operating results for the full year.

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

RESULTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 2001

During the nine month period ended September 30, 2000, the Company generated approximately \$915,340 in revenue, which consisted of \$601,936 under its research and development contracts, \$251,798 from the sale of marketable securities, and \$61,606 in interest. Of the \$61,606 in interest

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earned, \$55,572 relates to interest accrued on non-recourse stock subscription receivables due from the Company's President and a Director.

During the nine month period ended September 30, 2001, the Company generated approximately \$1,127,993 in revenue, which consisted of \$1,038,060 under its research, and development contracts, and \$89,933 in interest. Of the total interest earned, \$85,536 relates to interest accrued on non-recourse stock subscription receivables due from the Company's President and a Director.

During the nine month periods ended September 30, 2000 and 2001, the Company incurred approximately \$433,445, and \$828,326, respectively, in development costs all of which related to the above indicated contracts.

General and administration costs were \$443,777, and \$2,402,032, respectively, for the nine-month periods ended September 30, 2000, and 2001. The major expenses incurred during the nine-month period ended September 30, 2000, consisted of \$84,101 in consulting fees, \$90,000 in officer's salary, \$109,315 in professional fees, \$18,855 in rent, \$14,577 in telephone expense, \$28,187 in salaries, office expense of \$21,761, and \$22,491 in travel costs.

The major expenses incurred during the nine-month period ended September 30, 2001, consisted of \$1,500,000 relating to the modification of the amount owed to the Company by its President and a Director on non-recourse stock subscriptions, \$420,000 of prior years' compensation due its President that was paid in stock in 2001, \$147,569 in consulting fees, \$90,000 in officer's salary, \$97,695 in professional fees, \$16,454 in rent, \$11,706 in telephone expense, \$26,200 in office salaries, office expense of \$16,454, and \$25,643 in travel costs

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000 AND 2001

During the three-month period ended September 30, 2000, the Company generated approximately \$182,909 in revenue, which consisted of \$143,781 under its research and development contracts, and interest earned of \$39,128 the majority of which relates to interest accrued on non-recourse stock subscription receivables due from the Company's President and a Director.

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During the three-month period ended September 30, 2001, the Company generated approximately \$438,491 in revenue, which consisted of \$427,004 under its research and development contracts, and interest earned of \$11,487, the majority of which relates to interest accrued on non-recourse stock subscription receivables due from the Company's President and a Director.

During the three-month periods ended September 30, 2000 and 2001, the Company incurred approximately \$100,051, and \$356,706, respectively, in development costs all of which related to the above-indicated contracts.

General and administration costs were \$117,477 and \$258,597, respectively, for the three-month periods ended September 30, 2000 and 2001. The major expenses incurred in 2000, consisted of officer's salaries of \$30,000, office salaries of \$8,928, consulting fees of \$8,591, professional services of \$34,498, rent of \$6,411, office expense of \$6,246, telephone expense of \$5,236, and travel expense of \$3,672.

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The major expenses incurred in 2001, consisted of officer's salaries of \$30,000, office salaries of \$10,617, consulting fees of \$113,066, professional services of \$46,486, rent of \$6,833, office expense of \$13,129, telephone expense of \$6,875, and travel expense of \$16,674.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of September 30, 2000 and 2001 were \$54,783, and \$101,610, respectively. During 2000, the Company received \$841,647 through its research contracts, \$3,000 through advances from its President, \$5,000 through the issuance of Company's common stock, \$251,798 through the sale of stock held for investment, \$3,990 from interest earned on savings, and other receipts totaling \$3,053. Of the \$1,108,488 received, \$1,070,988 was used in operations, \$15,000 was invested in a joint Venture, and \$22,500 was repaid to its President.

During 2001, the Company received \$885,808 through its research contracts, \$14,800 through advances from its President, and \$230,309 through the issuance of Company's common stock. Of the \$1,130,917 received, \$949,580 was used in operations, \$5,600 was used in the development of the Company's website, \$47,281 was used in the selling of the stock and \$28,800 was advanced to its President.

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PART 2. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

On October 12, 2001, the Company's Board of Directors approved an increase in the number of the Company's authorized common shares to 200,000,000 and approved an increase in the Company's authorized preferred shares to 50,000,000. The financial statements have been retroactively restated to reflect the increased number of authorized shares.

In the third quarter 2001, the Company issued a total of 4,396,047 shares of its common stock of which, 3,193,547 shares were issued for cash totaling \$187,028 (net of offering costs of \$43,281), and 1,202,500 shares were issued to various individual for legal and consulting services valued at \$120,250.

In October 2001, the Company issued a total of 5,829,307 shares of its common stock of which, 1,461,307 shares were issued for \$102,105, 300,000 shares were issued to a Director, 20,000 shares were issued to an employee, 350,000 shares were issued to consultants, 3,000,000 shares were issued pursuant to the terms of the Commitment Letter in connection with a \$12,500,000 Straight Documentary Credit from Allied Boston Group, and 698,000 shares were issued for the assistance in raising the funds through the Company's Regulation S offering.

Under the terms of the agreement with the University of Pennsylvania, the University was issued 5% of the Company's outstanding stock. According to the agreement, the shares issued are anti-dilutive. Currently, the Company is required to issue 864,089 additional shares to the University. These additional shares have not been issued.

ITEM 5. OTHER INFORMATION

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On October 10, 2001, the Company entered into an arrangement whereby Allied Boston Group will provide the Company with a Straight Documentary Credit for \$12,500,000. Under the terms of the commitment, the Company will pledge sufficient shares of its common stock to equal 125% of the Straight Documentary Credit. Under the initial terms, the shares are valued at \$.27 per share, therefore the Company will pledge approximately 58 million shares of its common stock against this instrument. 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;

On October 18, 2001, the Company issued 3,000,000 shares of its common stock to Allied Boston as an issuance fee valued at \$812,500. 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

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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 currently at \$.27 per share. 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.

PURSUANT TO THE REQUIREMENTS OF SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

MATERIAL TECHNOLOGIES, INC.

REGISTRANT

/s/ Robert M. Bernstein

ROBERT M. BERNSTEIN, PRESIDENT AND CHIEF
FINANCIAL OFFICER

DATE: OCTOBER 19, 2001

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