

MATECH Corp.
Form 10-Q
May 20, 2009

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 000-23617

Matech Corp.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4622822
(I.R.S. Employer
Identification No.)

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

(310) 208-5589
(Issuer's telephone number)

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 No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 19, 2009, there were 108,061,790 shares of our Class A common stock issued and 31,492,621 outstanding, and 600,000 shares of Class B common stock issued and outstanding.

Transitional Small Business Disclosure Format (Check one): Yes No

MATECH CORP.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

| MATECH CORP | | |
|---|----------------------|----------------------------------|
| (Formerly known as Material Technologies, Inc.) | | |
| (A Development Stage Company) | | |
| CONDENSED CONSOLIDATED BALANCE SHEETS | | |
| | December 31, 2008 | March 31, 2009 (Unaudited) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 176,345 | \$ 219,810 |
| Accounts receivable | 41,961 | 97,977 |
| Inventories | 141,341 | 74,943 |
| Prepaid expenses and other current assets | 359,227 | - |
| Total current assets | 718,874 | 392,730 |
| Property and equipment, net | 78,601 | 71,552 |
| Loan fee, net | - | 144,880 |
| Intangible assets, net | 1,764 | 1,495 |
| Deposit | 2,348 | 2,348 |
| | \$ 801,587 | \$ 613,005 |

See notes to consolidated financial statements.

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| MATECH CORP | | |
|--|----------------------|----------------------------------|
| (Formerly known as Material Technologies, Inc.) | | |
| (A Development Stage Company) | | |
| CONDENSED CONSOLIDATED BALANCE SHEETS | | |
| | December 31, 2008 | March 31, 2009 (Unaudited) |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 670,207 | \$ 924,170 |
| Deferred revenue - related party | 90,000 | 50,000 |
| Loans payable - related party | - | 12,768 |
| Current portion of payable due on legal settlement | 54,033 | 54,772 |
| Current portion of research and development sponsorship payable | 25,000 | 25,000 |
| Current portion of Convertible debentures and accrued interest payable, net of discount | 1,859,325 | 2,301,803 |
| Notes payable | 299,542 | 304,508 |
| Total current liabilities | 2,998,107 | 3,673,021 |
| Legal settlement payable | 155,978 | 143,254 |
| Research and development sponsorship payable, net of current portion | 778,549 | 787,956 |
| Convertible debentures and accrued interest payable, net of discount | 335,834 | 562,767 |
| Derivative and warrant liabilities | 210,497,575 | 329,442,548 |
| | 211,767,936 | 330,936,525 |
| Total liabilities | 214,766,043 | 334,609,546 |
| Minority interest in consolidated subsidiary | 825 | 825 |
| Commitments and contingencies | | |
| Stockholders' deficit: | | |
| Class A preferred stock, \$0.001 par value, liquidation preference of \$720 per share; 350,000 shares authorized; 337 shares issued and outstanding as of December 31, 2008 and March 31, 2009 | - | - |

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| | | |
|--|----------------------|----------------------|
| Class B preferred stock, \$0.001 par value, liquidation preference of \$10,000 per share; 15 shares authorized; 0 shares issued and outstanding as of December 31, 2008 and March 31, 2009 | - | - |
| Class C preferred stock, \$0.001 par value, liquidation preference of \$0.001 per share; 25,000,000 shares authorized; 1,517 shares issued and outstanding as of December 31, 2008 and March 31, 2009 | 1 | 1 |
| Class D preferred stock, \$0.001 par value, liquidation preference of \$0.001 per share; 20,000,000 shares authorized; 0 shares issued and outstanding as of December 31, 2008 and March 31, 2009 | - | - |
| Class E convertible preferred stock, \$0.001 par value, no liquidation preference; 60,000 shares authorized; 49,250 shares issued and outstanding as of December 31, 2008 and March 31, 2009 | 49 | 49 |
| Class A Common Stock, \$0.001 par value, 1,699,400,000 shares authorized; 99,408,963 shares issued and 24,389,794 shares outstanding as of December 31, 2008; 107,416,290 shares issued and 30,847,121 shares outstanding as of March 31, 2009 | 24,390 | 30,847 |
| Class B Common Stock, \$0.001 par value, 600,000 shares authorized, issued and outstanding as of December 31, 2008 and March 31, 2009 | 600 | 600 |
| Warrants subscribed | 10,000 | 10,000 |
| Additional paid-in-capital | 367,125,759 | 368,287,619 |
| Deficit accumulated during the development stage | (581,117,806) | (702,316,656) |
| Treasury stock (24,635 shares at cost at December 31,2008 and 25,448 shares at cost at March 31, 2009) | (8,274) | (9,826) |
| Total stockholders' deficit | (213,965,281) | (333,997,366) |
| | \$ 801,587 | \$ 613,005 |

See notes to consolidated financial statements.

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| MATECH CORP | | | |
|--|-----------------------------------|--------------------|-----------------------|
| (Formerly known as Material Technologies, Inc.) | | | |
| (A Development Stage Company) | | | |
| CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS | | | |
| | For the Three Months Ended | | From October |
| | March 31, | | 21, 1983 |
| | 2008 | 2009 | (Inception) |
| | (Unaudited) | (Unaudited) | through |
| | | | March 31, 2009 |
| | | | (Unaudited) |
| Revenues: | | | |
| Research and development | \$ - | \$ - | \$ 5,392,085 |
| Revenue from bridge testing | 1,090 | 64,181 | 475,427 |
| Other | - | 90,000 | 374,125 |
| Total revenues | 1,090 | 154,181 | 6,241,637 |
| Costs and expenses: | | | |
| Bridge testing costs | - | 108,626 | 181,883 |
| Research and development | 158,993 | 84,566 | 21,175,388 |
| General and administrative | 20,328,325 | 1,046,075 | 332,124,032 |
| Modification of research and development sponsorship agreement | - | - | 5,963,120 |
| Loss on settlement of lawsuits | - | - | 1,267,244 |
| Total costs and expenses | 20,487,318 | 1,239,267 | 360,711,667 |
| Loss from operations | (20,486,228) | (1,085,086) | (354,470,030) |
| Other income (expense): | | | |
| Gain (Loss) on modification of convertible debt | - | - | (378,485) |
| Loss on subscription receivable | - | - | (1,368,555) |
| Interest expense | (370,991) | (1,166,188) | (15,812,065) |
| Other-than-temporary impairment of marketable securities available for sale | - | - | (9,785,947) |
| Loss on shareholder settlement relating to failure to register common shares | - | - | (39,407,195) |
| | (8) | (1,803) | (9,400,021) |

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| | | | |
|--|-----------------|------------------|------------------|
| Net unrealized and realized loss of marketable securities | | | |
| Change in fair value of investments derivative liability | - | - | (210,953) |
| Change in fair value of derivative and warrant liabilities | 8,559,576 | (118,944,973) | (271,923,869) |
| Interest income | 12,443 | - | 483,056 |
| Other | - | - | (25,992) |
| Other income (expense), net | 8,201,020 | (120,112,964) | (347,830,026) |
| Loss before provision for income taxes | (12,285,208) | (121,198,050) | (702,300,056) |
| Provision for income taxes | (800) | (800) | (16,600) |
| Net loss | \$ (12,286,008) | \$ (121,198,850) | \$ (702,316,656) |
| Per share data: | | | |
| Basic and diluted net loss per share | \$ (88.67) | \$ (4.39) | |
| Weighted average Class A common shares outstanding - basic and diluted | 138,562 | 27,577,952 | |

See notes to consolidated financial statements.

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| MATECH CORP | | | |
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| (Formerly known as Material Technologies, Inc.) | | | |
| (A Development Stage Company) | | | |
| CONSOLIDATED STATEMENTS OF CASH FLOWS | | | |
| | For the Three Months Ended | | From October |
| | March 31, | | 21, 1983 |
| | 2008 | 2009 | (Inception) |
| | (Unaudited) | (Unaudited) | through |
| | | | March 31, 2009 |
| | | | (Unaudited) |
| Cash flows from operating activities: | | | |
| Net loss | \$ (12,286,008) | \$ (121,198,850) | \$ (702,316,656) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Gain on modification of convertible debt | - | - | 378,485 |
| Impairment loss | - | - | 21,391,528 |
| Loss on charge off of subscription receivables | - | - | 1,368,555 |
| Stock based compensation | 4,580,400 | 568,317 | 211,046,698 |
| Increase in debt for services and fees | - | 60,000 | 5,736,625 |
| Officer's stock based compensation | 15,000,000 | - | 86,460,675 |
| Issuance of common stock for modification of research and development sponsorship agreement | - | - | 7,738,400 |
| Issuance of common stock in settlement for failure to register common shares | - | - | 39,407,195 |
| Change in fair value of derivative and warrant liabilities | - | 118,944,973 | 274,159,069 |
| Net realized and unrealized loss on marketable securities | - | 1,803 | 7,897,508 |
| Other-than-temporary impairment of marketable securities available for sale | - | - | 9,785,946 |
| Legal fees incurred for note payable | - | - | 1,456,142 |
| Accrued interest expense added to principal | 130,984 | 139,641 | 2,057,135 |

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| | | | |
|--|------------------|------------------|---------------------|
| Amortization of discount on convertible debentures | 339,725 | 934,142 | 13,457,173 |
| Change in fair value of investments derivative liability | (8,559,576) | - | 3,223,323 |
| Accrued interest income added to principal | (2,407) | - | (305,885) |
| Depreciation and amortization | 5,310 | 19,919 | 269,890 |
| Other non-cash adjustments | - | - | (114,730) |
| (Increase) decrease in trade receivables | 84,371 | (56,016) | (148,304) |
| (Increase) decrease in inventories | (14,790) | 66,398 | (74,943) |
| (Increase) decrease in prepaid expenses and other current assets | 32,500 | 109,935 | 423,779 |
| (Decrease) increase in accounts payable and accrued expenses | (161,759) | 241,977 | 2,781,472 |
| (Decrease) Increase in deferred revenue - related party | - | (40,000) | 50,000 |
| Net cash used in operating activities | (851,250) | (207,761) | (13,870,920) |
| Cash flows from investing activities: | | | |
| Proceeds from the sale of marketable securities | 300,000 | - | 3,758,476 |
| Purchase of marketable securities | - | - | (2,206,379) |
| Investment in certificate of deposits and commercial paper | (565,000) | - | (1,965,000) |
| Redemptions of certificate of deposits and commercial paper | 858,922 | - | 1,965,000 |
| Payment received on officer loans | - | - | 876,255 |
| Funds advanced to officers | - | - | (549,379) |
| Proceeds received in acquisition of consolidated subsidiaries | - | - | 600,000 |
| Purchase of property and equipment | (17,167) | (12,600) | (386,020) |
| Investment in joint ventures | - | - | (102,069) |
| Proceeds from foreclosure | - | - | 44,450 |
| Proceeds from the sale of property and equipment | - | - | 19,250 |

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| | | | |
|--|---------|----------|-----------|
| Payment for license agreement | - | - | (6,250) |
| Net cash provided by (used in) investing activities | 576,755 | (12,600) | 2,048,334 |

See notes to consolidated financial statements.

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| MATECH CORP | | | |
|--|----------------------------|-------------|----------------|
| (Formerly known as Material Technologies, Inc.) | | | |
| (A Development Stage Company) | | | |
| CONSOLIDATED STATEMENTS OF CASH FLOWS | | | |
| | For the Three Months Ended | | From October |
| | March 31, | | 21, 1983 |
| | 2008 | 2009 | (Inception) |
| | (Unaudited) | (Unaudited) | through |
| | | | March 31, 2009 |
| | | | (Unaudited) |
| Cash flow from financing activities: | | | |
| Proceeds from the sale of common stock and warrants | \$ - | \$ 671 | \$ 9,465,248 |
| Proceeds from convertible debentures and other notes payable | - | 295,000 | 3,647,766 |
| Proceeds from the sale of preferred stock | - | - | 473,005 |
| Fees incurred in debt financing | - | - | (1,505,932) |
| Capital contributions | - | - | 301,068 |
| Purchase of treasury stock | (1,590) | (4,025) | (180,939) |
| Principal reduction on notes payable | (252) | (27,820) | (152,820) |
| Payment on proposed reorganization | - | - | (5,000) |
| Net cash provided by (used in) financing activities | (1,842) | 263,826 | 12,042,396 |
| Net change in cash and cash equivalents | (276,337) | 43,465 | 219,810 |
| Cash and cash equivalents, beginning of period | 809,710 | 176,345 | - |
| Cash and cash equivalents, end of period | \$ 533,373 | \$ 219,810 | \$ 219,810 |
| Supplemental disclosure of cash flow information: | | | |
| | \$ 281 | \$ - | |

Interest paid during the period

Income taxes paid during the period

| | | | |
|----|-----|----|---|
| \$ | 800 | \$ | - |
|----|-----|----|---|

Supplemental disclosures of non-cash investing and financing activities:

2009

In January 2009, the Company issued its President 274,000 shares of its common stock in a cashless exercise of 274,347 options.

In February 2009, the Company issued 6,000,000 shares of its common stock in a conversion of \$600,000 of convertible debt.

2008

During the three months ended March 31, 2008, the Company issued 4,229 shares of its Class A common stock in the conversion of \$491,132 of convertible debt.

During the three months ended March 31, 2008, the Company issued 8,208 shares of its Class A common stock for consulting services valued at \$3,580,400.

During the three months ended March 31, 2008, the Company issued 378 shares of its Class A common stock pursuant to the anti-dilution provisions of a settlement agreement.

During the three months ended March 31, 2008, a former employee returned 450 shares of the Company's Class A common stock to treasury which were subsequently cancelled.

During the three months ended March 31, 2008, the Company issued 34,500 shares of its Class A common stock in consideration of the exercise of cashless warrants. The Company accrued derivative liability in connection with the granting of the warrants, which had a balance of \$1,151,900 on the date of exercise. The liability balance was credited to equity.

During the three months ended March 31, 2008, the Company's contingent obligation to Mr. Beck under a settlement agreement was reduced to \$0, therefore the Company reduced its legal settlement liability by the remaining accrued provision of \$230,000, which was credited to equity.

See notes to consolidated financial statements.

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MATECH CORP
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

NOTE 1 - BASIS OF PRESENTATION

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position of the Company as of March 31, 2009, and the results of its operations for the three months ended March 31, 2009 and 2008, and for the period from October 21, 1983 (inception) to March 31, 2009, and its cash flows for the three months ended March 31, 2009 and 2008, and for the period from October 21, 1983 (inception) to March 31, 2009. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to rules and regulations of the U.S. Securities and Exchange Commission (the "Commission"). The Company believes that the disclosures in the financial statements are adequate to make the information presented not misleading. However, the financial statements included herein should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Commission on April 15, 2009.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, the Company is in the development stage and, at March 31, 2009, has an accumulated deficit of \$702,316,656, continues to sustain operating losses on a monthly basis, and expects to incur operating losses for the foreseeable future. Management of the Company will need to raise additional debt and/or equity capital to finance future activities. However, no assurances can be made that current or anticipated future sources of funds will enable the Company to finance future periods' operations. In light of these circumstances, substantial doubt exists about the Company's ability to continue as a going concern. These condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

SFAS No. 161 - In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its

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MATECH CORP
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

This Statement is intended to enhance the current disclosure framework in Statement 133. The Statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format should provide a more complete picture of the location in an entity's financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. Disclosing information about credit-risk-related contingent features should provide information on the potential effect on an entity's liquidity from using derivatives. Finally, this Statement requires cross-referencing within the footnotes, which should help users of financial statements locate important information about derivative instruments.

This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption.

The adoption of SFAS No 160 has not had a significant impact on our financial statements.

FASB issued Staff Position No. 142-3 - In April 2008, the FASB issued Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". FSP 142-3 is effective for the Company in the first quarter of 2009. The adoption of FSP 142-3 has not had a significant impact on our financial statements.

FASB issued Staff Position No. EITF 03-6-1 - In June 2008, the FASB issued Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("EITF 03-6-1"). EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore, need to be included in the earnings allocation in calculating earnings per share under the two-class method described in FASB Statement of Financial Accounting Standards No. 128, "Earnings per Share." EITF 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. EITF 03-6-1 is effective for the Company in the first quarter of 2009. The adoption of EITF 03-6-1 has not had a significant impact on our financial statements

SFAS No. 157 - The Company adopted in the first quarter of fiscal 2009, the Statement of Financial Accounting Standards No. 157, Fair Value Measurements, ("SFAS No. 157") for all financial assets and financial liabilities and for all non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure.

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MATECH CORP
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

The effect on the Company’s periodic fair value measurements for financial and non-financial assets and liabilities was not material.

In October 2008, the Financial Accounting Standards Board (“FASB”) issued Financial Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, (“FSP 157-3”). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP 157-3 did not have a significant impact on our financial statements or the fair values of our financial assets and liabilities.

In December 2008, the FASB issued Financial Staff Position (“FSP”) Financial Accounting Standard No. 140-4 and FASB Interpretation 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (“FSP FAS 140-4” and “FIN 46(R)-8”). The document increases disclosure requirements for public companies and is effective for reporting periods (interim and annual) that end after December 15, 2008. FSP FAS 140-4 and FIN 46(R)-8 became effective for us on December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not have a significant impact on our financial statements.

December 2007, the Financial Accounting Standards Board issued Emerging Issues Task Force (EITF) Issue No. 07-1, Accounting for Collaborative Arrangements, which applies to collaborative arrangements that are conducted by the participants without the creation of a separate legal entity for the arrangement and clarifies, among other things, how to determine whether a collaborative arrangement is within the scope of this issue. EITF Issue No. 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of EITF Issue No. 07-1 did not have a significant impact on our financial statements.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of March 31, 2009, consist of the following:

| | |
|-------------------|-----------|
| Trade receivables | \$ 97,977 |
|-------------------|-----------|

NOTE 4 - INVENTORIES

Inventories at March 31, 2009 consist of the following:

| | |
|----------------|-----------|
| Finished goods | \$ 74,943 |
|----------------|-----------|

Inventories consist of sensors and other parts used in the Company’s bridge testing operations.

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MATECH CORP
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2009 consisted of the following:

| | | |
|-------------------------------|----|-----------|
| Office and computer equipment | \$ | 27,645 |
| Manufacturing equipment | | 243,121 |
| | | 270,766 |
| Less accumulated depreciation | | (199,214) |
| | \$ | 71,552 |

Depreciation charged to operations for the three months ended March 31, 2009 and 2008 amount to \$19,650 and \$5,041, respectively.

NOTE 6 – INTANGIBLE ASSETS

Intangible assets consist of the following at March 31, 2009:

| | Period of Amortization | | |
|--------------------------------|---------------------------|----|----------|
| Patent costs | 17 years | \$ | 28,494 |
| License agreement (see Note 7) | 17 years | | 6,250 |
| Website | 5 years | | 5,200 |
| | | | 39,944 |
| Less accumulated amortization | | | (38,449) |
| | | \$ | 1,495 |

Amortization charged to operations for the three months ended March 31, 2009 and 2008 was \$269, and \$269, respectively.

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

| | | |
|------|----|-------|
| 2009 | \$ | 1,076 |
| 2010 | \$ | 419 |

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NOTE 7 – LICENSE AGREEMENTS

University of Pennsylvania

In 1993, the Company has entered into a license agreement with the University of Pennsylvania (the “University”) for the development and marketing of EFS.

Under the terms of the agreement, the Company issued to the University 1 share of its common stock, and a 5% royalty on sales of the product. The Company valued the license 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 the license agreement, the Company also agreed under a modified workout agreement relating to a prior sponsorship agreement to pay the University, retroactive to January 1, 2005, the balance of \$760,831, which accrues interest at a monthly rate of 0.5% simple interest. The Company is obligated to pay \$25,000 annually due on the anniversary date of the Workout Agreement. Further, the Company is also obligated to pay within ten days following the filing of the Company’s Forms 10-QSB or 10-KSB an amount equal to 10% of the Company’s operating income (as defined) as reflected in the quarterly and annual filings. Under the revised terms of the Workout Agreement, the Company’s CEO’s annual cash salary is capped at \$250,000. The Company agreed to pay the University an amount equal to any cash salary paid to Mr. Bernstein in excess of the \$250,000, which will be credited against the balance of the amounts due under the agreement.

Interest expense charged to operations during the three months ended March 31, 2009 and 2008 amounted \$9,407 and \$3,679, respectively. The balance of the obligation (including accrued interest) at March 31, 2009 was \$812,956 and is reflected in research and development sponsorship payable in the accompanying condensed consolidated balance sheet. The current portion represents the minimum annual payment under the Workout Agreement, while the remaining balance is reflected as non-current as the Company does not expect to be required to make additional payments during the next twelve months.

North Carolina Agricultural and Technical State University (“NCAT”)

The Company acquired this sublicense in its purchase of Monitoring. The license allows the Company to utilize technology covered through two patents licensed to NCAT. Under the license, the Company is required to support collaborative research under the direction of the actual inventor of the patented processes and to deliver to NCAT within three months of the effective date of the license a report indicating the Company’s plans for commercializing the subject technology.

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In partial consideration for the license, the Company must pay to NCAT a royalty equal to 3.5% of net sales of licensed products sold by the Company, its affiliates and from sublicensees. In the case of sub-licensees, the Company must pay NCAT 25% of any income, revenue, or other financial consideration received on any sublicense including but not limited to, advance payments, license issue fees, license maintenance fees, and option fees. Minimum royalties are due as follows:

Year beginning

| | | |
|---|----|--------|
| August 2, 2009 | \$ | 30,000 |
| August 2, 2010 | \$ | 30,000 |
| August 2, 2011 and each year thereafter | \$ | 50,000 |

The license remains in full force for the life of the last-to-expire patent. The license can be terminated by the Company by giving 90-day written notice and thereupon stop the manufacturing, use, or sale of any product developed under the license. In addition, the license terminates if the Company defaults under the royalty provisions of the license or files for bankruptcy protection.

The Company abandoned the license in early 2009 and dissolved Monitoring in March 2009.

ISIS Innovation Limited (“ISIS”)

In the 2007 acquisition of SATI, the Company acquired a license to develop and market the patented process known as “X-Ray diffraction method”. Under the terms of the exclusive license with ISIS Innovation Limited, the licensor was granted back the right to utilize the process on a perpetual, royalty-free basis. The licensee is responsible for all costs associated with maintaining and protecting the patent. In the case of sub-licensees, the Company must pay ISIS 25% of any income, revenue, or other financial consideration received on any sublicense including but not limited to, advance payments, license issue fees, license maintenance fees, and option fees. In addition, a 2.5% royalty on net sales is due with minimum royalties as follows:

Year beginning

| | | |
|------------------|----|--------|
| January 29, 2010 | \$ | 21,000 |
| January 29, 2011 | \$ | 32,000 |
| January 29, 2012 | \$ | 42,000 |

The Company abandoned the license in early 2009 and dissolved SATI in March 2009.

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Iowa State University Research Foundation (“ISURF”)

In the 2007 acquisition of NATI, the Company acquired a license to develop and market the patented process known as “Nondestructive evaluation and stimulate industrial innovation”. Under the terms of the non-exclusive license with ISURF, the Company is required to develop products for sale in the commercial market and to provide ISURF with a development plan and bi-annual development report until the first commercial product sale. The Company has the right to sublicense the patented process to third companies, but is required to pay a royalty fee of 25% of amounts earned by the Company under the sublicenses. For each product sold under the license, the Company is required to pay ISURF a royalty equal to 3% of the selling price with the following minimum royalty payments:

Year beginning

| | | |
|--|----|--------|
| January 1, 2009 | \$ | 10,000 |
| January 1, 2010 | \$ | 20,000 |
| January 1, 2011 and each year thereafter | \$ | 30,000 |

The Company abandoned the license in October 2008 and dissolved NATI in March 2009.

NOTE 8 – NOTES PAYABLE

On May 27, 1994, the Company borrowed \$25,000 from a shareholder. The loan is evidenced by a promissory note bearing interest at 6.5 percent. The note is secured by the Company’s patents and matured on May 31, 2002. The loan has not been paid and is now in default. As additional consideration for the loan, the Company granted to the shareholder a 1% royalty interest in the Fatigue Fuse and a 0.5% royalty interest in EFS (see Note 10). The balance due on this loan as of March 31, 2009 was \$58,790. Interest charged to operations during the three months ended March 31, 2009 and 2008 was \$406 and \$406, respectively.

On April 28, 2003, the Company borrowed \$10,000 from an unrelated third party. The loan is unsecured, non-interest bearing and due on demand.

On March 5, 2007, the Company borrowed \$200,000 from a shareholder. The loan is evidenced by an unsecured promissory note which is assessed interest at an annual rate of 8%. The note

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matured on March 5, 2009 when the principal and accrued interest became fully due and payable. The loan and accrued interest was not paid by the due date and the Company is in default under the terms of the note. The balance of the loan including accrued interest at March 31, 2009 is \$235,718. Interest charged to operations during the three months ended March 31, 2009 and 2008 was \$4,560 and \$4,258, respectively.

NOTE 9 – CONVERTIBLE DEBENTURES

Palisades

On September 23, 2003, the Company entered into a Class A Secured Convertible Debenture (the “Debentures”) with Palisades, pursuant to which Palisades agreed to loan the Company up to \$1,500,000. On December 1, 2003, after Palisades had funded \$240,000 of the original Debentures, the Company entered into additional Class A Secured Convertible Debentures with two additional investors, pursuant to which such investors would loan the Company up to \$650,000 each, and the Company agreed that Palisades would not make additional advances under the Debentures. The Company received a total of \$1,125,000 under the Debentures. The debentures and accrued interest were fully due and payable in November 2008.

Effective June 16, 2008, the Company and Investor Group (“Palisades”) entered into Settlement Agreement and General Release whereby Palisades agreed to extend the maturity date of the convertible debentures to December 31, 2009. Under the modified terms of the underlying Notes, the Company is required to make minimum monthly interest payments totaling \$10,000, the first payment being made in August 2008. Under the settlement and related escrow agreement, the Company is required to deposit a number of shares equal to 9.99% of its issued and outstanding Class A Common Stock into a brokerage account in the name of Agent at a firm to be determined from time to time by Agent. The Company also agreed to modify the terms of the notes to include the following restrictions:

- If an Event of Default occurs under the Notes, and, if such Event of Default is curable, such Event of Default continues for a period of 30 days without being cured, then the 10% interest rate set forth in the Notes will be increased to a Default Interest Rate of 18% per annum, and the total balance of principal and accrued interest of the debentures shall bear interest at the Default Interest Rate from the date of the occurrence of such Event of Default.
- In addition, the entry of any judgment against the Company in excess of \$150,000, regardless of where, how, to whom or under what agreement such liability arises, shall be an Event of Default under the Debentures, unless (i) the Company pays such judgment within 60 days, or (ii) the Company duly files an appeal of such judgment and execution of such judgment is stayed. Finally, the entry of any order or judgment in favor of any judgment creditor or other creditor attaching the assets of the Company shall be an Event of Default under these debentures. The conversion price of the debentures shall not be at any time more than \$0.10 per share, regardless of any combination of shares of the Common Stock of the Company by reverse split or otherwise.

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- If an Event of Default occurs which is not cured within its applicable cure period, if it is curable, the conversion price of these debentures after such cure period has expired shall be reduced to half of the pre-Event of Default conversion price. For clarification, if the conversion price before an Event of Default were the lesser of 50% of market price or \$0.10, then the new conversion price would be the lesser of 25% of market price or \$0.05.
- The Company shall not issue any shares of its Class A Common Stock without a legend stating that such shares may not be sold, transferred, pledged, assigned or alienated for a period of at least one year following the date of the issuance of such certificate, other than shares issued to or with the written consent of the Holder. Notwithstanding the foregoing, this provision shall not apply to (i) any shares issued to purchasers in a financing where the Company receives net proceeds of at least Five Hundred Thousand Dollars (\$500,000) and the shares are sold for not less than fifty percent (50%) of the closing price of the Company's common stock reported as of the closing date of such financing, and (ii) any shares issued in connection with an acquisition of assets by the Company where (a) the Company provides to the Holder a fairness opinion as to the value of the acquired assets, and (b) the Company receives assets that are worth at least fifty percent (50%) of the closing price per share of the Company's common stock as of the closing date of the acquisition.
- The Company shall not enter into any agreement pursuant to which any party other than the Holder has pre-emptive rights, the right to receive shares of any class of securities of the Company for no additional consideration, the right to receive a set, pre-determined percentage of the outstanding shares of the Company for any period of time, or any other similar right that has the effect of maintaining a set percentage of the issued and/or outstanding shares of any class or classes of the capital stock of the Company.
- The Company shall not enter into any agreement giving another party anti-dilution protection unless (1) all shares received pursuant to such provision are subject to a two-year lock-up from the date of issuance, and (2) all such shares received are subject to a "dribble-out," following the two-year lock-up, restricting their sale to not more than 1/20th of 5% of the previous month's total trading volume in any single trading day.
 - The Company will not file any Registration Statement on Form S-8 nor issue any shares registered on Form S-8, exclusive of shares currently registered on Form S-8. However, when the total capital in the Company's cash account drops below \$500,000, the Company may issue up to \$30,000 worth of securities registered on Form S-8, valued at

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- the market price of the common stock on the date of issuance, per month, non-cumulative. Any issuance of S-8 shares will be supported by an opinion of the Company's counsel that such issuance complies in all respects with federal securities laws. This opinion will be provided to the legal representative of the Holder upon request. Further, the Company will ensure that every entity or individual that receives S-8 shares will be subject to a "dribble-out" restricting their sale to not more than 1/20th of 2% of the previous month's total trading volume in any single trading day, non-cumulative. The above described dribble-out is not an aggregate sale restriction for all entities and individuals receiving S-8 shares.
- The Company acknowledges that the conversion price of the Debenture shall not be effected by any such reverse split, and that after giving effect to such reverse split, the conversion price shall remain the lesser of (i) 50% of the averaged ten closing prices for the Company's Common Stock for the ten trading days immediately preceding the Conversion Date or (ii) \$0.10. The Holder consents to this action. The parties acknowledge that the Company is not obligated to complete this reverse-split, or any reverse split.
- The shareholder lockup provisions will not apply to up to any shares held by Mr. Robert Bernstein, and sold by him personally in a bona-fide sale to an unrelated, unaffiliated third party; provided, that (i) the number of shares sold shall not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000) worth of stock, calculated based on the number of shares sold multiplied by the closing price of the stock on the date such shares are sold (if a market trade) or transferred on the books of the transfer agent (if a private transfer). Once Two Million Five Hundred Thousand Dollars (\$2,500,000) worth of stock has been sold as calculated above, the lockup on whatever remains of the shares owned by Mr. Bernstein (if any) goes back into effect. In this regard, if Mr. Bernstein sells any of his shares without legend, then he may only sell up to 1/20th of 5% of the previous month's total trading volume in any single trading day, and he may not sell more than 1% of the issued and outstanding shares of Matech during any 90 day period. Further, if Mr. Bernstein sells any of his shares, he must have such shares transferred on the books of the transfer agent within five business days of the sale. Mr. Bernstein shall comply with all reporting requirements under Section 16 of the Securities Exchange Act of 1934, as amended.

As further consideration for the Note Holders to extend the maturity date of the debentures and to enter into the Settlement Agreement, the Company agreed to pay an extension fee and a settlement fee totaling \$554,910, which was added to the outstanding balance of the debentures

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as of June 16, 2008 and grant the holders warrants to purchase 35,000,000 shares of the Company's Class A common stock at an exercise price of the lesser of (i) \$0.001 per share, or (ii) 50% of market price. The warrants expire on October 16, 2016. Payment of the warrant price may be in cash or cashless, at the option of the warrant holder.

The Company accounted for the modification of the convertible debt pursuant to EITF 96-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments" and recognized a loss on the modification of \$964,730 that was charged to operations.

Further, Per EITF 00-19, paragraph 4, these convertible debentures do not meet the definition of a "conventional convertible debt instrument" since the debt is not convertible into a fixed number of shares. The debt can be converted into common stock at a conversion price that is a percentage of the market price; therefore, the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate. Therefore, the convertible debenture is considered "non-conventional," which means that the conversion feature must be bifurcated from the debt and shown as a separate derivative liability. The Company recognized a derivative liability of \$4,254,301 on June 16, 2008, with an offset to debt discount in the same amount.

In addition, since the convertible debenture is convertible into an indeterminate number of shares of common stock, it is assumed that the Company could never have enough authorized and unissued shares to settle the conversion of the warrants into common stock. Therefore, the warrants issued in connection with this transaction are also shown as a derivative liability.

In connection with the settlement agreement, the Company entered into a consulting agreement with an affiliate of the debenture holders for a term commencing on May 1, 2008 and terminating no earlier than May 1, 2010. For the duration of the agreement, the Consultant agrees to assist the Company with implementing the Company's business plan, assist it in identifying, analyzing, structuring and negotiating acquisitions and related activities. Under the terms of the consulting agreement, the Company agreed to pay a fee of \$20,000 per month and reimburse the Consultant for reasonable expenses it incurred relating to the Company's business. As further consideration, the Company granted warrants to the consultant to purchase 5,000,000 shares of the Company's Class A common stock at an exercise price of the lesser of (i) \$0.10 per share, or (ii) 50% of market price. The warrants expire on October 16, 2013. Payment of the warrant price may be in cash or cashless, at the option of the warrant holder. The warrant shares are stated after giving effect to a one for one-thousand reverse stock split completed in October 2008.

During the three months ended March 31, 2009, the holders advanced an additional \$150,000 that was added to principal and increased principal for monthly consulting fees totaling \$60,000. Also during the three months period, the Company issued 6,000,000 shares of its Class A common stock through the conversion of \$600,000 of indebtedness. The Company failed to pay the required interest payments due for the three months ended March 31, 2009.

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The balance of the Debenture, including accrued interest, at March 31, 2009 was \$2,301,803 (net of unamortized discount of \$1,684,078). Interest charged to operations on the face amount of the debentures for the three months ended March 31, 2009 and 2008 was \$99,264 and \$71,717. Amortization expense of the discount also charged to operations as interest expense for the three months ended March 31, 2009 and 2008 amounted to \$903,214 and \$326,392, respectively.

At March 31, 2009, the fair value of the derivative liabilities relating to the above indicated convertible debt amounted to \$91,675,264.

Mitchell

On April 25, 2008, the Company borrowed \$55,000 from an individual in exchange for issuing a convertible promissory note. The note is assessed interest at an annual rate of 4.71%. Principal and accrued interest is fully due and payable on April 25, 2011. Until the note and accrued interest are fully paid, the lender has the right to convert the amount due him into shares of the Company's Class A common stock equaling 3.5% of the shares outstanding on date of conversion.

As the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate, the convertible debenture must be bifurcated from the debt and shown as a separate derivative liability. The Company recognized a beneficial conversion feature of \$28,140 and a derivative liability of \$31,658 at June 30, 2008.

The balance of the Debenture, including accrued interest, at March 31, 2009 was \$38,051 (net of unamortized discount of \$19,402). Interest charged to operations for the three months ended March 31, 2009 and 2008 amounted to \$660 and \$0, respectively. The beneficial conversion feature is treated as a discount against the face amount of the debt and is amortized into interest expense over the term of note. Amortization expense on the discount charged to operations for the three months ended March 31, 2009 and 2008 amounted to \$2,313 and \$0, respectively.

At March 31, 2009, the fair value of the derivative liabilities relating to the above indicated convertible debt amounted to \$2,742,019.

Kruetzfield

In July 2008, the Company entered into a financing agreement to borrow a total of \$1,000,000 through the issuance of a convertible note. Interest accrues on the outstanding loan balance at an annual rate of 10% per annum. Principal is due on the maturity date with accrued interest due quarter; however, the Company has the right to defer interest payments until the maturity date so long as it does not have positive

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earnings before interest, taxes, depreciation and amortization (“EBITDA”). The maturity date of the note is December 31, 2011. The balance owed on the note, including accrued interest, is convertible at the election of the holder into so many free trading shares of the Company’s common stock based upon a conversion price of the lesser of (i) 50% of the averaged ten closing prices for the Company’s common stock for the ten (10) trading days immediately preceding the conversion date or (ii) \$0.10. The Company is required to reserve the number of free trading shares of Common Stock required pursuant to and upon the terms set forth in the Subscription Agreement (approximately 100,000,000 shares), to permit the conversion of this Debenture. The Company has pledged significantly all of its assets as collateral on this loan.

As the number of shares that could be required to be delivered upon “net-share settlement” is essentially indeterminate, the convertible debenture must be bifurcated from the debt and shown as a separate derivative liability. The Company recognized a beneficial conversion feature of \$715,266 and a derivative liability of the same amount upon receipt of the loan.

The balance of the Debenture, including accrued interest, at March 31, 2009 was \$524,716 (net of unamortized discount of \$540,075). Interest charged to operations on the debenture for the three months ended March 31, 2009 and 2008 amounted to \$25,345 and \$0, respectively. The beneficial conversion feature is treated as a discount against the face amount of the debt and is amortized into interest expense over the term of note. Amortization expense on the discount charged to operations for the three months ended March 31, 2009 and 2008 amounted to \$28,615 and \$0, respectively.

The Company incurred loan fees in connection with obtaining the loan totaling \$180,000 that is being amortized into interest expense over the term of the note. The amount charged to interest expense during the three months ended March 31, 2009 and 2008 amounted to \$89,389 and \$0. The unamortized balance of deferred loan fees is reflected on the balance sheet as an asset and its balance as of March 31, 2009 amounted to \$144,880.

At March 31, 2009, the fair value of the derivative liability was \$24,490,192.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Royalties

A summary of royalty interests that the Company has granted and are outstanding as of March 31, 2009 follows:

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| | Fatigue Fuse | EFS |
|---|--------------|-------|
| University of Pennsylvania (see Note 7) | | |
| Net sales of licensed products | - | 7.00% |
| Net sales of services | - | 2.50% |
| Shareholder | 1.00% | 0.50% |

Litigation

GEM

The Company has also been named as a defendant in a lawsuit alleging breach of contract due to the Company's failure to pay certain amounts due to a consultant for services. The Company settled with the plaintiff in October 2008. Under the terms of the settlement, the Company agreed to pay \$250,000 with a down payment of \$15,000 due by November 30, 2008. The remaining balance is payable in monthly installments of \$5,000. In addition, the Company is required to pay the Plaintiff a percentage of any net sums/dollars received by the Company for any equity or debt instrument, including sale by Robert Bernstein of his stock, as follows to reduce the \$250,000 settlement amount:

5% up to the first 2 million dollars
4% for \$2,000,001 to \$4,000,000
3% over \$4,000,000

In the event the Company is determined to be in default under the settlement agreement, it is required to pay the plaintiff \$250,000 less any amounts already paid, plus 10% interest on the remaining amount of the \$250,000 settlement (commencing October 7, 2008 to the date of default), plus \$36,000 as a penalty. At September 30, 2008, the Company valued the obligation at its fair value of \$222,852, based upon the present value of the required future cash flows using an annual interest rate of 6%. The balance of the obligation at March 31, 2009 amounted to \$198,026. Interest charged to operations during the three months ended March 31, 2009 and 2008 relating to this obligation amounted to \$3,015 and \$0, respectively.

Maturities of the obligation are as follows:

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| | | |
|------|----|---------|
| 2010 | \$ | 54,772 |
| 2011 | | 52,842 |
| 2012 | | 56,101 |
| 2013 | | 34,311 |
| | \$ | 198,026 |

In the ordinary course of business, the Company may from time to time be involved in other various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon its financial condition and/or results of operations. However, in the opinion of its management, matters currently pending or threatened against the Company are not expected to have a material adverse effect on its financial position or results of operations.

Indemnities and Guarantees

During the normal course of business, the Company has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include certain agreements with the Company's officers under which the Company may be required to indemnify such person for liabilities arising out of their employment relationship. They also include indemnities made to the holders of the convertible debentures, Mr. Beck, with regards to his settlement with the Company, and the sellers of investments in securities. The duration of these indemnities and guarantees varies, and in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Company would be obligated to make. Historically, the Company has not been obligated to make significant payments for these obligations and no liability has been recorded for these indemnities and guarantees in the accompanying consolidated balance sheet.

NOTE 11 – EMPLOYEE BENEFIT PLAN

On December 14, 2007, the Company adopted a 401k retirement plan for its employees. To be eligible to participate in the plan, an employee must be at least 21 years for age and work for the Company for six consecutive months. Company contributions and employee match are discretionary. During the three months ended March 31, 2009, the Company did not contribute to the plan.

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NOTE 12 – STOCKHOLDERS' EQUITY

Class A Preferred Stock

The holders of the Class A convertible preferred stock have a liquidation preference of \$720 per share. Such amounts shall be paid on all outstanding Class A preferred 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 \$0.72 ("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.

Class B Preferred Stock

The Company has designated 15 shares of Class B preferred stock, of which no shares have been issued. The holders of Class B preferred shares are entitled to a liquidation preference of \$10,000 per share. Such amounts shall be paid on all outstanding Class B preferred shares before any payment shall be made or any assets distributed to the holders of common stock or of any other stock of any series or class junior to the shares as to dividends or assets, but junior to Class A preferred shareholders. Holders of Class B preferred shares are not entitled to any liquidation distributions in excess of \$10,000 per share.

The shares are redeemable by the holder or the Company at \$10,000 per share. The holders of these shares shall have the right to vote at one vote per Class B preferred share and shall participate in all common stock dividends declared and paid according to a formula as defined in the series designation.

Class C Preferred Stock

Each shareholder of Class C preferred stock is entitled to receive a cumulative dividend of 8% per annum for a period of two years. Dividends do not accrue or are payable except out of earnings before interest, taxes, depreciation and amortization. At March 31, 2009, no dividends are payable to Class C preferred shareholders. Holders of the Class C preferred stock are junior to holders of the Company's Class A and B preferred stock, but hold a higher

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position than common shareholders in terms of liquidation rights. Holders of Class C preferred stock have no voting rights. Holders of Class C preferred stock have the right to convert their shares to common stock on a 300-to-1 basis.

The Company requires an approval of at least two-thirds of the holders of Class C preferred shareholders to alter or change their rights or privileges by way of a reverse stock split, reclassification, merger, consolidation or otherwise, so as to adversely affect the manner by which the shares of Class C preferred stock are converted into common shares. As of March 31, 2009, there were 1,517 shares of Class C Preferred Stock outstanding.

Class D Preferred Stock

Holders of Class D preferred stock have a \$0.001 liquidation preference, no voting rights and are junior to holders of all classes of preferred stock but senior to common shareholders in terms of liquidation rights. Class D preferred stockholders are entitled to dividends as declared by the Company's Board of Directors, which have not been declared as of March 31, 2009. Holders of Class D preferred stock have the right to convert their shares to common stock on a 300-to-1 basis. As of March 31, 2009, there were no Class D Preferred shares outstanding.

Class E Convertible Preferred Stock

On January 26, 2007, the Company amended its certificate of incorporation by filing a certificate of designation of rights, preferences, privilege and restrictions of the Company's new created Class E convertible preferred stock. The Company has authorized 60,000 shares, each with an original issue price of \$19.50 per share. In each calendar quarter, the holders of the then outstanding Class E Convertible Preferred Stock shall be entitled to receive non-cumulative dividends in an amount equal to 5% of the original purchase price per annum. All dividends may be accrued by the Corporation until converted into common shares. After one year from the issuance date, the holders of Class E convertible preferred stock have the right to convert the preferred shares held into shares of the Company's common stock at the average closing bid price of the ten days prior to the date of conversion. Class E Preferred Shares have no liquidation preference, and has ten votes per share.

In connection with the acquisition of SATI, the Company issued 50,000 shares of Class E convertible preferred which were valued at the shares original purchase price of \$19.50 per share. The Company also issued an additional 5,000 shares to a consultant in connection with the SATI acquisition, which were valued at \$97,500 and charged to equity as costs of the offering. As of March 31, 2009, there were 49,250 shares of Class E Preferred Stock outstanding.

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MATECH CORP
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

Class A Common Stock

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

During the three months ended March 31, 2009, the Company issued 8,007,327 shares of its common stock.

From time to time, the Company issues its common shares and holds the shares in escrow on behalf of another party until consummation of certain transactions. The following is a reconciliation of shares issued and outstanding as of March 31, 2009:

| | |
|---|--------------|
| Issued shares | 107,416,290 |
| Less shares held in escrow: | |
| Shares issued to the Company and held in escrow | (76,569,169) |
| Outstanding shares | 30,847,121 |

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 600,000 votes for each share of Class B common stock held. As of March 31, 2009, there were 600,000 shares of Class B Common Stock outstanding

Common Shares Issued for Non Cash Consideration

The value assigned to shares issued for services were charged to operations in the period issued.

During the three months ended March 31, 2009, the Company issued 8,007,327 shares of its Class A common stock of which 1,550,000 were placed in escrow and considered issued but not outstanding.. Of the remaining 6,457,327, 6,000,000 shares were issued in the conversion of \$600,000 convertible debt, 183,327 shares for consulting and other services valued at \$568,317, and 274,000 shares issued to its President on the cashless exercise of 274,347 options.

Stock Options

During 2008, the Company granted options to two consultants to purchase 15,390,546 shares of the Company's common stock at an exercise price of \$0.025 per share. The Consultants' option agreement allow for cashless exercises. Also in 2008, the Company granted options to its President to purchase 30,000,000 shares at an exercise price of \$.011 per share. The President's option agreement also allows for cashless exercises and in 2009, the President

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MATECH CORP
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For the three months ended March 31, 2009 and 2008

exercised 274,347 options for the purchase of 270,000 shares. The Company deemed these options to purchase the remaining 45,116,199 shares to be derivatives based upon their terms pursuant to EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock". At March 31, 2009, the Company recorded a derivative liability on these options totaling \$111,585,059.

Stock Warrants

As discussed in Note 9, the Company issued warrants to purchase 35,000,000 shares of its common stock to Palisades at \$0.001 per share and warrants to a consultant to purchase 5,000,000 shares at \$0.10 per share. Warrant agreements on both grants allow for cashless exercises. The Company deemed these warrants to purchase the 40,000,000 shares to be derivatives based upon their terms pursuant to EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock". At March 31, 2009, the Company recorded a derivative liability on these options totaling \$98,950,014.

The following table summarizes the warrants and options outstanding at March 31, 2009:

| | Options/ Warrants Outstanding | Weighed Average Exercise Price |
|-----------------------------|-------------------------------------|---|
| Balance – December 31, 2008 | 112,640,746 | \$ 0.05 |
| Granted | - | - |
| Exercised | (274,347) | \$ (.011) |
| Forfeited | - | - |
| Balance – March 31, 2009 | 112,366,399 | \$ 0.05 |

NOTE 13 – RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2009, the Company's President advanced the Company \$50,000. The Company adjusted the President's loan account for expenses incurred by

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MATECH CORP
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the Company on behalf of the President totaling \$27,820. As of March 31, 2009, the Company owed \$12,768 to its President.

As indicated in Note 12, during the three months ended March 31, 2009, the Company issued 274,000 shares of its common stock to its President on the cashless exercise of 274,347 options.

On November 21, 2006, the Company entered into a stock grant and general release agreement with the Company's CEO, for the purpose of showing the Company's appreciation for the CEO's work over the past several years. Under the agreement, the CEO was issued 30,000,000 shares of the Company's Class A common stock, restricted in accordance with Rule 144, and subject to forfeiture back to the Company in accordance with the terms of the agreement, if he is not employed by the Company for 3 years from the date of the agreement. Additionally under the terms of the agreement, the CEO has released the Company from any and all claims he may have against the Company for any monies owed to him as of the date of the agreement. The value assigned to the shares issued to the CEO has been determined to be \$180,000,000 based on the Company's trading price of the shares on date of issuance. The value will be recorded as additional compensation expense over the 36 month term of the agreement. During the three months ended March 31, 2008, the Company charged to operations \$15,000,000. The 30,000,000 shares were returned to the Company for cancelation in April 2008.

NOTE 14 – FAIR VALUE

The Company adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements ("SFAS 157"), to measure the fair value of certain of its financial assets required to be measured on a recurring basis. The adoption of SFAS 157 did not impact the Company's consolidated financial position or results of operations. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability. The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

The Company's Level 1 assets include cash accounts payable and accrued expenses. Due to the short term maturity of these liabilities, the Company valued them at net book value.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

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For the three months ended March 31, 2009 and 2008

The Company's Level 2 assets consist of a derivative and warrant liability. The Company determines the fair value of its Level 2 assets based upon the trading prices of its common stock on the date of issuance and when applicable, on the last day of the quarter. The Company uses the Black-Sholes Option Model in valuing the fair value of level 2 assets.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis.

| | March 31, 2009 | | | | Fair Value |
|---|--------------------------|----------------|---------|---|------------|
| | Fair Value Measurements* | | | | |
| | Level 1 | Level 2 | Level 3 | | |
| Assets | | | | | |
| Cash | \$ 219,810 | \$ - | \$ - | \$ 219,810 | |
| Liabilities | | | | | |
| Accounts payable and accrued expenses | \$ 924,170 | \$ - | \$ - | \$ 924,170 | |
| Derivative and warrant liability | \$ - | \$ 329,442,548 | \$ - | \$ 329,442,548 | |
| | | | | Derivative and Warrant Liability | |
| Balance – January 1, 2009 | | | | \$ 210,497,575 | |
| Total realized and unrealized losses included in operations | | | | 118,944,973 | |
| Balance – March 31, 2009 | | | | \$ 329,442,548 | |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Disclaimer Regarding Forward Looking Statements

Our Management's Discussion and Analysis contains not only statements that are historical facts, but also statements that are forward-looking (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Forward-looking statements are, by their very nature, uncertain and risky. These risks and uncertainties include international, national and local general economic and market conditions; demographic changes; our ability to sustain, manage, or forecast growth; our ability to successfully make and integrate acquisitions; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other risks that might be detailed from time to time in our filings with the Securities and Exchange Commission.

Although the forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this report and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects.

Overview

We research and develop technologies that detect and measure metal fatigue. We have developed two products: (1) the Fatigue Fuse; and (2) the Electrochemical Fatigue Sensor. We generate very little revenue from the sale and licensing of our products, and thus we are a development stage company.

Our biggest challenge is funding the commercialization of our products until we can generate sufficient revenue to support our operations. We try to keep our overhead low and utilize outside consultants as much as possible in order to reduce expenses, and thus far we have been successful in raising enough capital through loans and financing to fund operations. For the foreseeable future, we plan to continue to raise capital in this manner.

Our condensed consolidated financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. We have sustained operating losses since our inception (October 21, 1983). In addition, we have used substantial amounts of working capital in our operations. Further, at March 31, 2009, the deficit accumulated during the development stage amounted to approximately \$702,316,656.

In view of these matters, realization of a major portion of the assets in the accompanying condensed consolidated balance sheet is dependent upon our ability to meet our financing requirements and the

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success of our future operations. During 2007, we received approximately \$4,000,000 in private financing, primarily from the sale of equity and debt securities. In 2008, we received approximately \$1,055,000 in private financing, also primarily from the sale of equity and debt securities. We plan to continue to raise funds through the sale of our securities for the foreseeable future. We have begun marketing our current technologies while continuing to develop new methods and applications. We will need to raise additional capital to finance future activities and no assurances can be made that current or anticipated future sources of funds will enable us to finance future operations. In light of these circumstances, substantial doubt exists about our ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should we be unable to continue as a going concern.

Results of Operations for the three months ended March 31, 2009 as compared to the Three Months Ended March 31, 2008 (Unaudited)

Revenues increased from \$1,090 during 2008 to \$154,181 during 2009. This increase was due primarily to an increase of \$63,091 in bridge testing revenues and \$90,000 in services fees earned on a contract with a related party. Management anticipates bridge testing revenues to continue to increase due to an existing agreement with the Pennsylvania Department of Transportation, our strategic alignment with Smith Energy Company and our expanding client base.

Bridge testing costs of \$108,626 were incurred in 2009. These costs are associated with the bridge testing revenues totaling \$64,181. No bride testing costs were incurred in 2008. The gross loss from bridge testing was due to the Company providing discounts to its current customers and higher than projected testing costs. In the past, the Company's marketing strategy was to focus on increasing its customer base to have a portfolio of successful tests to show to new customers. The proceeds received on each contract was secondary to the Company's ability to prove its technology at a commercial level. Further, Management expects and has seen a reduction in the cost of testing, in part due to better methodology used in manufacturing sensors and other parts used in the testing process and from past experience in applying its technology.

Research and development costs decreased by \$74,427 or 46% from \$158,993 in 2008 to \$84,566 in 2009. This decrease was due primarily due to our nearing the end of the research and development stage on the Electrochemical Fatigue Sensor

General and administrative expenses decreased by \$19,282,250 to \$1,046,075 in 2009 as compared to \$20,328,325 in 2008. This decrease is due primarily to the following factors: (1) Officer salaries decreased by \$15,051,084 to \$74,197 in 2009 as compared to \$15,126,000 in 2008. This decrease was due primarily to \$15,000,000 in stock compensation granted to officers in 2008. (2) Consulting fees decreased by \$4,031,092 to \$711,566 in 2009 as compared to \$4,742,670 in 2008. This was due primarily to stock valued at \$4,480,400 granted to consultants during 2008 as compared to stock valued at \$568,317 granted to consultants in 2009. (3) Marketing and promotion expense decreased from by \$52,839 to \$8,231 in 2009 compared to \$61,070 in 2008. This was due to a decrease in marketing activities in 2009 (4) Legal and accounting expenses decreased by \$181,531 to \$61,729 in 2009 as compared to \$244,260 incurred in 2008. This decrease was due to decreased audit and accounting fees incurred in the first quarter of 2009 compared to fees incurred during the same three months in 2008.

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Interest expense increased by \$795,197 to \$1,166,188 in 2009 as compared to \$370,991 in 2008. This increase was due primarily to amortization of discounts on convertible debt of \$934,142 in 2009 as compared to \$339,725 in 2008.

The change in fair value of derivative and warrant liability resulted in loss of \$118,944,973 in 2009 as compared to a gain of \$8,559,576 in 2008. The derivative instruments were incurred in connection the issuance of convertible debt and warrants as described in more detail in Note 9 to the financial statements. Since the convertible debt can be converted into common stock at a conversion price that is a percentage of market price, the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate. Therefore, the convertible debt was considered to be "non conventional" requiring the conversion feature to be bifurcated from the debt and shown as a separate liability. The warrants issued in connection with settlement agreement with the convertible debt holders can be exercised at the lesser of \$.10 per share or 50% of market value and are thus considered to be derivative liabilities as well. The change in fair values is a result of changes in the market value of the Company's common stock during the first quarter of each year.

Liquidity and Capital Resources

During the quarter ended March 31, 2009 the company used \$207,761 in operations as compared to \$851,250 used in operations during the first quarter of 2008. Operating during the first quarter of 2009 were funding primarily by \$295,000 in loan proceeds.

We used \$12,600 in investing activities in 2009 as compared to \$576,577 provided by investing activities during 2008. The cash provided by investing activities in 2008 was primarily due to proceeds from the sale of marketable securities and redemptions of certificates of deposit and commercial paper.

At March 31, 2009 we had \$219,810 in cash, \$97,977 in accounts receivable, \$74,943 in inventory, and \$3,673,021 in current Liabilities. We do not have sufficient assets to continue operations and will be dependent on some combination of our ability to refinance existing debt obligations, raise additional funds through debt or equity financing, and obtain a profitable level of operations to sustain operations on an ongoing basis. There is no assurance that we will be able to achieve any of these objectives.

At March 31, 2009 we had a derivative liability of \$329,442,548 which we expect to settle by the issuance of common stock.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In consultation with our Board of Directors, we have identified the following accounting policies that we believe are key to an understanding of our 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 our research is recognized at the time services are rendered and billed.

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The second critical accounting policy relates to research and development expense. Costs incurred in the development of our products are expensed as incurred.

The third critical accounting policy relates to the valuation of non-monetary consideration issued for services rendered. We value all services rendered in exchange for our common stock at the quoted price of the shares issued at date of issuance or at the fair value of the services rendered, which ever is more readily determinable. 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 readily determinable.

Our accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of EITF 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services ” and EITF 00-18, Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees.” The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor’s performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. In accordance to EITF 00-18, an asset acquired in exchange for the issuance of fully vested, nonforfeitable equity instruments should not be presented or classified as an offset to equity on the grantor’s balance sheet once the equity instrument is granted for accounting purposes. Accordingly, we record the fair value of nonforfeitable common stock issued for future consulting services as prepaid services in our consolidated balance sheet.

The fourth critical accounting policy is our accounting for conventional convertible debt. When the convertible feature of the conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (BCF”). We record a BCF as a debt discount pursuant to EITF Issue No. 98-5 (EITF 98-05), Accounting for Convertible Securities with Beneficial Conversion Features or Contingency Adjustable Conversion Ratio,” and EITF Issue No. 00-27, Application of EITF Issue No. 98-5 to Certain Convertible Instrument(s).” In those circumstances, the convertible debt will be recorded net of the discount related to the BCF. We amortize the discount to interest expense over the life of the debt using the effective interest method.

The fifth critical account policy relates to the accounting for non-conventional convertible debt and the related stock purchase warrants. In the case of non-conventional convertible debt, we bifurcate our embedded derivative instruments and record them under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities,” as amended, and EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock.” These embedded derivatives include the conversion feature, liquidated damages related to registration rights and default provisions. The accounting treatment of derivative financial instruments requires that we record the derivatives and related warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, as a result of entering into the non-conventional convertible debenture, we are required to value and classify all other non-employee stock options and warrants as derivative liabilities at that date and mark them to market at each reporting date thereafter. Any change in fair value will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, we will record a non-operating, non-cash charge. If the fair value of

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the derivatives is lower at the subsequent balance sheet date, we will record non-operating, non-cash income. We value our derivatives primarily using the Black-Scholes Option Pricing Model. The derivatives are classified as long-term liabilities.

The sixth critical accounting policy relates to the recording of marketable securities held for trading and available-for-sale. Marketable securities purchased with the intent of selling them in the near term are classified as trading securities. Trading securities are initially recorded at cost and are adjusted to their fair value, with the change in fair value during the period included in earnings as unrealized gains or losses. Realized gains or losses on dispositions are based upon the net proceeds and the adjusted book value of the securities sold, using the specific identification method, and are recorded as realized gains or losses in the consolidated statements of operations. Marketable securities that are not classified as trading securities are classified as available-for-sale securities. Available-for-sale securities are initially recorded at cost. Available-for-sale securities with quoted market prices are adjusted to their fair value, subject to an impairment analysis (see below). Any change in fair value during the period is excluded from earnings and recorded, net of tax, as a component of accumulated other comprehensive income (loss). Any decline in value of available-for-sale securities below cost that is considered to be other than temporary is recorded as a reduction of the cost basis of the security and is included in the statement of operations as a write down of the market value (see below).

The seventh critical accounting policy is our accounting for the fair market value of non-marketable securities we have acquired. Non-marketable securities are originally recorded at cost. In the case of non-marketable securities we acquired with our common stock, we value the securities at a significant discount to the stated per share cost based upon our historical experience with similar transactions as to the amount ultimately realized from the sale of the shares. Such investments are reduced when we have indications that a permanent decline in value has occurred. At such time as quoted market prices become available, the net cost basis of these securities will be reclassified to the appropriate category of marketable securities. Until that time, the securities will be recorded at their net cost basis, subject to an impairment analysis (see below).

In accordance with the guidance of EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, we assess any decline in value of available-for-sale securities and non-marketable securities below cost as to whether such decline is other than temporary. If a decline is determined to be other than temporary, the decline is recorded as a reduction of the cost basis of the security and is included in the statement of operations as an impairment write down of the investment.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our President and Chief Financial Officer (the “Certifying Officers”) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of period covered by this report. Based upon such evaluation, the Certifying Officers concluded that our disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and is accumulated and communicated to our management, including the Certifying Officers, as appropriate to allow timely

decisions regarding required disclosure, due to the material weaknesses described below.

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In light of the material weaknesses described below, the Certifying Officers performed additional analysis and other post-closing procedures to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (“PCAOB”) Auditing Standard No. 2) or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The Certifying Officers have identified the following three material weaknesses which have caused the Certifying Officers to conclude that our disclosure controls and procedures were not effective at the reasonable assurance level:

1. We do not yet have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act and will be applicable to us for the year ending December 31, 2009. The Certifying Officers evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures and have concluded that the control deficiency that resulted represented a material weakness.

2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. The Certifying Officers evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.

To remediate the material weaknesses in our disclosure controls and procedures identified above, in addition to working with our independent auditors, we have continued to refine our internal procedures to begin to implement segregation of duties and to reduce the number of audit adjustments.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 4T. Controls and Procedures

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In January 2009, 274,000 shares of the Company's common stock was issued to its President on a cashless exercise of 274,347 options.

In January 2009, 183,327 shares of the Company's common stock were issued for consulting and other services valued at \$568,317.

In February 2009, 6,000,000 shares of the Company's common stock issued in the conversion of \$600,000 of convertible debt.

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Item 3. Defaults Upon Senior Securities.

There have been no events which are required to be reported under this item.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Matech Corp. includes by reference the following exhibits:

10.1 Settlement agreement with Stephen Beck Filed March 4, 2009, as exhibit 10.1 with the registrant's Current Report on Form 8-K (SEC File No. 333-22617; which exhibit is incorporated herein by reference.

31.1 Certification of Chief Executive Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification Pursuant to 18 U.S.C., Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 19, 2009

/s/ Robert M. Bernstein

By: Robert M. Bernstein
Its: President, Chief Executive Officer,
and Chief Financial
Officer (Principal Executive Officer,
Principal Financial
Officer and Principal Accounting
Officer)