

MATECH Corp.  
Form 10-Q  
August 19, 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 June 30, 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: 333-23617

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

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

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

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

n/a  
(Former name, former address and former fiscal year, if changed since last report)

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 ☐

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 ☐



Edgar Filing: MATECH Corp. - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller 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 August 17, 2009, there were 73,965,739 shares of our Class A common stock issued and 72,396,570 common shares outstanding, and 600,000 shares of Class B common stock issued and outstanding.

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

MATECH CORP.

TABLE OF CONTENTS

<u>PART I – FINANCIAL INFORMATION</u>	<u>4</u>
<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations – for the three months ended June 30, 2009 and 2008 (unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows – for the three months ended June 30, 2009 and 2008 (unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>39</u>
<u>Item 4T. Controls and Procedures</u>	<u>39</u>
<u>PART II – OTHER INFORMATION</u>	<u>40</u>
<u>Item 1. Legal Proceedings</u>	<u>40</u>
<u>Item 1A. Risk Factors</u>	<u>40</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>41</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	<u>41</u>
<u>Item 5. Other Information</u>	<u>42</u>
<u>Item 6. Exhibits</u>	<u>42</u>
<u>SIGNATURES</u>	<u>42</u>



Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

<b>MATECH CORP</b>		
(Formerly known as Material Technologies, Inc.)		
(A Development Stage Company)		
<b>CONDENSED CONSOLIDATED BALANCE SHEETS</b>		
	<b>December 31,</b>	<b>June 30,</b>
	<b>2008</b>	<b>2009</b>
		<b>(Unaudited)</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 176,345	\$ 114,474
Accounts receivable	41,961	40,434
Inventories	141,341	74,319
Prepaid expenses and other current assets	359,227	62,000
<b>Total current assets</b>	<b>718,874</b>	<b>291,227</b>
Property and equipment, net	78,601	105,570
Loan fee, net	-	131,710
Intangible assets, net	1,764	1,226
Deposit	2,348	2,348
	<b>\$ 801,587</b>	<b>\$ 532,081</b>

See notes to consolidated financial statements.

Table of Contents**MATECH CORP**(Formerly known as Material Technologies,  
Inc.)

(A Development Stage Company)

**CONDENSED CONSOLIDATED BALANCE SHEETS**

	December 31, 2008	June 30, 2009 (Unaudited)
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 670,207	\$ 865,936
Deferred revenue - related party	90,000	-
Loans payable - related party	-	2,611
Current portion of payable due on legal settlement	54,033	55,523
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	3,440,861
Notes payable	299,542	309,614
Total current liabilities	2,998,107	4,699,545
Legal settlement payable	155,978	130,338
Research and development sponsorship payable, net of current portion	778,549	797,468
Convertible debentures and accrued interest payable, net of discount	335,834	606,697
Derivative and warrant liabilities	210,497,575	304,973,847
	211,767,936	306,508,350
Total liabilities	214,766,043	311,207,895
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 June 30, 2009	-	-
Class B preferred stock, \$0.001 par value, liquidation preference of		

Edgar Filing: MATECH Corp. - Form 10-Q

\$10,000 per share; 15 shares authorized; 0 shares issued and outstanding as of December 31, 2008 and June 30, 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 June 30, 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 June 30, 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 0 shares issued and outstanding as of June 30, 2009	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 31,934,351 shares outstanding as of June 30, 2009	24,390	31,935
Class B Common Stock, \$0.001 par value, 600,000 shares authorized, issued and outstanding as of December 31, 2008 and June 30, 2009	600	600
Warrants subscribed	10,000	10,000
Additional paid-in-capital	367,125,759	369,583,095
Deficit accumulated during the development stage	(581,117,806)	(680,292,371)
Treasury stock ( 24,635 shares at cost at December 31,2008 and 25,448 shares at cost at June 30, 2009)	(8,274)	(9,899)
Total stockholders' deficit	(213,965,281)	(310,676,639)
	\$ 801,587	\$ 532,081

See notes to consolidated financial statements.



Table of Contents**MATECH CORP**(Formerly known as  
Material  
Technologies, Inc.)(A Development  
Stage Company)**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months		For the Six Months Ended		From October
	Ended		June 30,		21, 1983
	June 30,		June 30,		(Inception)
	2008	2009	2008	2009	through
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	June 30, 2009
					(Unaudited)
Revenues:					
Research and development	\$ -	\$ -	\$ -	\$ -	\$ 5,392,085
Revenue from bridge testing	-	1,543	1,090	65,724	476,970
Other	-	50,000	-	140,000	424,125
Total revenues	-	51,543	1,090	205,724	6,293,180
Costs and expenses:					
Bridge testing costs	-	625	-	109,252	182,509
Research and development	150,847	126,897	309,840	211,463	21,302,285
General and administrative	5,517,443	1,602,077	25,845,768	2,648,153	333,726,110
Modification of research and development sponsorship agreement	-	-	-	-	5,963,120
(Gain) loss on settlement of lawsuits	-	(45,223)	-	(45,223)	1,222,021
Total costs and expenses	5,668,290	1,684,376	26,155,608	2,923,645	362,396,045
Loss from operations	(5,668,290)	(1,632,833)	(26,154,518)	(2,717,921)	(356,102,865)
Other income (expense):					
Gain (Loss) on modification of convertible debt	(964,730)	2,722,195	(964,730)	2,722,195	2,343,710

Edgar Filing: MATECH Corp. - Form 10-Q

Loss on subscription receivable		-		-	(1,368,555)
Interest expense	(606,028)	(811,591)	(977,019)	(1,977,779)	(16,623,656)
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)
Net unrealized and realized loss of marketable securities	-	(22)	(8)	(1,825)	(9,400,043)
Change in fair value of investments derivative liability		-	-	-	(210,953)
Change in fair value of derivative and warrant liabilities	(71,103,676)	21,746,506	(62,544,101)	(97,198,467)	(250,177,363)
Interest income	3,080	32	15,523	32	483,088
Other	-	-	-	-	(25,992)
Other income (expense), net	(72,671,354)	23,657,120	(64,470,335)	(96,455,844)	(324,172,906)
Loss before provision for income taxes	(78,339,644)	22,024,287	(90,624,853)	(99,173,765)	(680,275,771)
Provision for income taxes	-	-	(800)	(800)	(16,600)
Net loss	\$ (78,339,644)	\$ 22,024,287	\$ (90,625,653)	\$ (99,174,565)	\$ (680,292,371)
Per share data:					
Basic and diluted net loss per share	\$ (500.20)	\$ 0.70	\$ (614.04)	\$ (3.36)	
Weighted average Class A common shares outstanding - basic and diluted	156,617	31,465,322	147,589	29,532,376	

See notes to consolidated financial statements.

Table of Contents**MATECH CORP**

(Formerly known as Material Technologies, Inc.)

(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Six Months Ended June 30,		From October 21, 1983 (Inception) through June 30, 2009
	2008 (Unaudited)	2009 (Unaudited)	June 30, 2009 (Unaudited)
Cash flows from operating activities:			
Net loss	\$ (90,625,653)	\$ (99,174,565)	\$ (680,292,371)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss (gain) on modification of convertible debt	964,730	(2,722,195)	(2,343,710)
Impairment loss	-	-	21,391,528
Loss on charge off of subscription receivables			1,368,555
Stock based compensation	3,625,200	1,745,247	212,223,628
Increase in debt for services and fees	1,100,000	120,000	5,796,625
Officer's stock based compensation	19,885,333	-	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	-		155,214,096
Net realized and unrealized loss on marketable securities	-	1,825	7,897,530
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	135,816	286,978	2,204,472

Edgar Filing: MATECH Corp. - Form 10-Q

Amortization of discount on convertible debentures	824,072	1,582,392	14,105,423
Change in fair value of investments derivative liability	62,544,101	97,198,467	100,421,790
Accrued interest income added to principal	25,433	-	(305,885)
Depreciation and amortization	10,621	25,230	275,201
Other non-cash adjustments	-	(45,224)	(159,954)
(Increase) decrease in trade receivables	108,661	1,527	(90,761)
(Increase) decrease in inventories	(86,748)	67,023	(74,318)
(Increase) decrease in prepaid expenses and other current assets	(17,257)	197,559	511,403
(Decrease) increase in accounts payable and accrued expenses	(130,968)	240,952	2,780,447
(Decrease) Increase in deferred revenue - related party	-	(90,000)	-
Net cash used in operating activities	(1,636,659)	(564,784)	(14,227,943)
Cash flows from investing activities:			
Proceeds from the sale of marketable securities	300,000	848	3,759,324
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	1,565,000	-	1,965,000
Payment received on officer loans	3,803	-	876,255
Funds advanced to officers	-	-	(549,379)
Proceeds received in acquisition of consolidated subsidiaries	-	-	600,000
Purchase of property and equipment	(17,167)	(51,660)	(425,080)
Investment in joint ventures	-	-	(102,069)
Proceeds from foreclosure	-	-	44,450
Proceeds from the sale of property and equipment	-	-	19,250
Payment for license agreement	-	-	(6,250)
Net cash provided by (used in ) investing activities	1,286,636	(50,812)	2,010,122

See notes to consolidated financial statements.



Table of Contents**MATECH CORP**

(Formerly known as Material Technologies, Inc.)

(A Development Stage  
Company)**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Three Months Ended June 30,		From October 21, 1983 (Inception) through June 30, 2009 (Unaudited)
	2008 (Unaudited)	2009 (Unaudited)	
Cash flow from financing activities:			
Proceeds from the sale of common stock and warrants	18,624	\$ -	\$ 9,464,577
Proceeds from convertible debentures and other notes payable	55,000	600,000	3,952,766
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	(3,266)	(4,298)	(181,212)
Principal reduction on notes payable	-	(41,977)	(166,977)
Payment on proposed reorganization	-	-	(5,000)
Net cash provided by (used in) financing activities	70,358	553,725	12,332,295
Net change in cash and cash equivalents	(279,665)	(61,871)	114,474
Cash and cash equivalents, beginning of period	809,710	176,345	-
Cash and cash equivalents, end of period	\$ 530,045	\$ 114,474	\$ 114,474
Supplemental disclosure of cash flow information:			
Interest paid during the period	\$ 281	\$ -	
	\$ 800	\$ 800	

Income taxes paid during  
the period

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.

In April 2009, the Company issued 100,000 shares of its common stock in conversion of \$57,584 of indebtedness. Under the original terms of the loan, the lender had the right to convert the amount due into 3.5% of the total number of Company shares outstanding on the date of conversion. The Company considered the shares that would have been issued under the original terms of the loan and the actual 100,000 shares issued as a modification of a loan and recognized a gain on the transaction of \$2,722,195.

In May 2009, the Company settled a fee dispute with its former legal counsel and recognized a \$45,224 gain on the settlement that was credited to operations.

In May 2009, the Company issued 449,730 shares of its common stock in conversion of 49,250 shares of its Class E Convertible Preferred Stock.

During the six months ended June 30, 2009, the Company issued 720,828 shares of its common stock for consulting services valued at \$1,807,247 of which \$62,000 has been recorded as prepaid as of June 30, 2009.

2008

During the six months ended June 30, 2008, the Company issued 4,230 shares of its Class A common shares in the conversion of \$491,132 of convertible debt.

During the six months ended June 30, 2008, the Company issued 13,207 shares of its Class A common stock for consulting services valued at \$3,668,400.

Edgar Filing: MATECH Corp. - Form 10-Q

During the six months ended June 30, 2008, the Company issued 378 shares of its Class A common stock pursuant to the anti-dilution provisions of a settlement agreement.

During the six months ended June 30, 2008, a former employee returned 450 shares of the Company's Class A common stock to treasury which were subsequently cancelled.

See notes to consolidated financial statements.



Table of Contents

During the six months ended June 30, 2008, the Company's president returned 30,000 shares of the Company's Class A common stock to treasury which were subsequently cancelled.

During the six months ended June 30, 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 six months ended June 30, 2008, the Company issued 78 shares of its Class A common stock for \$18,624.

During the six months ended June 30, 2008, the Company issued 1,040 shares of the Company's common stock was issued through the conversion of 1,300 shares of the Company's Class E preferred shares.

During the six months ended June 30, 2008, the Company 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.

During the six months ended June 30, 2008, the Company obtained \$55,000 through the issuance of convertible debt. In connection with this debt, the Company recognized a beneficial conversion feature of \$28,140 that was credited to equity.

During the six months ended June 30, 2008, the Company recognized compensation expense of \$8,800 on the grant of options to its employees and officers for the purchase of 800,000 shares of Class A common stock. In addition, during the six months the Company granted options to its President for the purchase of 400,000,000 shares of its Class A common stock and granted options to a consultant to purchase 15,390,546 shares of its Class A common stock. The Company recognized a derivative liability of \$6,400,000 on the granting of these options.

See notes to consolidated financial statements.

9

---

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

NOTE 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 June 30, 2009, and the results of its operations for the three and six months ended June 30, 2009 and 2008, and for the period from October 21, 1983 (inception) to June 30, 2009, and its cash flows for the six months ended June 30, 2009 and 2008, and for the period from October 21, 1983 (inception) to June 30, 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 June 30, 2009, has an accumulated deficit of \$680,292,371, 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

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 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.



Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 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 April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 provides additional guidance for estimating fair value measurements in accordance with FASB Statement No. 157 when there is not an active market or where the price inputs being used represent distressed sales. FSP FAS 157-4 provides additional guidance on the major categories for which equity and debt securities disclosures are to be presented and amends the disclosure requirements of FASB Statement No. 157 to require disclosure in interim and annual periods of the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. FSP FAS 157-4 shall be applied prospectively and is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting this FSP must also early adopt FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairment ("FSP FAS 115-2 and FAS 124-2"). The adoption of FSP FAS 157-4 did not have an impact on the Company's financial position, results of operations and cash flows.

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.

In January 2009, the FASB issued FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20, and EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" ("FSP EITF 99-20-1"). FSP EITF 99-20-1 changes the impairment model included within EITF 99-20 to be more consistent with the impairment models of FAS No. 115. FSP EITF 99-20-1 achieves this by amending the impairment model in EITF 99-20 to remove its exclusive reliance on "market participant" estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the "market participant" view to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an



Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

other-than-temporary impairment has occurred. The adoption of FSP EITF 99-20-1 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2. This FSP amends SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," SFAS 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This FSP will replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. This FSP provides increased disclosure about the credit and noncredit components of impaired debt securities that are not expected to be sold and also requires increased and more frequent disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. Although this FSP does not result in a change in the carrying amount of debt securities, it does require that the portion of an other-than-temporary impairment not related to a credit loss for a held-to-maturity security be recognized in a new category of other comprehensive income and be amortized over the remaining life of the debt security as an increase in the carrying value of the security. This FSP shall be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4. Also, if an entity elects to early adopt either FSP FAS 157-4 or FSP FAS 107-1 and APB 28-1, the entity also is required to early adopt this FSP. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 require companies to disclose in interim financial statements the fair value of financial instruments within the scope of FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments. However, companies are not required to provide in interim periods the disclosures about the concentration of credit risk of all financial instruments that are currently required in annual financial statements. The fair-value information disclosed in the footnotes must be presented together with the related carrying amount, making it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the balance sheet. FSP FAS 107-1 and APB 28-1 also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period. The FSP shall be applied prospectively and is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 107-1 and APB 28-1 must also early adopt FSP FAS 157-4 as well as FSP FAS 115-2 and FAS 124-2. The Company will adopt the disclosure requirements of this pronouncement for the quarter ended June 30, 2009, in conjunction with the adoption of FSP FAS 157-4, FSP FAS 115-2 and FAS 124-2.



Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 will be effective for interim or annual periods ending after June 15, 2009 and will be applied prospectively. The Company has adopted the requirements of this pronouncement for the quarter ended June 30, 2009.

In June 2009, the FASB issued SFAS No. 166 "Accounting for Transfers of Financial Assets" ("SFAS 166"). Statement 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets.

SFAS 166 will be effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The Company does not anticipate the adoption of SFAS 166 will have an impact on its consolidated results of operations or consolidated financial position.

In June 2009, the FASB issued SFAS No. 167 "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). Statement 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. SFAS 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. SFAS 167 will be effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The Company is currently evaluating the impact, if any, of adoption of SFAS 167 on its financial statements.

In June 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement No. 162" ("SFAS 168"). Statement 168 establishes the FASB Accounting Standards Codification TM (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC



Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

registrants. SFAS 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following SFAS 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: ( a ) update the Codification; ( b ) provide background information about the guidance; and ( c ) provide the bases for conclusions on the change(s) in the Codification. The adoption of SFAS 168 will not have an impact on the Company's consolidated financial statements.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009, consist of the following:

Trade receivables	\$	40,434
-------------------	----	--------

NOTE 4 – INVENTORIES

Inventories at June 30, 2009 consist of the following:

Finished goods	\$	74,319
----------------	----	--------

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

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 consisted of the following:

Office and computer equipment	\$	27,645
Manufacturing equipment		282,181
		309,826
Less accumulated depreciation		(204,256)
	\$	105,570

Depreciation charged to operations for the three months ended June 30, 2009 and 2008 amount to \$5,041 and \$5,041, respectively. Depreciation charged to operations for the six months ended June 30, 2009 and 2008 amount to \$24,691 and \$10,083, respectively.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

NOTE 6 – INTANGIBLE ASSETS

Intangible assets consist of the following at June 30, 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			(38,718)
		\$	1,226

Amortization charged to operations for the three months ended June 30, 2009 and 2008 was \$269, and \$269, respectively. Amortization charged to operations for the six months ended June 30, 2009 and 2008 was \$538, and \$539, respectively.

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

2009	\$	807
2010	\$	419

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.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

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 June 30, 2009 and 2008 amounted \$9,511 and \$9,885, respectively. Interest expense charged to operations during the six months ended June 30, 2009 and 2008 amounted \$18,918 and \$19,770, respectively. The balance of the obligation (including accrued interest) at June 30, 2009 was \$822,468 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.

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 June 30, 2009 was \$59,195. Interest charged to operations during the three months ended June 30, 2009 and 2008 was \$406 and \$406, respectively. Interest charged to operations during the six months ended June 30, 2009 and 2008 was \$812 and \$812, 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 that is assessed interest at an annual rate of 8%. The note 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 June 30, 2009 is \$240,419. Interest charged to operations during the three months ended June 30, 2009 and 2008 was \$4,701 and \$4,343, respectively. Interest charged to operations during the three months ended June 30, 2009 and 2008 was \$9,261 and \$8,602, respectively.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

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.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

- 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

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

Company may issue up to \$30,000 worth of securities registered on Form S-8, valued at 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 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,



Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

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 six months ended June 30, 2009, the holders advanced an additional \$700,000 that was added to principal and increased principal for monthly consulting fees totaling \$120,000. Also during the six 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 six months ended June 30, 2009.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

The balance of the Debenture, including accrued interest, at June 30, 2009 was \$3,440,861 (net of unamortized discount of \$1,110,665). Interest charged to operation in on the face amount of the debentures for the three months ended June 30, 2009 and 2008 was \$105,645 and \$106,578, respectively. Interest charged to operation in on the face amount of the debentures for the six months ended June 30, 2009 and 2008 was \$204,909 and \$226,909, respectively. Amortization expense of the discount also charged to operations as interest expense for the three months ended June 30, 2009 and 2008 amounted to \$573,413 and \$482,651, respectively. Amortization expense of the discount also charged to operations as interest expense for the six months ended June 30, 2009 and 2008 amounted to \$1,476,627 and \$809,044, respectively.

At June 30, 2009, the fair value of the derivative liabilities relating to the above indicated convertible debt amounted to \$93,306,280.

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.

On April 24, 2009, the principal balance and accrued interest totaling \$57,584 were fully converted into 100,000 shares of the Company's common stock. The Company considered the change in the number of shares that should have been issued under the conversion feature of the original loan agreement and the actual shares issued to be a modification under the provisions of the EITF 86-18 "Debtor's Accounting for Modification of Debt Terms" and recognized a gain of \$2,722,195, the difference between the value of the 1,134,603 shares that would have been issued under the conversion terms of the original agreement and \$57,584.

Interest charged to operations for the three months ended June 30, 2009 and 2008 amounted to \$131 and \$468, respectively. Interest charged to operations for the six months ended June 30, 2009 and 2008 amounted to \$791 and \$468, 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 June 30, 2009 and 2008 amounted to \$19,402 and \$1,696, respectively. Amortization expense on the discount charged to operations for the six months ended June 30, 2009 and 2008 amounted to \$21,715 and \$1,696, respectively.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

Kruetzfeld

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 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 June 30, 2009 was \$606,697 (net of unamortized discount of \$484,641). Interest charged to operations on the debenture for the three months ended June 30, 2009 and 2008 amounted to \$26,547 and \$0, respectively. Interest charged to operations on the debenture for the six months ended June 30, 2009 and 2008 amounted to \$51,892 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 June 30, 2009 and 2008 amounted to \$55,434 and \$0, respectively. Amortization expense on the discount charged to operations for the six months ended June 30, 2009 and 2008 amounted to \$84,050 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 June 30, 2009 and 2008 amounted to \$13,170 and \$0, respectively. The amount charged to interest expense during the six months ended June 30, 2009 and 2008 amounted to \$102,559 and \$0, respectively. The unamortized balance of deferred loan fees is reflected on the balance sheet as an asset and its balance as of June 30, 2009 amounted to \$131,710.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

At June 30, 2009, the fair value of the derivative liability was \$22,372,425.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Royalties

A summary of royalty interests that the Company has granted and are outstanding as of June 30, 2009 follows:

	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

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

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 June 30, 2009 amounted to \$185,861. Interest charged to operations during the three months ended June 30, 2009 and 2008 relating to this obligation amounted to \$2,835 and \$0, respectively. Interest charged to operations during the three months ended June 30, 2009 and 2008 relating to this obligation amounted to \$5,850 and \$0, respectively.

Maturities of the obligation are as follows:

2010	\$	55,523
2011		53,639
2012		56,947
2013		19,752
	\$	185,861

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.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

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 six months ended June 31, 2009, the Company did not contribute to the plan.

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 that 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.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

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 June 30, 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 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 June 30, 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 June 30, 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 June 30, 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.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

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.

In May 2009, the Company issued 449,730 shares of its common stock in the conversion of 49,250 shares of Class E Preferred Stock.

As of June 30, 2009, there were no shares of Class E Preferred Stock outstanding.

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 June 30, 2009, the Company issued 1,087,230 shares of its common stock And cancelled 75,000,000 shares that were held in reserve.

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 June 30, 2009:

Issued shares	33,503,520
Less shares held in escrow:	
Shares issued to the Company and held in escrow	(1,569,169)
Outstanding shares	31,934,351

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 June 30, 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.



Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

During the three months ended June 30, 2009, the Company issued 1,087,230 shares of its Class A common stock of which 449,730 shares were issued in conversion of 49,250 shares of the Company's Class E Preferred Stock, 100,000 shares were issued in the conversion of \$57,584 of convertible debt, 537,500 shares for consulting and other services valued at \$1,238,930 of which \$62,000 was considered prepaid at June 30, 2009.

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 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 June 30, 2009, the Company recorded a derivative liability on these options totaling \$100,306,903.

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 June 30, 2009, the Company recorded a derivative liability on these options totaling \$88,952,238.

The following table summarizes the warrants and options outstanding at June 30, 2009:

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

	Options/ Warrants Outstanding	Weighed Average Exercise Price
Balance – December 31, 2008	112,640,746	\$ 0.05
Granted	-	-
Exercised	(274,347)	\$ (.011)
Forfeited	-	-
Balance – June 30, 2009	112,366,399	\$ .005

NOTE 13 – RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2009, the Company's President advanced the Company \$50,000. The Company adjusted the President's loan account for expenses incurred by the Company on behalf of the President. As of June 30, 2009, the Company owed \$2,611 to its President.

As indicated in Note 12, in January 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 six months ended June 30, 2008, the Company charged to operations \$19,885,333. The 30,000,000 shares were returned to the Company for cancellation in April 2008.

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 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.

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.

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.

	June 30, 2009			
	Fair Value Measurements*			
	Level 1	Level 2	Level 3	Fair Value
<b>Liabilities</b>				
Derivative and warrant liability	\$ -	\$ 304,973,847	\$ -	\$ 304,973,847

	Warrant Liability	
Balance – January 1, 2009	\$	210,497,575

Total realized and unrealized losses included in operations	97,198,467
Derivative liability adjusted in connection with conversion of Mitchell debt	(2,722,195)
Balance – June 30, 2009	\$ 304,973,847

Table of Contents

MATECH CORP  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2009 and 2008

NOTE 15 – SUBSEQUENT EVENTS

In July 2009, Mr. Robert Bernstein, the Company's President was issued 500,000 shares of the Company common stock through a cashless exercise of 500,750 options.

Also in July 2009, the Company issued 39,762,119 shares of the Company common stock through cashless exercises of 40,000,000 warrants.

In August 2009, the Company issued 200,000 shares of the Company's common stock for past and ongoing legal services.

Also in August 2009, the Company entered into an agreement with the University of Pennsylvania to defer the upcoming \$25,000 payment. The deferred payment is evidenced by a promissory note bearing interest at an annual rate of 18%. The \$25,000 and accrued interest are fully due on August 1, 2010.

In addition, the Company and Kruetzfeld Ltd. ("Kruetzfeld") agreed to extend and modify the terms of the Secured Loan Agreement as discussed in Note 9. The agreed upon modified terms increase the amount that Kruetzfeld will advance the Company to a maximum of \$1,000,000 under the same terms and conditions of the existing secured debenture.

In addition, Kruetzfeld agreed to suspend the Company's obligation to register the shares underlying the Secured Convertible Debenture for a period of ninety days in consideration for the Company guaranteeing Kruetzfeld 1,700,000 shares of its common stock if Palisades makes a valid claim for the 1,700,000 shares it issued Kruetzfeld in a separate transaction. In addition, the Company agreed to employ Anthony Cataldo as Co-Chief Executive Officer at a monthly salary of \$18,000. Under the modified terms, all future contracts entered into by the Company and all Company checks will require joint signatures from Messrs. Bernstein and Cataldo.

During the period that any portion of the Convertible Debenture is outstanding, Kruetzfeld has anti-dilution rights protection. The Company is required to file an S-1 registering the underlying shares pertaining to the Secured Debenture. Cataldo has the right to retain on behalf of the Company an independent financial consultant to assist the Company in its preparation of the S-1 filing and a review of the Company's underlying capitalization. Kruetzfeld has the right to designate an additional member of the Company's Board.

Table of Contents

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 June 30, 2009, the deficit accumulated during the development stage amounted to approximately \$310,676,639.

Table of Contents

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 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 Six Months Ended June 30, 2009 as Compared to the Six Months Ended June 30, 2008

## Revenues and Loss from Operations

Our revenue, research and development costs, general and administrative expenses, and loss from operations for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 are as follows:

	Six months Ended June 30, 2009	Six months Ended June 30, 2008	Percentage Change
Revenue	\$ 205,724	\$ 1,090	18,773.76%
Research and Development costs	(211,463)	(309,840)	(31.75)%
General and Administrative expenses	(2,648,153)	(25,845,768)	(89.75)%
Loss on legal settlement	(45,223)	--	n/a
Loss from operations	\$ (2,717,921)	\$ (26,154,518)	(89.61)%

Revenue for 2009 consisted of \$65,724 from bridge testing and \$140,000 from services fees earned on a contract with a related party. Revenues for 2008 was derived exclusively from bridge testing.

Of the \$211,463 in research and development costs for the six months ended June 30, 2008, \$146,745 was incurred in salaries to our in-house engineering staff which included an officer and director, \$64,718 was paid to outside consultants and for related expense reimbursements,

Of the \$309,840 in research and development costs for the six months ended June 30, 2008, \$159,355 was incurred in salaries to our in-house engineering staff which included an officer and director, \$115,985 was paid to outside consultants and for related expense reimbursements, and we valued the issuance of 150 shares of our common stock that were issued to one consultant at \$34,500. Of the \$159,355 is R&D salaries, \$4,400 was compensation expense recognized on the

Table of Contents

granting of options to our staff to purchase a total of 400 shares of our common stock. These options were cancelled in November 2008.

General and administrative expenses were \$2,648,153 and \$25,845,768, respectively, for the six months ended June 30, 2009 and 2008. The major expenses incurred during each of the quarters were:

	Six months Ended June 30, 2009	Six months Ended June 30, 2008
Consulting services	\$ 1,919,547	\$ 4,790,293
Officer's salary	163,917	251,000
Officer's stock based compensation	--	19,887,533
Secretarial salaries	101,083	65,497
Office expense	27,089	36,865
Professional fees	159,407	444,936
Rent	16,902	16,197
Marketing & Promo	70,554	111,214
Payroll taxes	34,761	35,008
Travel	16,950	67,830
Insurance	45,461	33,777
Telephone	10,130	10,617

Of the \$1,919,547 in consulting expense for the six months ended June 30, 2009, \$1,745,247 relates to the issuance of 658,828 shares of common stock. In addition, we charged \$120,000 in consulting fees through an increase in convertible debt by the same amount.

Of the \$4,790,293 in consulting expense for the six months ended June 30, 2008, \$3,581,900 relates to the issuance of 11,057 shares of common stock. In addition, we charged \$1,100,000 in consulting fees through an increase in convertible debt by the same amount.

#### Other Income and Expenses and Net Loss

Our gain on modification of convertible debt, modification of research and development sponsorship agreement, loss on subscription receivables, interest expense, other-than-temporary impairment of marketable securities, change in fair value of derivative and warrant liabilities, loss on settlement of lawsuits, and net loss for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 are as follows:



Table of Contents

	Six months Ended June 30, 2009	Six months Ended June 30, 2008	Percentage Change
Interest expense	\$ (1,977,779)	\$ (977,019)	(102.43)%
Gain (loss) on modification of convertible debt	2,722,195	(964,730)	(382.17)%
Net unrealized and realized loss of marketable securities	(1,825)	(8)	(22,712.50)%
Change in fair value of derivative and warrant liabilities	(97,198,467)	(62,544,101)	55.41%
Interest income	32	15,523	(99.79)%
Provision for income taxes	(800)	(800)	0%
Net loss	\$ (96,455,844)	\$ (90,625,653)	6.43%

Our interest expense includes amortization of debt discounts totaling \$1,582,392 during the six months ended June 30, 2009 and \$824,073 during the six months ended June 30, 2008. The change in fair value of derivative and warrant liabilities represents the change in derivative values related to warrants and convertible debt with Palisades Capital, LLC and Kreutzfeld and Mitchell (See Note 8 to the financial statements).

## Liquidity and Capital Resources

## Introduction

During the six months ended June 30, 2009, as with the six months ended June 30, 2008, we did not generate positive cash flow. As a result, we funded our operations through the private sale of equity and debt securities, the issuance of our securities in exchange for services, and loans.

Our cash, investments in marketable securities held for trading, investments in marketable securities available for sale, accounts receivable, prepaid services, prepaid expenses and other current assets, total current assets, total assets, total current liabilities, and total liabilities as of June 30, 2009, as compared to June 30, 2008, were as follows:

	June 30, 2009	June 30, 2008
Cash	\$ 114,474	\$ 530,045
Accounts receivable	\$ 40,434	\$ --
Inventories	\$ 74,319	\$ 148,964
Prepaid expenses and other	\$ 62,000	\$ 62,941
Total current assets	\$ 291,227	\$ 741,950
Total assets	\$ 532,081	\$ 836,232
Total current liabilities	\$ 4,699,545	\$ 3,886,056
Total liabilities	\$ 311,207,595	\$ 11,610,448

## Cash Requirements

For the six months ended June 30, 2009, our net cash used in operations was \$564,784 compared to \$1,636,659 for the six months ended June 30, 2008.

Negative operating cash flows during the six months ended June 30, 2009 were primarily created by a net loss from operations of \$99,174,565, offset by the issuance of stock for services of \$1,745,247, increase in debt for services of \$120,000, realized loss on sale of the Company's common stock held in treasury of \$1,825, amortization of discount

on convertible debentures of \$1,582,392,

36

---

## Table of Contents

increase in accrued interest on debt of \$286,978, an increase in our derivative liability of \$97,198,467 and a decrease on the gain from the modification of the Mitchell convertible debt of \$2,722,195. There was also a net increase in assets of \$246,115 and net increase in liabilities of \$150,952.

Negative operating cash flows during the six months ended June 30, 2008 were primarily created by a net loss from operations of \$90,625,653, offset by the loss on the modification of the Palisades convertible debt of \$964,730, issuance of stock for services of \$3,625,200, amortization of discount on convertible debentures of \$824,073 increase in officer stock based compensation of \$19,885,333 and increase in derivative liabilities of \$62,544,100. There was also a decrease in accrued interest on debt of \$135,816, net decrease in assets of \$104,005 and net decrease in liabilities of \$130,968.

## Sources and Uses of Cash

Net cash provided by (used in) investing activities for the six months ended June 30, 2009 and 2008 were \$(50,812) and \$1,286,636, respectively. For the six months ended June 30, 2009, net cash came from the proceeds on the sale of 587 shares of the Company's common stock that was held in treasury totaling \$848 offset by the purchase of equipment totaling \$51,660. For the six months ended June 30, 2008 and, the net cash came primarily from the sale of securities and maturities of other investments in the amount of \$1,865,000, offset by the amount for purchase of securities of \$(565,000). Net cash from investment activities during the quarter ended June 30, 2008 was further decreased by the \$17,167 on the purchase of property and equipment and increased by an officer loan repayment of \$3,803.

Net cash provided by financing activities for the six months ended June 30, 2009 and 2008, was \$553,725 and 70,358, respectively. For the six months ended June 30, 2009, the net cash provided was from advances on our convertible debt totaling \$600,000 of which \$4,298 was used to purchase 1,400 shares of our common stock held in treasury and debt payments totaling \$41,977. For the six months ended June 30, 2008, the net cash used pertained to the purchase of 200,000 shares of our common stock still held in treasury totaling \$3,266 and an increase in the amount of indebtedness of \$55,000. In addition, during the six month ended June 30, 2008, the Company received \$18,624 through the issuance of 77,600 of its common stock.

We are not generating sufficient cash flow from operations to fund growth. We cannot predict when we will begin to generate revenue from the sale of our products, and until that time, we will need to raise additional capital through the sale of our securities. If we are unsuccessful in raising the required capital, we may have to curtail operations.

## 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.

## Table of Contents

The first critical accounting policy relates to revenue recognition. Income from our research is recognized at the time services are rendered and billed.

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

## Table of Contents

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 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 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.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Stephen Beck

On February 3, 2009, Match Corp (“the Company”) entered into a settlement agreement with Stephen Forrest Beck (“Beck”). Under the terms of the settlement, Beck shall receive no less than \$1,750,000 through 1) the sale of Company shares issued to him, 2) \$100,000 due him on the execution of the agreement and 3) 7.5% of the net proceeds received by the Company on sale of its equity

Upon the execution of the agreement, the Company agrees to pay Beck \$100,000, which is due on or before August 1, 2009 or when the Company has at least \$750,000 in cash, whichever is later. Also upon execution of the agreement, Beck will receive Company free-trading common shares equaling 2.67% of the Company’s total common shares outstanding as of the date of the agreement (“the 2.67% shares”). The proceeds from the sale of these shares will be attributable to the \$1.75M. Of the shares issued, Beck is entitled to receive all proceeds received from the sale of 66.66% of the shares originally received. The agreement contains anti-dilution provisions. If Beck receives \$1.75M prior to selling all of the 2.67% shares originally received, he must return to the Company all original shares remaining in excess of 66.66%.. He is also entitled to keep all shares issued pursuant to the anti-dilution provisions of the agreement.

The Company further agrees to pay Beck 7.5% of all net proceeds received from the sale of the Company’s equity, including net cash received from the exercise of warrants and options. The cash proceeds of which will also be attributable to the \$1.75M.

The Company agrees to place 5 million shares of its common stock into escrow. If Beck does not receive a total of \$1.75M through the sale of the original 2.67% shares issued to him and from the other indicated consideration, additional shares will be issued to him from escrow. These issued escrow shares will be freed trading and available for sale. The Company is obligated to place back into escrow shares of its common stock so that the total shares held in escrow will be 5 million, until such time as the Beck receives the \$1.75M.

No shares issued to Beck can be sold until four months after the execution of the agreement or until the Company has raised \$7.5 million, whichever is earlier.

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

On April 1, 2009, the Company issued 48,500 shares of restricted common stock to Dian Griesel for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On April 9, 2009, the Company issued 75,000 shares of restricted common stock to Horst Danning for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.



On April 21, 2009, the Company issued 80,000 shares of restricted common stock to Barry E. Mitchell for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On April 23, 2009, the Company issued 62,000 shares of restricted common stock to The Investor Relations Group for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On April 23, 2009, the Company issued 250,000 shares of restricted common stock to David Bernard for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On May 1, 2009, the Company issued 10,000 shares of restricted common stock to Barry E. Mitchell for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On May 1, 2009, the Company issued 100,000 shares of restricted common stock to John Moran for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On May 21, 2009, the Company issued 13,500 shares of restricted common stock to The Investor Relations Group for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On May 27, 2009, the Company issued 5,000,000 shares of restricted common stock to AJR Leonard Consulting Inc. for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On May 28, 2009, the Company issued 40,000 shares of restricted common stock to Mesut Pervizpour for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On May 28, 2009, the Company issued 449,730 shares of restricted common stock to UTEK Corporation for the acquisition of technology in reliance upon Section 4(2) under the Securities Act of 1933.

On June 17, 2009, the Company issued 13,500 shares of restricted common stock to The Investor Relations Group for consulting services in reliance upon Section 4(2) under the Securities Act of 1933.

On June 19, 2009, the Company issued 5,000,000 shares of restricted common stock to MATECH Corp. Treasury Stock reserved for the payment of consulting services to Stephen F. Beck in reliance upon Section 4(2) under the Securities Act of 1933.

On July 10, 2009, sixteen holders of warrants to purchase 39,762,219 shares of common stock of the Company exercised their warrants and were issued 39,762,119 shares of the common stock of the Company in reliance upon Rule 144 under the Securities Act of 1933.

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.



Table of Contents

Item 5. Other Information.

None.

Item 6. Exhibits.

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 18, 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)

