

MATECH Corp.
Form 10-K
April 15, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

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, California 90049
(Address of principal executive offices)

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

Securities registered pursuant Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recent completed fiscal quarter ended March 31, 2009: \$61,247,408

APPLICABLE ONLY TO REGISTRANTS 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 REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: April 9, 2009, 32,539,790 shares of Class A common stock, \$.001 par value; and 600,000 shares of Class B common stock, \$.001 par value

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933: None.

MATECH Corp.
Annual report for the period ended December 31, 2008

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PART I

ITEM 1 – Business

Development of Business

We were formed as a Delaware corporation on March 4, 1997. We are the successor to the business of Material Technology, Inc., a Delaware corporation, also doing business as Tensiodyne Scientific, Inc. Material Technology, Inc. was the successor to the business of Tensiodyne Corporation that began developing the Fatigue Fuse in 1983. Our two predecessors, Tensiodyne Corporation and Material Technology, Inc. were engaged in developing and testing our Fatigue Fuse and, beginning in 1993, developing our Electrochemical Fatigue Sensor.

Our Business

Over the last several years, we were engaged in research and development of metal fatigue detection, measurement, and monitoring technologies. We have now developed several monitoring devices for metal fatigue detection and measurement. We are currently marketing our technology.

Our efforts have been dedicated to developing devices and systems that indicate the true status of fatigue damage in a metal component. We have developed two products. The first is a small, simple device that continuously integrates the effect of fatigue loading in a structural member, called a Fatigue Fuse. The second is an instrument that detects very small growing fatigue cracks in metals, the Electrochemical Fatigue Sensor. The Electrochemical Fatigue Sensor has demonstrated in the laboratory that it can detect cracks as small as 10 microns (0.0004 inches), which we believe is smaller than any other practical crack detection technology. The Company holds the patents on the Fatigue Fuse and the license on the technology on the Electrochemical Fatigue Sensor from the University of Pennsylvania and licenses both of those technologies to us.

We have completed the technology to the point where we are now performing real world bridge inspections.

The Federal Highway Administration (FHA) has signed a \$347,500 contract with us to purchase equipment and training as part of their Steel Bridge Testing Program. They will use our EFS system in the laboratory and on actual bridges to find growing fatigue cracks. Following the completion of this program, the FHA will recommend technologies for use on bridges for specific bridge problems.

Our on-call contract with the Pennsylvania Department of Transportation (PennDOT) is continuing to produce good results. We have used the EFS on 12 bridges in Pennsylvania so far, totaling over \$100,000. We anticipate further work orders to be issued for the next inspection season. We have also received interest from several inspection companies in Pennsylvania to purchase EFS equipment, as well as training and licensing, in order to execute these further work orders, with licensing fees payable to us for each bridge inspected. One such company has already been trained at their cost to help us execute on-call contracts in 2008.

We completed a contract with Massachusetts (MassHighway) for \$24,290. We then met with MassHighway representatives who hired us to conduct additional bridge inspections during 2008.

New York State contracted with us to provide EFS inspection services on a high profile fracture critical bridge for \$9,630. As a result of this initial inspection for the New York State Department of Transportation, we will be performing a follow up inspection. Additionally, they are evaluating purchase of equipment, training for their engineers, and licensing in 2008.

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We have completed an inspection of a fracture critical bridge in West Sacramento, California, and are also in the process of analyzing and reporting the results. At the same time we have met with several high-ranking state and national officials in California, with more meetings planned, all discussing the use of EFS across the state.

We have also formed a strategic alignment with a California-based independent testing laboratory called Smith Emery Company. Smith Emery Company is over 100 years old and has over 400 employees in California as well as an office in China. They perform weld testing, building façade testing, and metallurgical failure analysis. Engineers and technicians have already been trained at their cost to execute contracts in the western U.S. region.

We have signed a contract with the Canadian National Railway to inspect a bridge in Wisconsin. The Canadian National Railway owns a number of bridges in the United States.

We have completed and sent PennDOT a report on the nine bridges we inspected in Pennsylvania. We hope to meet with PennDOT in the near future to discuss the use of EFS on their remaining steel bridges.

We have been invited by the U.S. Army Corps of Engineers to present at the U.S. Secretary of Defense's office on May 1 and 2, 2008. The U.S. Army Corps of Engineers owns all of the bridges over U.S. federal waterways.

We have scheduled inspections in 2008 for the following entities so far:

- Virginia Department of Transportation
- Canadian National Railway
- Alabama Department of Transportation
- MassHighway
- New York Department of Transportation

We have been hired to perform inspections with the following entities which have not yet been scheduled:

- New Jersey Department of Transportation
- PennDOT
- Union Pacific Railroad
- URS Engineers

Our Technologies

The Fatigue Fuse

The Fatigue Fuse is designed to be affixed to a structure to give warnings at pre-selected percentages of the fatigue life that have been used up (i.e., how close to failure the structure has progressed). It warns against a condition of widespread generalized cracking due to fatigue.

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

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When the fatigue life of a finger (Fuse) is reached, the Fuse breaks.

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

In a new structure, we generally assume there is no fatigue and can thus design the Fatigue Fuse for 100% of its life potential. But in an existing structure, one that has experienced loading and wear, we must determine the fatigue status of that structural member so we can design the Fatigue Fuse to monitor the remaining fatigue life potential.

We believe that the Fatigue Fuse is of value in monitoring aircraft, ships, bridges, conveyor systems, mining equipment, cranes, etc. Little special training is needed to qualify individuals to report any broken segments of the Fatigue Fuse to the appropriate engineering authority for necessary action. The success of the device is contingent upon our successful marketing of the Fatigue Fuse, and no assurance can be given that we will be able to overcome the obstacles relating to introducing a new product to the market. To implement our ability to produce and market the Fatigue Fuse, we need substantial additional capital and no assurance can be given that this needed capital will be available.

The Electrochemical Fatigue Sensor (EFS[™])

The EFS is a device that employs the principle of electrochemical/mechanical interaction of metals under repeated loading to find growing cracks. It is an instrument that detects very small cracks and has the potential to determine crack growth rates. The Electrochemical Fatigue Sensor has demonstrated in the laboratory that it can detect cracks as small as 10 microns (0.0004 inches), which we believe is smaller than any other practical technology. We believe that nothing comparable to this instrument currently exists in materials technology. We have inspected approximately 33 bridges to date using this technology.

The EFS functions by treating the location of interest (the target) associated with the structural member as an electrode of an electrochemical cell (similar to a battery). By imposing a constant voltage-equivalent circuit as the control mechanism for the electrochemical reaction at the target surface, current flows as a function of stress action. The EFS is always a dynamic process; therefore stress action is required, e.g., to measure a bridge structural member it is necessary that cyclic loads be imposed, such as normal traffic on the bridge would do. The results are a specific set of current waveforms and amplitudes that characterize and indicate fatigue damage i.e., growing fatigue cracks.

Status of our Technologies

Currently, our primary focus is on the commercialization of the EFS.

Status of the EFS

Within the past twelve months, we have successfully used EFS on 18 highway and railroad bridges. We are now actively marketing the EFS for bridges.

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Status of the Fatigue Fuse

To date, certain organizations have included our Fatigue Fuse in test programs. We have already completed the tests for welded steel civil bridge members conducted at the University of Rhode Island. In 1996, Westland Helicopter, a British firm, tested the Fatigue Fuse on helicopters. That test was successful with the legs of the Fatigue Fuses failing in sequence as predicted. At the present time, we are applying Fatigue Fuses to several portable aluminum bridges for the U.S. Army.

The Fatigue Fuse has been at this stage for the past several years as we have not had the necessary financial resources to finalize our development and commence marketing. At the present time we have elected to defer future development of the Fatigue Fuse and apply our resources to pursue the EFS technology.

Commercial Markets for our Products and Technologies

Our technology is applicable to many market sectors such as bridges and aerospace as well as ships, cranes, railways, power plants, nuclear facilities, chemical plants, mining equipment, piping systems, and heavy iron.

Application of Our Technologies For Bridges

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

Although there are normal business imperatives, the bridge market is essentially macro-economically and government policy driven. In our opinion, only technology can provide the solution. The need for increased spending accelerates significantly each year as infrastructure ages. The Federal government has mandated bridge repair and detection through the passage of the Intermodal Surface Transportation and Efficiency Act in 1991 and again in the \$200 billion, 1998 Transportation Equity Act. We have completed several contracts to install our fatigue detection products on bridge structures within the United States, and are in negotiations for several others.

Our Patent Protections

We are the owner and/or assignee of eight patents as follows:

Title	USPTO No.
Devise for Monitoring Fatigue Life	4,590,804
Method of Making a Device for Monitoring Fatigue Life	4,639,997
Metal Fatigue Detector	5,237,875

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Device for Monitoring the Fatigue Life of a Structural Member and a Method of Making Same	5,319,982
Device for Monitoring the Fatigue Life of a Structural Member and a Method of Making Same	5,425,274
Methods and Devices for Electro Chemically Determining Metal Fatigue Status	5,419,201
Apparatus for and Method for Interrogating a Fatigue Fuse	Provisional
Indicator for Fatigue Fuse	Provisional

Our Patents are Encumbered

The patents described in the preceding section are pledged as collateral to secure the repayment of loans extended to us or indebtedness that we currently owe. On August 30, 1986, we entered into a funding agreement with the Advanced Technology Center, whereby ATC paid \$45,000 to us for the purchase of a royalty of 3% of future gross sales and 6% of sublicensing revenue. The royalty is limited to the \$45,000 plus an 11% annual rate of return. The payment of future royalties was secured by equipment we used in the development of technology as specified in the funding agreement; however, no lien against our equipment or our patents in favor of ATC vested until we generated royalties from product sales.

On May 4, 1987, we entered into a funding agreement with ATC whereby ATC provided \$63,775 to us for the purchase of a royalty of an additional 3% of future gross sales and 6% of sublicensing revenue. The agreement was amended August 28, 1987, and as amended, the royalty cannot exceed the lesser of (1) the amount of the advance plus a 26% annual rate of return or, (2) total royalties earned for a term of 17 years. As with our first agreement with ATC, no lien or encumbrance against our assets, including our patents, vested in favor of ATC until we generated royalties from product sales.

On September 28, 2006, we entered into an agreement with Ben Franklin Technology, the successor to ATC, to give Ben Franklin 3,334 shares of our common stock, valued at \$40,000, in exchange for a general release of the above liabilities.

On May 27, 1994, we borrowed \$25,000 from Sherman Baker, one of our shareholders. We gave Mr.

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Baker a promissory note due May 31, 2002 and we pledged our patents as collateral to secure the repayment of this note. As of December 31, 2007, there is a first priority security interest in our patents as collateral for the repayment of the amounts we owe to Mr. Baker. As additional consideration for this loan, we granted to Mr. Baker a 1% royalty interest in the Fatigue Fuse and a 0.5% royalty interest in the Electrochemical Fatigue Sensor. We are in default of the repayment terms of the note held by Mr. Baker, and at December 31, 2007, we owe Mr. Baker \$56,761 in principal and accrued interest. Mr. Baker has not taken any action to foreclose his interest in the collateral and we are in discussions with Mr. Baker, with the expectation that we will cure any default in the note he holds and avoid any foreclosure of his security interest held in our patents. We believe that although we have not yet cured our defaults on the loans to Mr. Baker, our current communications with him suggest that Mr. Baker does not have the present intention of foreclosing on the patents as collateral or the pursuit of legal action against us to collect the balance due under our note.

Distribution of our Products

Subject to available financing, we have and continue to exhibit the Electrochemical Fatigue Sensor, and to a lesser extent the Fatigue Fuse, at various trade shows and intend to also market our products directly to end users including certain state regulatory agencies charged with overseeing bridge maintenance, companies engaged in manufacturing and maintaining large ships and tankers, and the military. Although we intend to undertake marketing, dependent on the availability of funds, within and without the United States, no assurance can be given that any such marketing activities will be implemented.

Competition

Other technologies exist which identify cracks which may be the result of fatigue damage. Single cracks larger than a minimum size can be found by nondestructive inspection methods such as dye penetrant, radiography, eddy current, acoustic emission, and ultrasonics. Ours is the only one known able to detect growing cracks. Tracking of load and strain history, to subsequently estimate fatigue damage by computer processing, is possible with recording instruments such as strain gauges and counting accelerometers. These methods have been used for over 40 years and also offer the advantage of having been accepted in the market, whereas our products remain largely unproven. Companies marketing these alternate technologies include Magnaflux Corporation, Kraut-Kramer-Branson, Dunegan-Endevco, and Micro Measurements. These companies have more substantial assets, greater experience, and more resources than us, including, but not limited to, established distribution channels and an established customer base. The familiarity and loyalty to these technologies may be difficult to dislodge. Because we are still in the development stage, we are unable to predict whether our technologies will be successfully developed and commercially attractive in potential markets.

Employees

We have eight full-time employees. In addition, we retain consultants on an independent contractor basis for specialized work.

ITEM 1A – RISK FACTORS

Financial Position of the Company, Working Capital Deficit; Report of Independent Registered Public Accounting Firm

The Company has generated no earned income during its fiscal year ended December 31, 2008. The Company has not yet generated sufficient operating income from operations, nor is there any assurance that the Company

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will achieve future revenue levels and operating efficiencies to support existing operations, generate positive cash flow from operations or recover its proposed investment in its property, plant and equipment. The Company expects to show continued losses through the first half of calendar 2009 and there can be no assurance that such losses will not continue thereafter. The success of the Company's operations are largely dependent upon its ability to establish and improve operating efficiencies and overall production capacity, generate substantial sales revenues and generate adequate cash-flows from operations. The Company's operations are subject to numerous risks associated with the establishment of its business, including lack of adequate financing sources and competition from numerous large, well-established and well-capitalized competitors. In addition, the Company has in the past and may again in the future encounter unanticipated problems, including manufacturing, distribution and marketing difficulties, some of which may be beyond the Company's financial and technical abilities to resolve. The failure to adequately address such difficulties could have a materially adverse effect on the Company's prospects.

The Report of Independent Registered Public Accounting Firm on the Company's financial statements for the period ended December 31, 2008, contains an explanatory paragraph regarding the Company's ability to continue as a going concern. See Report of Independent Registered Public Accounting Firm contained in the Financial Statements. See Item 8 "Financial Statements and Supplementary Data".

Availability and Integration of Future Acquisitions

The Company's strategy includes pursuing acquisition candidates that complement its existing product line and geographic presence and leverage of its purchasing power, brand management and capability and operating efficiencies. Potential competitors for acquisition opportunities include larger companies with significantly greater financial resources. Competition for the acquisition of businesses may result in acquisitions on terms that prove to be less advantageous to the Company that have been attainable in the past or may increase acquisition prices to levels beyond the Company's financial capability. The Company's financial capability to make acquisitions is partially a function of its ability to access the debt and equity capital markets. In addition, there can be no assurance that the Company will find attractive acquisition candidates in the future or succeed in reducing the costs and increasing the profitability of any business acquired in the future.

Risks of Leverage

The Company anticipates that it may incur substantial borrowings for the purpose of purchasing inventory and equipment, and for financing the expansion and growth of the Company, including the possible acquisition of other companies. See "Business - Borrowing Policies". Any amounts borrowed will depend, among other things, on the condition of financial markets. Acquisitions of equipment, vehicles, or other companies purchased on a leveraged basis generally can be expected to be profitable only if they generate, at a minimum, sufficient cash revenues to pay interest on, and to amortize, the related debt, to cover operating expenses and to recover the equity investment. The use of leverage, under certain circumstances, may provide a higher return to the shareholders but will cause the risk of loss to the shareholders to be greater than if the Company did not borrow, because fixed payment obligations must be met on certain specified dates regardless of the amount of revenues derived by the Company. If debt service payments are not made when due, the Company may sustain the loss of its equity investment in the assets securing the debt as a result of foreclosure by the secured lender. Interest payable on Company borrowings, if any, may vary with the movement of the interest rates charged by banks to their prime commercial customers. An increase in borrowing costs due to a rise in the "prime" or "base" rates may reduce the amount of Company income and cash availability for dividends.

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Highly Competitive Industry

The Company's business is highly competitive. The Company faces competition in all of its markets from large, national companies and smaller, regional companies, as well as from individuals. Many of the Company's competitors are larger and have greater financial resources than the Company. The Company from time to time will experience price pressure in certain of its markets as a result of competitors' promotional pricing practices. Competition is based on quality, functionality, price, brand loyalty, effective promotional activities and the ability to identify and satisfy emerging preferences.

Rapid Growth

The Company may experience rapid growth. It will be necessary for the Company to rapidly add a significant number of employees and may be required to expend considerable efforts in training these new employees. This growth will place strains on the Company's management resources and facilities. The Company's success will, in part, be dependent upon the ability of the Company to manage growth effectively.

General Economic Conditions

The financial success of the Company's operations may be sensitive to adverse changes in general economic conditions, such as inflation, unemployment, and the cost of borrowing. These changes could cause the cost of the Company's products to rise faster than it can raise prices. The Company has no control over any of these changes.

Dividends

There can be no assurance that the proposed operations of the Company will result in sufficient revenues to enable the Company to continue to operate at profitable levels or to generate positive cash flow to enable the Company to pay cash dividends to its shareholders.

Potential Quarterly Fluctuations

The Company may experience variability in its net sales and net income on a quarterly basis as a result of many factors, including the volatility of commodities, industrial stability in general, seasonal shifts in demand, weather and announcements of new and/or competitive producers. The Company's planned operating expenditures each quarter are based on sales forecasts for the quarter. If sales do not meet expectations in any given quarter, operating results for the quarter may be materially and adversely affected.

Dependence on Senior Management

The Company's future performance will depend to a significant extent upon the efforts and abilities of certain key management personnel. The Company currently does not have key life insurance policies on any of its executives. The loss of service of one or more of the Company's key management personnel could have an adverse effect on the Company's business. The Company's success and plans for future growth will also depend in part on management's continuing ability to hire, train and retain skilled personnel in all areas of its business.

Product Liability and Warranty Claims

The Company has never had a significant claim brought against it for product liability. While the Company has never incurred significant liability for such claims, any significant occurrence in claims could have an adverse impact on the Company. The Company

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believes that its product liability insurance will be adequate and that it also may have certain rights to indemnification from third parties. There can, however, be no assurance that claims exceeding such coverage will not be made, that the Company will be able to obtain and continue insurance coverage, or that the Company would be successful in obtaining indemnification from such third parties. Although the Company from time to time will provide written limited warranties to its customers, no significant warranty claims have been received or are expected. There can, however, be no assurance that significant warranty claims will not be received in the future.

Business Interruption

The Company believes that its success and future results of operations will be dependent in large upon its ability to provide prompt and efficient service to its customers. As a result, any disruption of the Company's day-to-day operations could have a material adverse effect upon the Company and any failure of the Company's management and manufacturing systems, distribution arrangements or communication systems could impair its ability to receive and process customer orders and ship products on a timely basis.

If the Company's facilities are significantly damaged by fire or other casualty, production may be substantially interrupted and such casualty loss and business interruption would have a material adverse effect on the Company's operations and profitability. The Company intends to maintain business interruption insurance but there can be no assurance that such coverage, if obtained, will be sufficient to cover the Company's losses or that the Company will be able to regain its market share or customer base after resuming operations.

Factors Affecting Operations

The construction industry may be affected by adverse changes in general or local economic market conditions, weather, changing regulatory requirements, limited alternative uses for the rubber materials, changing demographics, and other factors.

Dependence on Key Personnel

The operation of the company requires managerial and operational expertise. The Company has no reason to believe that any of its key management personnel will not continue to be active in the Company's operations.

Employees

Although the Company believes that it will be able to obtain and maintain an adequate number of competent personnel, there is no assurance that a shortage of qualified operating personnel will not present a serious problem to the Company in the future..

Uninsured Losses

The Company intends to arrange for comprehensive insurance, including general liability, fire and extended coverage and business interruption insurance, which is customarily obtained for similar operations. Although the Company will maintain insurance coverage in amounts believed to be prudent and sufficient, there is a possibility that losses may exceed such coverage limitations. Furthermore, there are certain types of losses (generally of a

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catastrophic nature, including tornadoes, earthquakes and floods) that are either uninsurable or not economically insurable. Should such a disaster occur, the Company could suffer a loss of the capital invested in, as well as, anticipated profits from any property destroyed by such a casualty.

Governmental Regulations

Existing and subsequent changes in foreign, national, state and local laws, as well as, administrative regulations and enforcement policies over which the Company has no control could have an adverse effect on the Company's business. Worker's compensation requirements and other regulation of wages, hours and working conditions could have adverse effects on the Company's operations. The continued operations are dependent upon its ability to comply with local zoning and land use regulations which govern the use of buildings and similar matters. The Company believes that it can obtain the necessary permits to promote the intended business of the Company at the sites where it intends to do business, but its ability to obtain these permits is dependent upon the discretion of state and/or local officers. Moreover, many of these permits may impose restrictive conditions upon the business operations of the Company and may be reviewed and revoked at specified intervals. No assurance can be given that a future law or regulation applicable to the Company's location will not have an adverse effect upon its ability to conduct business.

The Company is subject to numerous federal, state and local laws and regulations that govern the discharge and disposal of wastes, workplace safety and other aspects of the Company business. The Company's operations entail the risk of noncompliance with environmental and other government regulations. Environmental and other legislation and regulations have changed in recent years and the Company cannot predict what, if any, impact future changes may have on the Company's business. Further, environmental legislation has been enacted, and may in the future be enacted, that creates liability for past actions that were lawful at the time taken. As in the case with manufacturing companies in general, if damage to persons or the environment has been caused, or is in the future caused, by the Company's use of hazardous solvents or by hazardous substances located at the Company's facilities, the Company may be fined or held liable for the cost of remediation. Imposition of such fines or the incurrence of such liability may have a material adverse effect on the Company's business, financial condition and results of operations.

Indemnification

The Company's Certificate of Incorporation limits the liability of its directors and officer to the Company and its shareholders to the fullest extent permitted by Delaware law, and provides for indemnification of the directors and officers to such extent. See "Management-Limited Liability and Indemnification". The Company may also obtain liability insurance. These measures will provide additional protection to the directors and officers of the Company against liability in connection with certain actions and omissions.

Conflicts of Interest

There are anticipated conflicts of interest between the Company and its stockholders, and there may be potential conflicts of interest involving the Company and its stockholders, some of which may affect the planned business activities of the Company. The Board of Directors will attempt to resolve any conflict of interest situation which may arise and which is brought to the attention of the Board of Directors on a case-by-case basis.

Non-Arm's Length Transactions

The Company may engage in transactions with its officers, directors and shareholders. Such transactions may be considered as not having occurred at arm's length. The Company may do business with such

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persons in the future, but intends to contract with them on the same basis and upon no more favorable terms than could be obtained from persons not affiliated with the Company.

ITEM 1B – Unresolved Staff Comments

The Company received a comment letter dated January 9, 2009, regarding its pending Form S-1 registration statement (File No. 333-156139). The Company intends to file an amendment to the Form S-1 registration statement and to then respond to the comments of the staff as soon as possible.

ITEM 2 – Properties

We lease an office at 11661 San Vicente Blvd., Suite 707, Los Angeles, California, 90049. The space consists of 830 square feet and will be adequate for our current and foreseeable needs. The total rent is payable at \$2,582 per month on a month-to-month basis. Either party may cancel the lease on 30 days notice.

ITEM 3 – LEGAL PROCEEDINGS

Stephen Beck

In July 2002, we settled a lawsuit related to a contract dispute with Mr. Stephen Beck. In March 2006, Mr. Beck filed a lawsuit against us alleging breach of contract related to the lawsuit settlement and sought approximately \$135,000 in damages, plus the issuance of 12,989 shares of our common stock plus interest.

In December 2006, we entered into a settlement and release agreement, as well as irrevocable escrow instructions, to settle the lawsuit Mr. Beck filed in March 2006. As consideration under the settlement, we issued 5,000,000 shares of our common stock to Mr. Beck, with the shares to be held by an escrow agent and distributed to Mr. Beck monthly with a trading limit equal to 8% of the previous month's trading volume of our common stock, until Mr. Beck has received a total of \$800,000. As we have guaranteed this debt to Mr. Beck in the amount of \$800,000, we have recorded a liability as of December 31, 2007 for this amount. As Mr. Beck receives proceeds from the sale of his shares into the market and 7.5% (net of any expenses incurred by us) of any cash raised by us from the sale of equity, we will reduce our guarantee by that amount. We have paid a total of \$285,182 to Mr. Beck in cash as part of the settlement. Mr. Beck also had anti-dilution rights on those shares to maintain his percentage ownership through September 27, 2008. We issued another 5,000,000 shares to Mr. Beck to be held in escrow until the conditions are met with respect to the anti-dilution shares. As of the date of this Report, we have issued a total of 1,393,617 shares of common stock to Mr. Beck pursuant to the anti-dilution provision in the settlement arrangement. In or about February 2008, Mr. Beck reached the \$800,000 guarantee from the sale of our common stock and the cash received from us for 7.5% of the capital we raised. Therefore, as of the date of this Report, we have no further liability to Mr. Beck.

On September 12, 2007, we filed a complaint for declaratory relief against Mr. Beck in the Superior Court of the State of California, County of Los Angeles, Central Judicial District, seeking a judicial determination as to the respective rights and duties of us and Mr. Beck with respect to certain terms and conditions of the settlement agreement and escrow instructions.

On October 1, 2007, Mr. Beck served us with a Motion for Enforcement of Settlement and Entry of Judgment (Motion"). Mr. Beck's motion was denied.

On February 7, 2008, we filed a first amended complaint in our action against Mr. Beck for declaratory relief which now also seeks to have the settlement agreement and escrow instructions rescinded. On March 6, 2008,

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Mr. Beck filed a cross-complaint against us and Robert M. Bernstein, our President and a Director, for breach of contract, specific performance, declaratory relief, conversion, intentional interference with contract (against Mr. Bernstein only) and, in the alternative, equitable restitution.

Gem Advisors, Inc., GEM Global Emerging Markets, and Global Emerging Markets of North America, Inc.

On June 15, 2005, we filed a Complaint in the Los Angeles Superior Court, State of California, case number BC336689, against Gem Advisors, Inc., GEM Global Emerging Markets, and Global Emerging Markets of North America, Inc., seeking a declaration regarding certain agreements we entered into with the parties. We did not seek monetary damages. On November 16, 2005, Gem Advisors, Inc. filed an Answer and Cross-Complaint, seeking approximately \$1.9 million in damages arising out of finders fees for certain transactions. On November 30, 2005, default judgments were entered against the other defendants who failed to respond to our Complaint. In September 2006, this case was dismissed as to all parties because the parties thought they could agree on the terms of a written settlement agreement. However, the parties failed to reach a settlement and no formal settlement agreement was ever executed.

On November 30, 2007, Gem Advisors, Inc. filed a lawsuit against us, Robert M. Bernstein, and Lawrence I. Washor (who represented us in the lawsuit against Gem Advisors, Inc. filed on June 15, 2005), for breach of contract (settlement), breach of contract (for transfer to Gem Advisors, Inc. of 585,000 shares we held in another company), breach of covenant of good faith and fair dealing, and fraud and deceit – promise made without intention to perform (the only cause of action asserted against Robert M. Bernstein and Lawrence I. Washor). Gem Advisors, Inc. is seeking damages in excess of \$250,000. On April 10, 2008, the Court dismissed Lawrence I. Washor from the lawsuit.

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

None.

PART II

ITEM 5 – Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is quoted on the OTC bulletin board under the symbol MTCH. The following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	High	Low
Fiscal year ended December 31, 2006:		
First quarter	\$ 0.29	\$ 0.09
Second quarter	\$ 0.35	\$ 0.08
Third quarter	\$ 0.10	\$ 0.03
Fourth quarter	\$ 13.80	\$ 0.03

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Fiscal year ended December 31, 2007:			
First quarter	\$	3.70	\$ 0.41
Second quarter	\$	1.65	\$ 1.01
Third quarter	\$	1.97	\$ 0.55
Fourth quarter	\$	0.75	\$ 0.40
Fiscal year ended December 31, 2008:			
First quarter	\$	0.86	\$.025
Second quarter	\$.028	\$.0021
Third quarter	\$.017	\$.001
Fourth quarter (Oct 1 and Oct 2)	\$.0015	\$.0014
Fourth quarter (Oct 3 thru Dec 31)(1)	\$	3.30	\$ 0.25

(1) After a 1-for-1000 reverse stock split in October 2008.

The closing price of our common stock on April 9, 2009, was \$2.50.

Holders

We had 24,408,963 shares of our Class A common stock issued and outstanding and held by approximately 1,728 holders of record as of December 31, 2008. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

The transfer agent for our Class A common stock is Interwest Transfer Company, Inc., 1981 Murray Holiday Road, Suite 100, Salt Lake City, Utah 84117.

Dividends

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant.

Securities Authorized for Issuance under Equity Compensation Plans

On April 18, 2006, our Board of Directors approved the 2006 Non-Qualified Stock Grant and Option Plan (the 2006 Plan”) with 100,000 shares of our common stock available for issuance under the plan. The plan offers selected employees, directors, and consultants an opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. As of the date of this Report, we have issued all 100,000 shares of common stock under the plan.

On December 1, 2006, our Board of Directors approved the 2006/2007 Non-Qualified Company Stock Grant and Option Plan (the 2006/2007 Plan”) with 3,000,000 shares of our common stock available for issuance under the plan. The plan offers selected employees, directors, and consultants an opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. As of the date of this Report, we have not issued any options or shares of common stock under the 2006/2007 Plan.

On April 22, 2008, our Board of Directors approved the 2008 Incentive and Nonstatutory Stock Option Plan (the “2008 Plan”) with 100,000,000 shares of our common stock available for issuance

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under the plan. On May 23, 2008, our Board of Directors amended the 2008 Plan increasing the number of shares of our common stock available for issuance under the plan to 400,000,000. The 2008 Plan offers selected employees, directors, and consultants an opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. As of the date of this Report, we have issued all 400,000,000 stock options to employees under the 2008 Plan.

Recent Sales of Unregistered Securities

On January 9, 2008, we issued 425,000 shares of common stock to one individual in exchange for consulting services.

On January 14, 2008, we issued a total of 7,000,000 shares of common stock to two entities for investor relations services.

On January 21, 2008, we issued 425,000 shares of common stock to one individual in exchange for services.

On February 19, 2008, we issued 200,000 shares of common stock to one individual in exchange for services.

On February 25, 2008, we issued 150,000 shares of common stock to one individual in exchange for consulting services.

On February 27, 2008, we issued 150,000 shares of common stock to one individual in exchange for consulting services.

On February 27, 2008, we issued 200,000 shares of common stock to one individual in exchange for consulting services.

On February 27, 2008, we issued 25,000 shares of common stock to one individual in exchange for consulting services.

On April 9, 2008, we issued options to purchase a total of 15,390,546 shares of Class A common stock to two individuals at an exercise price of \$0.025 per share.

On April 9, 2008, we issued options to purchase a total of 48,000 shares of Class B common stock to two individuals at an exercise price of \$0.50 per share.

On April 11, 2008, we issued 77,600 shares of common stock to four individuals under Regulation S for total gross proceeds of \$18,624.

On July 11, 2008, we issued a total of 8,577,907 shares of common stock to two entities pursuant to their conversion of Series E Convertible Preferred Stock.

Unless otherwise indicated, we relied on the exemption from registration relating to offerings that do not involve any public offering pursuant to Section 4(2) under the Securities Act of 1933 (the "Act") and/or Rule 506 of Regulation D of the Act. We believe that each investor had adequate access to information about us through the investor's relationship with us.

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ITEM 6 – Selected Consolidated Financial Data

Comparison of Years Ended December 31, 2008 and 2007

During the fiscal year ended December 31, 2008 and 2007, the Company had revenues of \$102,622 and \$201,917, respectively, a decrease of approximately 54%. The revenues of the Company were derived primarily by providing bridge testing services.

During the fiscal year ended December 2008 and 2007, the Company had a net loss of \$267,909,404 versus a loss of \$73,396,579, respectfully which equates to a 365% increase in net loss. The increased loss was attributable mainly to changes in the fair value of derivative and warrant liability and losses regarding shareholder settlements relating to the failure to register common stock of the Company as required by contractual commitments.

General and administrative expenses declined from \$98,557,941 in the year ended December 31, 2007, to \$27,582,716 during the year ended December 31, 2008. Research and development expenses also declined from \$3,701,966 during the year ended December 31, 2007, to \$527,833 during the year ended December 31, 2008.

During the fiscal year end December 31, 2008, the Company incurred a loss of \$39,407,195 due to its failure to register the shares of its common stock sold to investors to private placements because it failed to timely register such securities within the required contractual time period, compared to no similar loss during fiscal 2007.

During the year ended December 31, 2008, the Company incurred a loss of \$(196,565,985) regarding the change in fair value of derivative and warrant liabilities, compared to a gain of \$34,962,617 during fiscal 2007.

ITEM 7 – 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 Annual 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.

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Overview

We research and develop technologies that detect and measure metal fatigue. We have developed two products. Our two products are the Fatigue Fuse and 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 continued research and development and 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 will continue to raise capital in this manner.

Our 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 December 31, 2007, the deficit accumulated during the development stage amounted to approximately \$313,208,402, and amounted to \$581,117,806 at December 31, 2008.

In view of these matters, realization of a major portion of the assets in the accompanying 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. We plan to continue to raise funds through the sale of our securities for the foreseeable future. In addition in 2007, we received contracts to inspect certain bridges with nine states which generated gross revenue of approximately \$201,917. 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 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements.

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

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capital through loans and financing to fund operations. For the foreseeable future, we plan to continue to raise capital in this manner.

Our 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 December 31, 2008, the deficit accumulated during the development stage amounted to approximately \$581,117,806.

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 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 Year Ended December 31, 2008 as Compared to the Year Ended December 31, 2007 (audited)

Introduction

We have had revenues primarily from bridge testing. Our revenues from bridge testing for 2007 totaled \$201,917 and for 2008 totaled \$92,622, a decrease of approximately 54%. We continued to fund the majority of our operations through the issuance of our stock, resulting in large expenses in the areas of research and development and consulting. The amount of cash used in our operations was approximately \$2,664,630 in 2007 compared to approximately \$2,830,283, an increase of approximately 6% in 2008. We anticipate that we will continue to fund a substantial portion of our operations through the sale of our securities until such time as we can begin to generate substantial revenue from the sale of our services and products, and we do not have an estimate of when such revenues will begin.

Revenues and Loss from Operations

Our revenue, research and development costs, general and administrative expenses, and loss from operations for the year ended December 31, 2007 as compared to the year ended December 31, 2008 are as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2008	Percentage Change	
Revenue	\$ 201,917	\$ 102,622	(54.2)	%
Research and development costs	3,701,966	527,833	(85.7)	%
General and administrative expenses	98,557,943	27,582,716	(72.0)	%
Loss from Operations	\$ (73,396,581)	\$ (267,909,404)	(365)	%

Our revenues for both 2007 and 2008 were derived primarily from bridge testing.

Of the \$3,701,966 in research and development costs for 2007, \$197,005 was incurred in salaries to our in-house engineering staff which included an officer and director, \$359,861 was paid to outside

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consultants and for related expense reimbursements, and we valued the issuance of 2,116,000 shares of our common stock that were issued to various consultants at \$3,145,100. Of the \$527,833 in research and development costs for 2008, \$241,930 was incurred in salaries to our in-house engineering staff which included an officer and director, \$298,022 was paid to outside consultants and \$2,208 for related expense reimbursements.

General and administrative expenses were \$98,557,943 and \$27,582,716, respectively, for the years ended December 31, 2007 and 2008. The major expenses incurred during each of the years were:

	Year Ended December 31, 2007	Year Ended December 31, 2008
Consulting services	\$ 16,855,747	\$ 5,012,162
Officer's salary	284,916	20,238,533
Officer's stock based compensation	60,048,000	19,885,333
Secretarial salaries	132,754	275,278
Professional Fees	1,053,280	571,709
Office expense	97,459	76,270
Rent	139,173	33,099
Impairment loss	19,294,875	-
Payroll taxes	42,334	129,486
Telephone	27,929	22,175

Of the \$16,855,747 in consulting expense for the year ended December 31, 2007, \$12,394,888 was related to the issuance of 8,926,724 shares of common stock. In addition, we charged \$1,100,000 in consulting fees through an increase in convertible debt of \$1,100,000 and charged \$2,845,000 to consulting in connection with the acquisition of shares of Rocket City Automotive.

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 year ended December 31, 2008 as compared to the year ended December 31, 2007 are as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2008	Percentage Change
Gain on modification of convertible debt	\$ 0	\$ (964,730)	(100)%
Interest expense	(2,374,032)	(2,905,684)	22.3 %
Net unrealized and realized loss of marketable securities	(3,986,553)	(0)	100 %
Change in fair value of derivative and warrant liabilities	34,962,617	(196,565,985)	(562)%
Interest income	60,179	16,174	(73.1)%
Provision for income taxes	(800)	(800)	-
Net loss	\$ (73,396,581)	\$ (267,909,404)	(365)%

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Liquidity and Capital Resources

Introduction

During the year ended December 31, 2008, as with the year ended December 31, 2007, 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 December 31, 2008, as compared to December 31, 2007, were as follows:

	December 31, 2008	December 31, 2007
Cash	\$ 176,345	\$ 809,710
Marketing securities		
- trading	\$ -	\$ 300,000
Investment in certificates of deposit	\$ -	\$ 1,009,267
Accounts receivable	\$ 41,961	\$ 108,661
Inventories	\$ 141,341	\$ 62,216
Prepaid expenses and other	\$ 359,227	\$ 47,692
Total current assets	\$ 718,847	\$ 2,337,546
Total assets	\$ 801,587	\$ 2,425,280
Total current liabilities	\$ 2,998,107	\$ 691,380
Total liabilities	\$ 214,766,043	\$ 14,240,655

Cash Requirements

For the year ended December 31, 2008, our net cash used in operations was \$(2,830,283) compared to \$(2,664,630) for the year ended December 31, 2007.

Negative operating cash flows during the year ended December 31, 2008 were primarily created by a net loss from operations of \$(267,909,404), offset by the issuance of stock for services of \$3,993,541, amortization of discount on convertible debentures of \$2,416,754 and an increase in officer stock based compensation of \$19,885,333. There was also a decrease in the fair value of derivative and warrant liabilities of \$196,565,985, and a net increase in other assets of \$73,619.

Sources and Uses of Cash

Net cash provided by (used in) investing activities for the year ended December 31, 2008 and 2007 were \$1,282,833 and \$(648,543), respectively.

Net cash provided by financing activities for the year ended December 31, 2008 and 2007, was \$914,085 and \$3,993,588, respectively.

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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.

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.

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

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Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Effective September 11, 2007, KMJ/Corbin and Company, LLP (“KMJ”) resigned as our independent registered public accounting firm for the fiscal year ended December 31, 2007.

We engaged KMJ on January 21, 2005. For the last two fiscal years, KMJ’s reports on our financial statements did not contain an adverse opinion or a disclaimer of opinion, nor were the reports qualified or modified as to audit scope, or accounting principles, but they were modified as to uncertainty about our ability to continue as a going concern. For the last two fiscal years and any subsequent interim period preceding the dismissal, there were no disagreements with KMJ on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of KMJ would have caused KMJ to make reference to the matter in their reports.

We engaged Weinberg & Company, P.A. (hereinafter “Weinberg”) as our principal accountants to audit our financial statements effective as of September 11, 2007. Effective November 5, 2007, we dismissed Weinberg as our independent registered public accounting firm for the fiscal year ended December 31, 2007. Weinberg never issued a report on our financial statements. During their engagement, there were no disagreements with Weinberg on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Weinberg would have caused Weinberg to make reference to the matter in their reports.

We engaged Kabani & Company, Inc. (hereinafter “Kabani”) as our principal accountants to audit our financial statements effective as of November 5, 2007. Effective March 13, 2008, we dismissed Kabani as our independent registered public accounting firm for the fiscal year ended December 31, 2008. Kabani’s services were limited to a review of our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007. During their engagement, there were no disagreements with Kabani on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Kabani would have caused Kabani to make reference to the matter in their reports.

We engaged Gruber & Co. LLC (hereinafter “Gruber”) as the principal accountants to audit our financial statements effective as of March 13, 2008. We, during our most recent fiscal year and any subsequent interim period to the date hereof, did not have discussions nor have we consulted with Gruber regarding the following: (i) the application of accounting principles to a specified transaction, either completed or proposed or the type of audit opinion to be rendered on the our financial statements, and neither a written report was provided to us nor oral advice was provided that Gruber concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matters that were the subject of a “disagreement,” as that term is defined in Item 304(a)(1)(iv) of Regulation S-B and the related instructions to Item 304 of Regulation S-B, or a reportable event.

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 it believes are key to an understanding of its financial statements. These are important accounting policies that require management’s most difficult, subjective judgments.

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

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

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

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

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

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

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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 7A – Quantitative and Qualitative Disclosure About Market Risk

Highly Competitive Industry

The Company's industry is highly competitive. The Company faces competition in all of its markets from large, national construction material companies and smaller, regional companies, as well as from individuals. Many of the Company's competitors are larger and have greater financial resources than the Company. The Company from time to time will experience price pressure in certain of its markets as a result of competitors' promotional pricing practices. Competition is based on product quality, functionality, price, brand loyalty, effective promotional activities and the ability to identify and satisfy emerging consumer preferences. See "Business—Competition".

Rapid Growth

The Company may experience rapid growth. It will be necessary for the Company to rapidly add a significant number of employees and may be required to expand considerable efforts in training these new employees. This growth will place strains on the Company's management resource and facilities. The Company's success will, in part, be dependent upon the ability of the Company to manage growth effectively.

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Business Interruption

The Company believes that its success and future results of operations will be dependent in large upon its ability to provide prompt and efficient service to its customers. As a result, any disruption of the Company's day-to-day operations could have a material adverse effect upon the Company and any failure of the Company's management and manufacturing systems, distribution arrangements or communication systems could impair its ability to receive and process customer orders and ship products on a timely basis.

Competition

The Company's industry in itself is a highly competitive business. In the raw materials supply industry, barriers to entry are relatively low and the risk of new competition entering the market is high. Certain existing competitors of the Company have substantially greater resources. In addition, price is an important competitive factor in the rubber materials market and there can be no assurance that the Company will not be subject to increased price competition.

Many large competitors have significant research and development budgets, marketing staffs, financial resources and access to other resources which far surpass the current resources of the Company. Several such competitors are currently attempting to develop and introduce similar recycled materials. The Company must also compete in the raw materials market with certain other recyclers currently manufacturing recycled materials intended for similar applications. Few of such recyclers, to the Company's knowledge, have achieved significant commercial acceptance to date.

General Economic Conditions

The financial success of the Company's operations may be sensitive to adverse changes in general economic conditions, such as inflation, unemployment, and the cost of borrowing. These changes could cause the cost of the Company's production costs and raw material supplies to rise faster than it can raise prices. The Company has no control over any of these changes.

ITEM 8 – Financial Statements and Supplemental Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF MATECH CORPORATION

We have audited the accompanying consolidated balance sheets of MATECH Corporation (a Development Stage Company), as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MATECH Corporation (a Development Stage Company), as of December 31, 2008 and 2007, and the results of its' consolidated operations and its' consolidated stockholders equity and consolidated cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company's viability is dependent upon its ability to obtain future financing and the success of its future operations. These factors raise substantial doubt as to the Company's ability to continue as a going concern. Management's plan in regard to these matters is described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Gruber & Company, LLC Saint Louis, Missouri

April 11, 2009

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MATECH CORP		
(Formerly known as Material Technologies, Inc.)		
(A Development Stage Company)		
CONSOLIDATED BALANCE SHEET		
	DECEMBER 31,	
	2007	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 809,710	\$ 176,345
Investments in marketable securities held for trading	300,000	-
Investment in certificate of deposits and commercial paper	1,009,267	-
Accounts receivable	108,661	41,961
Inventories	62,216	141,341
Prepaid expenses and other current assets	47,692	359,227
Total current assets	2,337,546	718,874
Property and equipment, net	82,546	78,601
Intangible assets, net	2,840	1,764
Deposit	2,348	2,348
	\$ 2,425,280	\$ 801,587

See notes to consolidated financial statements.

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MATECH CORP		
(Formerly known as Material Technologies, Inc.)		
(A Development Stage Company)		
CONSOLIDATED BALANCE SHEET		
	December 31,	
	2007	2008
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 599,619	\$ 670,207
Deferred revenue - related party	-	90,000
Current portion of payable due on legal settlement	-	54,033
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
Notes payable	66,761	299,542
Total current liabilities	691,380	2,998,107
Legal settlement payable	480,000	155,978
Research and development sponsorship payable, net of current portion	760,650	778,549
Notes payable, long-term	213,508.00	-
Convertible debentures and accrued interest payable, net of discount	1,981,194	335,834
Derivative and warrant liabilities	10,113,923	210,497,575
	13,549,275	211,767,936
Total liabilities	14,240,655	214,766,043
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, 2007 and 2008	-	-

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Class B preferred stock, \$0.001 par value, liquidation preference of \$10,000 per share; 15 shares authorized; none issued and outstanding as of December 31, 2007 and 2008	-	-
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, 2007 and 2008	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, 2007 and 2008	-	-
Class E convertible preferred stock, \$0.001 par value, no liquidation preference; 60,000 shares authorized; 55,000 shares issued and outstanding as of December 31, 2007 and 49,250 shares issued and outstanding as of December 31, 2008	55	49
Class A Common Stock, \$0.001 par value, 1,699,400,000 shares authorized; 546,174 shares issued and 126,347 shares outstanding as of December 31, 2007; 99,408,963 shares issued and 24,389,794 shares outstanding as of December 31, 2008	126	24,390
Class B Common Stock, \$0.001 par value, 600,000 shares authorized, issued and outstanding as of December 31, 2007 and 2008	600	600
Warrants subscribed	10,000	10,000
Additional paid-in-capital	301,474,553	367,125,759
Deficit accumulated during the development stage	(313,208,402)	(581,117,806)
Treasury stock (86 shares at cost at December 31,2007 and 24,635 shares at cost at December 31, 2008)	(93,133)	(8,274)
Total stockholders' deficit	(11,816,200)	(213,965,281)
	\$ 2,425,280	\$ 801,587

See notes to consolidated financial statements.

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MATECH CORP			
(Formerly known as Material Technologies, Inc.)			
(A Development Stage Company)			
CONSOLIDATED STATEMENTS OF OPERATIONS			
	For the Year Ended		From October 21, 1983 (Inception) through December 31, 2008
	2007	2008	
Revenues:			
Research and development	\$ -	\$ -	\$ 5,392,085
Revenue from bridge testing	201,917	92,622	411,246
Other	-	10,000	284,125
Total revenues	201,917	102,622	6,087,456
Costs and expenses:			
Bridge testing costs	-	73,257	73,257
Research and development	3,701,966	527,833	21,090,822
General and administrative	98,557,941	27,582,716	331,077,957
Modification of research and development sponsorship agreement	-	-	5,963,120
Loss on settlement of lawsuits	-	-	1,267,244
Total costs and expenses	102,259,907	28,183,806	359,472,400
Loss from operations	(102,057,990)	(28,081,184)	(353,384,944)
Other income (expense):			
Gain (Loss) on modification of convertible debt	-	(964,730)	(378,485)
Loss on subscription receivable	-	-	(1,368,555)
Interest expense	(2,374,032)	(2,905,684)	(14,645,877)
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)	(39,407,195)
Net unrealized and realized loss of marketable securities	(3,986,553)	-	(9,398,218)

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Change in fair value of investments derivative liability	-	-	(210,953)
Change in fair value of derivative and warrant liabilities	34,962,617	(196,565,985)	(152,978,896)
Interest income	60,179	16,174	483,056
Other	-	-	(25,992)
Other expense, net	28,662,211	(239,827,420)	(227,717,062)
Loss before provision for income taxes	(73,395,779)	(267,908,604)	(581,102,006)
Provision for income taxes	(800)	(800)	(15,800)
Net loss	\$ (73,396,579)	\$ (267,909,404)	\$ (581,117,806)
Per share data:			
Basic and diluted net loss per share	\$ (681.44)	\$ (39.44)	
Weighted average Class A common shares outstanding - basic and diluted	107,708	6,793,179	

See notes to consolidated financial statements.

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MATERIAL TECHNOLOGIES, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the Year Ended September 30,		From October 21, 1983 (Inception) through September 30, 2007 (Unaudited) (Restated)
	2006 (Restated)	2007 (Restated)	
Net loss	\$ (177,884,101)	\$ (73,396,581)	\$ (313,208,402)
Other comprehensive loss:			
Temporary increase (decrease) in market value of securities available for sale	-	-	-
Reclassification to other-than-temporary impairment of marketable securities available for sale	-	-	-
	-	-	-
Net comprehensive loss	\$ (177,884,101)	\$ (73,396,581)	\$ (313,208,402)

See notes to consolidated financial statements.

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MATECH CORP

(Formerly known as Material Technologies, Inc.)

(A Development Stage Company)

STATEMENT OF STOCKHOLDERS' (DEFICIT))

								Deficit Accumulated				
	Class A	Class B	Class A	Class B	Class C	Class D	Class E		During			
	Common	Common	Preferred	Preferred	Preferred	Preferred	Preferred	Additional	the			
	Shares	Shares	Stock	Stock	Stock	Stock	Stock	Paid-in	Development			
	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	Capital	Stage			
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount			
Initial Issuance of Common Stock October 21, 1983	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	2,500	\$ -
Adjustment to give effect to recapitalization on December 15, 1986												
Cancellation of shares	-	-	-	-	-	-	-	-	-	-	(4)	-
	-	-	-	-	-	-	-	-	-	-	2,496	-
Balance - October 21, 1983												
Shares issued By Tensidyne Corporation in connection with pooling of interests	-	-	-	-	-	-	-	-	-	-	4,342	-
Net (loss), year ended December 31, 1983	-	-	-	-	-	-	-	-	-	-	-	(4,317)
Balance December 31, 1983	-	-	-	-	-	-	-	-	-	-	6,838	(4,317)
Capital contribution	-	-	-	-	-	-	-	-	-	-	21,755	-

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Issuance of common stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,700	-
Costs incurred in connection with issuance of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,849)	-
Net (loss), year ended December 31, 1984	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(21,797)
Balance December 31, 1984	-	-	-	-	-	-	-	-	-	-	-	-	-	-	36,444	(26,114)
Capital contribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	200,555	-
Sale of 12,166 warrants at \$1.50 Per Warrant	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,250	-
Shares cancelled	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (loss), year ended December 31, 1985	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(252,070)
Balance December 31, 1985	-	-	-	-	-	-	-	-	-	-	-	-	-	-	255,249	(278,184)
Net (Loss), Year Ended December 31, 1986	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,365)
Balance December 31, 1986	-	-	-	-	-	-	-	-	-	-	-	-	-	-	255,249	(288,549)
Issuance of Common Stock upon Exercise of Warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,082	-
Net (Loss), Year Ended December 31, 1987	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(45,389)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	282,331	(333,938)

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MATECH CORP

(Formerly known as Material Technologies, Inc.)

(A Development Stage Company)

STATEMENT OF STOCKHOLDERS' (DEFICIT))

															Deficit	
															Accumulated	
	Class A		Class B		Class A		Class B		Class C		Class D		Class E			
	Common		Common		Preferred		Preferred		Preferred		Preferred		Preferred		During	
	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Additional	
	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Paid-in	
	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Capital	
	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Stage	
Issuance of Common Stock																
Sale of Stock	-	-	-	-	350	-	-	-	-	-	-	-	-	273,686	-	-
Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	64,884	-	-
Conversion of Warrants	-	-														
Conversion of Stock	-	-	60,000	60	-	-	-	-	-	-	-	-	-	(6)	-	-
Net (Loss), Year Ended																
December 31, 1991	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(346,316)
Balance December 31, 1991	-	-	60,000	60	350	-	-	-	-	-	-	-	-	904,897	(720,640)	
Issuance of Common Stock																
Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	16,000	-	-
Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	15,520	-	-
Conversion of Warrants	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000	-	-
Sale of Class B Stock	-	-	60,000	60	-	-	-	-	-	-	-	-	-	14,940	-	-
Issuance of Stock to Unconsolidated Subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	71,664	-	-
Conversion of Stock	-	-	(60,000)	(60)	-	-	-	-	-	-	-	-	-	6	-	-
Cancellation of Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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Net (Loss), Year Ended December 31, 1992	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(154,986)
Balance December 31, 1992	-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	1,038,027	(875,626)
Issuance of Common Stock																
Licensing Agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,250	-
Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,913	-
Warrant Conversion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	304,999	-
Cancellation of Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,569)	-
Net (Loss) for Year Ended December 31, 1993	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(929,900)
Balance December 31, 1993	-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	1,355,620	(1,805,526)
Adjustment to Give Effect to Recapitalization on February 1, 1994	-	-	-	-	-	-	-	-	-	-	-	-	-	-	385,424	-
Issuance of Shares for Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	223	-
Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,786	-
Issuance of Shares for the Modification of Agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net (Loss) for the Year Ended December 31, 1994	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(377,063)
	-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	1,766,053	(2,182,589)

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MATECH CORP

(Formerly known as Material Technologies, Inc.)

(A Development Stage Company)

STATEMENT OF STOCKHOLDERS' (DEFICIT))

														Deficit Accumulated																			
Class A Common Shares		Class B Common Shares		Class A Preferred Stock		Class B Preferred Stock		Class C Preferred Stock		Class D Preferred Stock		Class E Preferred Stock		During Additional Paid-in Development Capital Stage																			
Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Outstanding	Amount	Amount																			
Class A Common Stock Issued in Cancellation of \$372,000 Accrued Wages Due Officer																-	-	-	-	-	-	-	-	-	-	-	-	-	372,000	-			
Issuance of Shares for Services Rendered																-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,471	-		
Adjustment to Give Effect to Recapitalization on 9-Mar-97																-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Net (Loss) for the Year Ended December 31, 1997																-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(133,578)		
Balance December 31, 1997																-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	2,442,583	(2,964,447)		
Shares Issued in Cancellation of Indebtedness																-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	170,000	-	
Conversion of Options																-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	125,000	-
Issuance of Shares for Services Rendered																-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	112,162	-

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Shares Issued in Cancellation of Redeemable Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150,000	-
Shares Returned to Treasury and Cancelled	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Modification of Royalty Agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,332	-
Issuance of Warrants to Officer	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,567	-
Net (Loss) for the Year Ended December 31, 1998	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(549,187)
Balance December 31, 1998	-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	3,034,644	(3,513,634)
Shares Issued in Cancellation of Indebtedness	-	-	-	-	-	-	-	-	-	-	-	-	-	-	166,667	-
Issuance of Shares for Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	95,099	-
Shares Issued in Modification of Licensing Agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	173,540	-
Net (Loss) for the Year Ended December 31, 1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(539,283)
Balance December 31, 1999	-	-	60,000	60	350	-	-	-	-	-	-	-	-	-	3,469,950	(4,052,917)
Issuance of Shares for Services Rendered - as restated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	824,516	-

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Shares Issued to Investors Pursuant to Settlement Agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares Issued for Cash and Non-Recourse Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,995,000	-
Shares Issued for Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281,694	-
Shares Issued in Cancellation of Indebtedness	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100,000	-
Shares Issued as Compensation Pursuant to Escrow Agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,184	-
Shares Returned from Escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Shares Converted into Class B Common	-	-	40,000	40	-	-	-	-	-	-	-	-	-	-	(40)	-
Preferred Shares Converted into Common	-	-	-	-	(13)	-	-	-	-	-	-	-	-	-	-	-
Net (Loss) for the Year Ended December 31, 2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,199,695)
Balance December 31, 2000	-	-	100,000	100	337	-	-	-	-	-	-	-	-	-	6,675,304	(5,252,612)
Issuance of Shares for Services Rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	804,336	-
Shares Issued for Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	286,567	-
Shares Issued in Connection with Private Offering	0	-	-	-	-	-	-	-	-	-	-	-	-	-	1,128,000	-

Shares Issued to
Officer
Net (Loss) for
the Year
Ended
December 31,
2001

- - - - - - - - - - - - - - - - (3,548,559)

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MATECH CORP

(Formerly known as Material Technologies, Inc.)

(A Development Stage Company)

STATEMENT OF STOCKHOLDERS' (DEFICIT))

| | Class A | | Class B | | Class C | | Class D | | Class E | | Deficit Accumulated | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|---------------------|-----------|-------------|
| | Common | Common | Preferred | Preferred | Preferred | Preferred | Preferred | Preferred | Preferred | Additional | During | | |
| | Shares | Shares | Shares | Shares | Shares | Shares | Shares | Shares | Shares | Paid-in | the | | |
| | Outstanding | Outstanding | Outstanding | Outstanding | Outstanding | Outstanding | Outstanding | Outstanding | Outstanding | Capital | Development | | |
| | Aug 01 | Aug 01 | Aug 01 | Aug 01 | Aug 01 | Aug 01 | Aug 01 | Aug 01 | Aug 01 | Amount | Stage | | |
| Balance | | | | | | | | | | | | | |
| December 31, 2001 | - | - | 100,000 | 100 | 337 | - | - | - | - | - | - | 8,894,207 | (8,801,171) |
| Issuance of Shares for Services Rendered | - | - | - | - | - | - | - | - | - | - | - | 1,185,631 | - |
| Issuance of Shares to University of Pennsylvania | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Shares issued in settlement of lawsuit | - | - | - | - | - | - | - | - | - | - | - | 40,000 | - |
| Shares Issued for Cash | - | - | - | - | - | 143 | - | - | - | - | - | 1,153,736 | - |
| Offering costs | - | - | - | - | - | - | - | - | - | - | - | (200,412) | - |
| Shares issued in cancellation of President's interest in patents | - | - | 200,000 | 200 | - | - | - | - | - | - | - | - | - |
| Cancellation of shares in stock grant | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Shares issued to Company's president for past compensation | - | - | - | - | - | - | - | - | - | - | - | 260,000 | - |
| Shares Issued in Connection with Private Offering | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net (Loss) for the Year | | | | | | | | | | | | | |

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| | | | | | | | | | | | | | | | |
|--|-----|---|---------|-----|-----|---|---|-------|-----|---|---|---|---|------------|--------------|
| Ended
December 31,
2002 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (3,852,296) |
| Balance -
December 31,
2002 | - | - | 300,000 | 300 | 337 | - | - | - | 143 | - | - | - | - | 11,333,162 | (12,653,467) |
| Issuance
of Shares for
Services
Rendered | 26 | - | - | - | - | - | - | - | - | - | - | - | - | 484,334 | - |
| Issuance
of Shares to
University of
Pennsylvania
Shares
purchased for
cancellation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (24,432) |
| Shares issued
in settlement
of lawsuit | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Shares issued
for cash | - | - | - | - | - | - | - | 4,074 | 4 | - | - | - | - | 235,194 | - |
| Offering costs | - | - | - | - | - | - | - | - | - | - | - | - | - | (81,975) | - |
| Shares issued
in cancellation
of
legal fee note
payable | 73 | - | - | - | - | - | - | - | - | - | - | - | - | 1,583,127 | - |
| Shares issued
to Company's
president
for past
compensation | 107 | - | - | - | - | - | - | - | - | - | - | - | - | 320,000 | - |
| Shares issued
to Company's
president
in
consideration
for note
receivable | 17 | - | - | - | - | - | - | - | - | - | - | - | - | 50,000 | - |
| Officer's
compensation
relating to
cancellation of
Oct. 27, 2000
escrow
agreement | - | - | - | - | - | - | - | - | - | - | - | - | - | 19,617 | - |
| Shares issued
in cancellation | | | | | | | | | | | | | | | |

| | | | | | | | | | | | | | | | | |
|--|------|-----|---------|--------|-----|-----|---|-----|-------|-----------|-----------|----------|------------|-------------|------------|----------------|
| of indebtedness due on legal fees | - | - | | | | | | | | | | | 10,000 | - | | |
| Shares returned to treasury by Company officers in consideration for the cancellation of notes due the Company by them on past stock purchases | - | - | | | | | | | | | | | (769,823) | - | | |
| Exchange of Class A Common stock for Class B Common | - | - | 300,000 | 300 | | | | | | | | | (300) | - | | |
| Exchange of Class A Common stock for Class D Preferred | (25) | - | | | | | | | | 5,440,000 | 5,440 | | (5,440) | - | | |
| Shares Issued in Connection with Private Offering | 23 | - | | | | | | | | | | | | - | | |
| Adjustment for equity in unconsolidated subsidiary | - | - | | | | | | | | | | | 37,597 | - | | |
| Net (Loss) for the Year Ended December 31, 2003 | - | - | | | | | | | | | | | | (1,885,728) | | |
| Balance - December 31, 2003 | 221 | \$- | 600,000 | \$ 600 | 337 | \$- | - | \$- | 4,217 | \$ 4 | 5,440,000 | \$ 5,440 | - | \$- | 13,191,061 | \$(14,539,195) |
| Issuance of shares for services rendered | 22 | - | | | | | | | | | | | 14,252,195 | - | | |
| Shares purchased and | - | - | | | | | | | | | | | (4,167) | - | | |

| | | | | | | | | | | | | | |
|--|----|---|---|---|---|---|---|---|---|---|---|------------|---|
| canceled | | | | | | | | | | | | | |
| Issuance of shares for cancellation of legal and accounting fees payable | - | - | - | - | - | - | - | - | - | - | - | 64,467 | - |
| Exercise of Warrants | - | - | - | - | - | - | - | - | - | - | - | 4,550 | - |
| Shares issued in exchange for shares in Langely Park Investments PLC | 29 | - | - | - | - | - | - | - | - | - | - | 12,973,513 | - |
| Beneficial conversion feature of convertible debenture | - | - | - | - | - | - | - | - | - | - | - | 1,125,000 | - |

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MATECH CORP

(Formerly known as Material Technologies, Inc.)

(A Development Stage Company)

STATEMENT OF STOCKHOLDERS' (DEFICIT))

| | | | | | | | | | | | | | | Deficit | | |
|-----------------------|--|-------------|--|-------------|--|-------------|--|-------------|--|-------------|--|-------------|--|---------------------|--|----------|
| | | | | | | | | | | | | | | Accumulated | | |
| | | | | | | | | | | | | | | During | | |
| | | | | | | | | | | | | | | Additional the | | |
| | | | | | | | | | | | | | | Paid-in Development | | |
| | | | | | | | | | | | | | | Capital Stage | | |
| Class A | | Class B | | Class A | | Class B | | Class C | | Class D | | Class E | | | | |
| Common | | Common | | Preferred | | Preferred | | Preferred | | Preferred | | Preferred | | | | |
| Shares | | Shares | | Shares | | Shares | | Shares | | Shares | | Shares | | | | |
| Outstanding | | Outstanding | | Outstanding | | Outstanding | | Outstanding | | Outstanding | | Outstanding | | Amount | | |
| Aug 04 | | Aug 04 | | Aug 04 | | Aug 04 | | Aug 04 | | Aug 04 | | Aug 04 | | Capital | | |
| Shares issued for | | | | | | | | | | | | | | | | |
| cash | | 4 | | - | | - | | - | | - | | - | | - | | 207,4 |
| Offering costs | | - | | - | | - | | - | | - | | - | | - | | (13,7 |
| Exchange of Class | | | | | | | | | | | | | | | | |
| A Common shares | | | | | | | | | | | | | | | | |
| for Class C | | | | | | | | | | | | | | | | |
| Preferred shares | | - | | - | | - | | - | | (2,700) | | (3) | | - | | - |
| Exchange of Class | | | | | | | | | | | | | | | | |
| A Common shares | | | | | | | | | | | | | | | | |
| for Class D | | | | | | | | | | | | | | | | |
| Preferred shares | | 12 | | - | | - | | - | | - | | (3,520,000) | | (3,520) | | 3,5 |
| Net (loss) for the | | | | | | | | | | | | | | | | |
| year | | | | | | | | | | | | | | | | |
| ended December | | | | | | | | | | | | | | | | |
| 31, 2004 | | | | | | | | | | | | | | | | |
| | | - | | - | | - | | - | | - | | - | | - | | - |
| Balance - | | | | | | | | | | | | | | | | |
| December 31, | | | | | | | | | | | | | | | | |
| 2004 | | | | | | | | | | | | | | | | |
| | | 288 | | - | | 600,000 | | \$ 600 | | 337 | | - | | - | | 1,517 |
| | | | | | | | | | | 1 | | 1,920,000 | | 1,920 | | 41,803,9 |
| Issuance of shares | | | | | | | | | | | | | | | | |
| for | | | | | | | | | | | | | | | | |
| services rendered | | | | | | | | | | | | | | | | |
| | | 112 | | - | | - | | - | | - | | - | | - | | 4,105,4 |
| Exercise of | | | | | | | | | | | | | | | | |
| Options | | | | | | | | | | | | | | | | |
| | | - | | - | | - | | - | | - | | - | | - | | 2,1 |
| Shares issued in | | | | | | | | | | | | | | | | |
| exchange for | | | | | | | | | | | | | | | | |
| shares in | | | | | | | | | | | | | | | | |
| Birchington | | | | | | | | | | | | | | | | |
| Investments PLC | | 40 | | - | | - | | - | | - | | - | | - | | 3,582,6 |
| Shares issued to | | | | | | | | | | | | | | | | |
| University of | | | | | | | | | | | | | | | | |
| Pennsylvania pursuant | | | | | | | | | | | | | | | | |
| to agreement | | | | | | | | | | | | | | | | |
| modification | | 15 | | - | | - | | - | | - | | - | | - | | 5,963,1 |
| Shares issued in | | 4 | | - | | - | | - | | - | | - | | - | | - |
| connection with | | | | | | | | | | | | | | | | |

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| | | | | | | | | | | | | | | | | |
|---|--------|----|------------|--------|--------|------|------|------|------|----------|-------------|--------------|----------|---|----------|-----------|
| Birchington stock acquisition | | | | | | | | | | | | | | | | |
| Shares issued for cash | 7 | - | - | - | - | - | - | - | - | - | - | - | - | - | 313,1 | |
| Offering costs | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (19,1 | |
| Shares issued on conversion of Class D Preferred Shares | | | | | | | | | | | | | | | | |
| Preferred Shares | 2 | - | - | - | - | - | - | - | - | - | (500,000) | (500) | - | - | | |
| Elimination of discount on converted Class D Preferred Shares | | | | | | | | | | | | | | | | |
| Preferred Shares | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,125,0 | |
| Net (loss) for the year ended December 31, 2005 | | | | | | | | | | | | | | | | |
| | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | |
| | 468 | - | \$ 600,000 | \$ 600 | \$ 337 | \$ - | \$ - | \$ - | \$ - | \$ 1,517 | \$ 1 | \$ 1,420,000 | \$ 1,420 | - | \$ - | 54,626,1 |
| Issuance of shares for services rendered | | | | | | | | | | | | | | | | |
| Shares issued in exchange for Notes | 35,199 | 36 | - | - | - | - | - | - | - | - | - | - | - | - | - | 126,199,0 |
| Shares issued Beck settlement | 22 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 258,0 |
| Shares issued in cancellation of royalty obligation | 3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 173,0 |
| Shares issued in cancellation of indebtedness | 3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 40,0 |
| Shares issued for cash | 208 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 120,0 |
| Shares subscribed | 50 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 379,6 |
| Shares returned in cancellation of note payable | 83 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,649,6 |
| Shares issued in connection with various private offerings | (6) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (62,5 |
| Offering costs | 20 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 384,8 |
| Shares issued for Class D Preferred shares | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (410,9 |
| Shares purchased for cancellation | 5 | - | - | - | - | - | - | - | - | - | (1,420,000) | (1,420) | - | - | - | 1,4 |
| Shares issued in acquisition of | (1) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (45,6 |
| | 119 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,502,4 |

| | | | | | | | | | | | | | | | |
|--|--------|----|---------|-----|-----|---|---|---|-------|---|---|---|--------|----|-----------|
| Monitoring | | | | | | | | | | | | | | | |
| Shares issued to Utek per agreement | 6,246 | 6 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Shares issued to Birchington per agreement | 6 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Shares issued to Officer pursuant to settlement and employment agreement | 30,000 | 30 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Recognized officer's stock based compensation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 6,575,3 |
| Beneficial conversion feature of convertible debenture | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 450,6 |
| Recognized derivative liability | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 419,4 |
| Net (loss) for the year ended December 31, 2006 | 72,425 | 72 | 600,000 | 600 | 337 | - | - | - | 1,517 | 1 | - | - | - | - | 193,260,5 |
| Shares issued for cash | | | | | | | | | | | | | | | |
| Preferred shares issued in acquisition of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | 55,000 | 55 | 1,072,4 |
| Common shares issued in acquisition of subsidiaries | 15,413 | 15 | - | - | - | - | - | - | - | - | - | - | - | - | 18,882,3 |
| Common shares issued in purchase of shares in Rocket City Automotive | 10,000 | 10 | - | - | - | - | - | - | - | - | - | - | - | - | 13,831,9 |
| Shares issued in connection with various private offerings | 1,570 | 1 | - | - | - | - | - | - | - | - | - | - | - | - | 1,814,2 |
| Shares issued pursuant to anti-dilution provisions | 2,583 | 3 | - | - | - | - | - | - | - | - | - | - | - | - | - |

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MATECH CORP

(Formerly known as Material Technologies, Inc.)

(A Development Stage Company)

STATEMENT OF STOCKHOLDERS' (DEFICIT))

| | | | | | | | | | | | | | | Deficit | | | | | | | | |
|---|--|-------------|----------|-------------|---------|-------------|-----|-------------|-----|-------------|-----|-------------|----|---------------------|----------|-----|--------|----|----|----|-------------|-----------|
| | | | | | | | | | | | | | | Accumulated | | | | | | | | |
| Class A | | Class B | | Class A | | Class B | | Class C | | Class D | | Class E | | During | | | | | | | | |
| Common | | Common | | Preferred | | Preferred | | Preferred | | Preferred | | Preferred | | Additional the | | | | | | | | |
| Shares | | Shares | | Shares | | Shares | | Shares | | Shares | | Shares | | Paid-in Development | | | | | | | | |
| Outstanding | | Outstanding | | Outstanding | | Outstanding | | Outstanding | | Outstanding | | Outstanding | | Capital Stage | | | | | | | | |
| Aug 07 | | Aug 07 | | Aug 07 | | Aug 07 | | Aug 07 | | Aug 07 | | Aug 07 | | Amount | | | | | | | | |
| Shares cancelled and returned to treasury | | | (418) | - | - | - | - | - | - | - | - | - | - | - | - | | | | | | | |
| Shares issued for services | | 12,038 | | 12 | - | - | - | - | - | - | - | - | - | 16,195,277 | | | | | | | | |
| Shares returned in cancellation of note payable | | | 10,050 | 10 | - | - | - | - | - | - | - | - | - | 1,004,990 | | | | | | | | |
| Offering costs | | | - | - | - | - | - | - | - | - | - | - | - | (6,861,793) | | | | | | | | |
| Reduction on contingent liability on settlement | | | - | - | - | - | - | - | - | - | - | - | - | 501,412 | | | | | | | | |
| Return of shares in rescission of purchase of Rocket City Automotive shares | | | (10,000) | (10) | - | - | - | - | - | - | - | - | - | (6,999,990) | | | | | | | | |
| Recognized officer's stock based compensation | | | - | - | - | - | - | - | - | - | - | - | - | 60,048,000 | | | | | | | | |
| Net (loss) for the year ended December 31, 2007 | | | - | - | - | - | - | - | - | - | - | - | - | - | (73,396) | | | | | | | |
| | | 126,347 | \$ | 126 | 600,000 | \$ | 600 | 337 | \$- | - | \$- | 1,517 | \$ | 1 | - | \$- | 55,000 | \$ | 55 | \$ | 301,474,553 | (313,208) |
| Shares issued for cash | | | 77 | - | - | - | - | - | - | - | - | - | - | 18,624 | | | | | | | | |
| | | 4,534,229 | | 4,534 | - | - | - | - | - | - | - | - | - | 1,050,597 | | | | | | | | |

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| MATECH CORP | | | |
|---|--------------------------------|------------------|--|
| (Formerly known as Material Technologies, Inc.) | | | |
| (A Development Stage Company) | | | |
| CONSOLIDATED STATEMENTS OF CASH FLOWS | | | |
| | For the Year Ended
December | | From October
21, 1983
(Inception)
through
December 31,
2008 |
| | 2007 | 2008 | |
| Cash flows from operating activities: | | | |
| Net loss | \$ (73,396,579) | \$ (267,909,404) | \$ (581,117,806) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Gain on modification of convertible debt | - | 964,730 | 378,485 |
| Impairment loss | 19,257,375 | - | 21,391,528 |
| Loss on charge off of subscription receivables | | | 1,368,555 |
| Stock based compensation | 16,195,289 | 3,993,541 | 210,478,381 |
| Increase in debt for services and fees | 3,993,799 | 1,220,000 | 5,676,625 |
| Officer's stock based compensation | 60,000,000 | 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 | 39,407,195 |
| Change in fair value of derivative and warrant liabilities | (34,962,617) | 196,565,985 | 155,214,096 |
| Net realized and unrealized loss on marketable securities | | | 7,895,705 |
| 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 | 328,891 | 422,489 | 1,917,494 |
| | 2,041,213 | 2,416,754 | 12,523,031 |

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| | | | |
|--|-------------|-------------|--------------|
| Amortization of discount on convertible debentures | | | |
| Change in fair value of investments derivative liability | - | - | 3,223,323 |
| Accrued interest income added to principal | (1,177) | (887) | (305,885) |
| Depreciation and amortization | 7,581 | 22,187 | 249,971 |
| Other non-cash adjustments | - | | (114,730) |
| (Increase) decrease in trade receivables | 8,046 | 66,701 | (92,288) |
| (Increase) decrease in inventories | (62,216) | (79,125) | (141,341) |
| (Increase) decrease in prepaid expenses and other current assets | 9,225 | 73,619 | 313,844 |
| (Decrease) increase in accounts payable and accrued expenses | (69,660) | 30,599 | 2,539,495 |
| Increase in deferred revenue - related party | - | 90,000 | 90,000 |
| Net cash used in operating activities | (2,664,630) | (2,830,283) | (13,663,159) |
| Cash flows from investing activities: | | | |
| Proceeds from the sale of marketable securities | 137,174 | 300,000 | 3,758,476 |
| Purchase of marketable securities | (302,038) | - | (2,206,379) |
| Investment in certificate of deposits and commercial paper | | | (1,965,000) |
| Redemptions of certificate of deposits and commercial paper | | | 1,965,000 |
| Payment received on officer loans | - | - | 876,255 |
| Funds advanced to officers | - | - | (549,379) |
| Proceeds received in acquisition of consolidated subsidiaries | | | 600,000 |
| Purchase of property and equipment | (83,679) | (17,168) | (373,420) |
| 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 investing activities | (648,543) | 1,282,832 | 2,060,934 |

See notes to consolidated financial statements.

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| MATECH CORP | | | |
|--|--------------------------------|------------|--|
| (Formerly known as
Material Technologies, Inc.)
(A Development Stage
Company) | | | |
| CONSOLIDATED STATEMENTS OF CASH FLOWS | | | |
| | For the Year Ended
December | | From October
21, 1983
(Inception)
through
December 31,
2008 |
| | 2007 | 2008 | |
| Cash flow from financing activities: | | | |
| Proceeds from the sale of common stock and warrants | \$ 4,566,631 | \$ 18,624 | \$ 9,464,577 |
| Proceeds from convertible debentures and other notes payable | 200,000 | 1,305,000 | 3,352,766 |
| Proceeds from the sale of preferred stock | - | - | 473,005 |
| Fees incurred in debt financing | (643,591) | (375,000) | (1,505,932) |
| Capital contributions | - | - | 301,068 |
| Purchase of treasury stock | (79,452) | (9,539) | (176,914) |
| Principal reduction on notes payable | (50,000) | (25,000) | (125,000) |
| Payment on proposed reorganization | - | - | (5,000) |
| Net cash provided by financing activities | 3,993,588 | 914,085 | 11,778,570 |
| Net change in cash and cash equivalents | 680,415 | (633,366) | 176,345 |
| Cash and cash equivalents, beginning of period | 129,296 | 809,711 | - |
| Cash and cash equivalents, end of period | \$ 809,711 | \$ 176,345 | \$ 176,345 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid during the period | \$ 3,838 | \$ 3,838 | |

| | | | | |
|-------------------------------------|----|-----|----|-----|
| Income taxes paid during the period | \$ | 800 | \$ | 800 |
|-------------------------------------|----|-----|----|-----|

Supplemental disclosures of non-cash investing and financing activities:

2008

Effective June 16, 2008, the Company entered into an agreement with Palisades to modify the terms of the convertible debt due them. In connection with the modification, the Company recorded a loss from the modification of the debt in the amount of \$964,730. The Company also accrued a derivative liability in connection with the modification in the amount of \$4,254,301. (See Note 10)

During the year ended December 31, 2008, the Company issued 4,535,229 shares of its Class A common shares in the conversion of \$1,055,131 of convertible debt.

During the year ended December 31, 2008, the Company issued 111,250 shares of its Class A common stock for consulting services valued at \$3,986,940.

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

During the year ended December 31, 2008, a former employee and consultant returned a total of 700 shares of the Company's Class A common stock to treasury which were subsequently cancelled.

During the year ended December 31, 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 year ended December 31, 2008, the Company issued 34,500 shares of its Class A common stock in consideration of the exercise of cashless warrants. The Company accrued a 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 year ended December 31, 2008, the Company issued 78 shares of its Class A common stock for \$18,624.

During the year ended December 31, 2008, the Company returned 93 shares of its Class A common stock

to treasury for cancellation. The Company purchased the 93 shares for \$94,399.

During the year ended December 31, 2008, the Company issued 8,578 shares of the Company's common stock through the conversion of 5,750 shares of the Company's Class E preferred shares.

See notes to consolidated financial statements.

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MATECH CORP

(Formerly known as Material Technologies, Inc.)

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental disclosures of non-cash investing and financing activities:

2008

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

During the year ended December 31, 2008, the Company issued its President 2,000 common shares of its common stock as compensation. The 2,000 shares were valued at \$52,000.

During the year ended December 31, 2008, the Company issued 19,600,750 common shares to various shareholders in settlement for the Company's failure in registering shares previously issued to these shareholders. The 19,600,750 shares were valued at \$35,281,350, which was charged to operations.

During the year ended December 31, 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 year ended December 31, 2008, the Company obtained \$1,000,000 through the issuance of convertible debt. In connection with this debt, the Company recognized a beneficial conversion feature of \$715,266 that was credited to derivative and warrant liabilities.

During the year ended December 31, 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 year, 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. Options for 370,000,000 shares were returned by the Company's President during 2008 for cancellation. Also the options issued to the officers and employees for 800,000 shares were also returned in 2008 for cancellation.

As part of the shareholder settlement relating to the Company's failure to register certain common share issuances, the Company issued options to purchase a total of 26,750,200 shares at exercise prices ranging \$0.10 to \$0.20 per share. The Company valued

the options at \$4,125,845, and charged it to operations and is included in the loss on shareholder settlement (See Note ____)

In the agreement to modify the terms of the Company's convertible debt with GCH, it issued the note holders and a consultant warrants to purchase 40,000,000 shares of the Company's common stock at exercise prices ranging from \$0.001 to \$0.10 per share.. Due to the terms of the warrants, EITF 00-19 require the warrants to be accounted for as liabilities. As of December 31, 2008, the Company valued the warrants at their respective market value of \$11,461,318, which was classified as a long term liability and included in derivative and warrant liabilities.

2007

During the year ended December 31, 2007, the Company issued 12,038 shares of its Class A common stock for consulting and other services valued at \$16,195,289. Included in the 12,038 shares issued, 2,970 shares were issued to current officers of the company which were valued at \$4,398,500.

During 2007, the Company received \$1,000,000 in consideration of issuing 2,500 units. Each unit consists of one share of the Company's Class A common stock and a warrant to purchase one share of the Company's common stock at a price of \$.60 per share. In connection with the private offering the Company paid \$239,065 in fees and issued warrants to purchase 2,118 shares of the Company's common stock at a price of \$.60 per share. In other private offerings, the Company received \$1,634,154 through the issuance of 5,686 shares of common stock and warrants. Also during 2007, 4,500 of common stock were issued through the exercise of the 4,500 warrants. Through the exercise of the warrants, the Company received \$2,171,542 net of \$528,458 in closing costs.

In connection with the above indicated private offering and related exercise of the warrants, , the Company issued 1,570 shares of its Class A common stock. The 1,570 shares were valued at \$1,814,213 and charged against the proceeds received.

During 2007, the Company issued 50,000 shares its Class E Series convertible preferred stock in exchange for receiving all of the outstanding shares of Stress Analysis Technologies, Inc. ("SATI") The Company valued the acquisition at \$975,000 and charged off \$875,000 as it deemed the intangible assets acquired to be fully impaired. In connection with this transaction, the Company issued an additional 5,000 preferred shares valued at \$97,500 for fees in connection with the purchase. The \$97,500 was was charged to equity.

During 2007, the Company issued 13,912 shares its common stock in the acquisition of two subsidiaries.

The assets acquired included \$500,000 cash and licenses originally valued at \$18,380,875. The Company charged of the full costs assigned to the licenses as being impaired.

During 2007, the Company issued 10,000 shares its common stock in exchange for 3,000 shares in a company whose shares are traded on the OTC exchange (pink sheets). The Company valued the shares received at \$10,986,000. In October 2007, the Company and the other party to the share exchange decided to return the shares received. The Company received the 10,000 shares it originally issued and cancelled them. The Company recognized a loss of \$3,986,000 which was charged to operations on the return of the shares.

During 2007, the Company issued 10,800 shares in escrow pursuant to an agreement it has with its Convertible debenture holders. During 2007, 10,050 shares of Class A common stock was issued to certain debenture holders in the conversion of \$1,005,000 of indebtedness. In addition, for services rendered by certain debenture holders, the amount due on the debentures was increased by \$1,100,000.

During 2007, the Company received 418,114 shares of prior issued common stock which was subsequently cancelled.

During 2007, the Company acquired all of the outstanding shares of Bridge Concept Inc, a corporation wholly owned by to its chief engineer. In consideration for the shares received in Bridge, the Company issued 1,500 of its common stock and \$37,500 which was paid in October 2007. The Company treated the acquisition as a related party transaction and valued the entire acquisition at \$39,000. The \$39,000 was assigned to the intellectual property of Bridge which was charged off to operations as being impaired.

During 2007, the Company issued 2,583 shares of its common stock pursuant to anti-dilution provisions in two agreements.

See notes to consolidated financial statements.

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MATECH CORPORATION
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For years ended December 31, 2008 and 2007

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Organization

Matech Corp (formerly known as Material Technologies, Inc), (the “Company”) was organized on October 21, 1983, under the laws of the state of Delaware. On October 3, 2008, the Company filed an amendment to its Articles changing its name to Matech Corp.

The Company is in the development stage, as defined in Statement of Financial Accounting Standards (“SFAS”) No. 7, Accounting and Reporting by Development Stage Enterprises, with its principal activity being research and development in the area of metal fatigue technology with the intent of future commercial application.

On January 22, 2003, the Company formed Matech International, Inc., a Nevada corporation (“International”). International was formed as a wholly owned subsidiary of the Company to advertise, market and sell the Company’s videoscope technology which is presently utilized in the inspection of stress and crack points in turbine engines on the wings of airplanes. At the present time there is no activity in International and the Company does not anticipate nor reasonably foresee any business activity in International in the near future.

On March 13, 2003, the Company formed Matech Aerospace, Inc., a Nevada corporation (“Aerospace”). Aerospace was formed as a wholly owned subsidiary of the Company to advertise, market and sell all manufacturing and marketing rights to the Company’s products and technologies in all commercial markets within the United States. During 2003, Aerospace sold shares of its common stock to investors. As of December 31, 2007, the Company holds a 99% interest in Aerospace. At the present time there is no activity in Aerospace and the Company does not anticipate nor reasonably foresee any business activity in Aerospace in the near future.

On August 18, 2006, the Company acquired 100% of the issued and outstanding stock of Materials Monitoring Technologies, Inc., (“Monitoring”) which was organized in the State of Florida on August 1, 2006. On the acquisition date, Monitoring had \$500,000 in cash, a license to utilize patented technology relating to the structural health monitoring of bridges and railroads, and an agreement with a consultant to provide services associated with the development, application, and testing of the licensed technology through August 2007 (see Note 7). As Monitoring

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MATECH CORPORATION
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For years ended December 31, 2008 and 2007

had no customers, expenses, or operations, the acquisition of Monitoring was treated as an acquisition of assets of \$500,000 in cash and \$1,913,445 for intellectual property for 119,164 shares (post-split) of common stock. The \$1,913,445 was charged to operations as the value of the intellectual properties was deemed by management to be impaired.

On January 26, 2007, the Company acquired 100% of the issued and outstanding stock of Stress Analysis Technologies, Inc. ("SATI"), which was organized in the State of Florida on October 19, 2006. In consideration for the SATI shares received, the Company issued 50,000 shares of its Class E convertible preferred stock which has a stipulated value of \$975,000 (see Note 11). On the acquisition date, SATI had \$100,000 in cash and a license to utilize patented technology relating to the structural monitoring of bridges. Under the terms of the license, royalties and fees are due on revenue generated through the utilization of the licensed technology. The license expires on January 23, 2023. As SATI had no customers, expenses, or operations, the acquisition of SATI was treated as an acquisition of assets of \$100,000 in cash and \$875,000 was charged to operations as management deemed the underlying value of the license to be impaired.

On April 30, 2007, the Company acquired 100% of the issued and outstanding stock of Damage Assessment Technologies, Inc. ("DATI"), which was organized in the State of Florida on April 23, 2007. On the acquisition date, DATI had \$250,000 in cash, a license to utilize patented technology relating to the damage assessment, and has an agreement with a consultant to provide services associated with the development, application, and testing of the licensed technology through August 2007 (see Note 7). As DATI had no customers, expenses, or operations, the acquisition of DATI was treated as an acquisition of assets of \$250,000 in cash and \$11,000,000 of intellectual property for 7,500,000 shares of common stock. The \$11,000,000 value assigned to the intellectual properties was deemed impaired by management and charged to operations. The Company abandoned the license in 2008 and filed articles to dissolve DATI on February 6, 2009.

On June 28, 2007, the Company acquired 100% of the issued and outstanding stock of Non-Destructive Assessment Technologies, Inc. ("NDATI"), which was organized in the State of Florida on May 24, 2007. On the acquisition date, NDATI had \$250,000 in cash, a license to utilize patented technology relating to the damage assessment, and an agreement with a consultant to provide services associated with the development, application, and testing of the licensed technology through August 2007 (see Note 7). As NDATI had no customers, expenses, or operations, the acquisition of NDATI was treated as an acquisition of assets of \$250,000 in cash and \$7,380,876 of intellectual property for 6,412,500 shares of common stock. The \$7,380,876 assigned to the intellectual properties was deemed impaired by management and charged to operations. The Company abandoned the license in 2008 and filed articles to dissolve NDATI on February 6, 2009.

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MATECH CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For years ended December 31, 2008 and 2007

On September 28, 2007, the Company acquired from its chief engineer 100% of the issued and outstanding stock of Bridge Testing Concepts, Inc. ("BTCI"), which was organized in the State of California on July 30, 2007. On the date of acquisition, BTCI's sole asset consisted of technology relating to the testing of fatigue on bridges. In consideration for the shares of BTCI, the Company issued 1,500,000 shares of its common stock and paid \$37,500 in October 2007. The Company treated the acquisition as a related party transaction and valued the shares issued at par. The total purchase price of \$39,000 was assigned to the intellectual property received. Management deemed the value of the technology to be impaired and charged the \$39,000 to operations.

Unless otherwise noted, common stock refers to the Company's Class A common stock.

Effective on November 8, 2006, the Company declared a 1-for-300 reverse split of the Company's Class A common stock. In addition, effective on October 3, 2008, the Company declared a 1-for-1,000 reverse split of the Company's Class A common stock. All share amounts and per share amounts have been adjusted throughout the financial statements for these two reverse stock splits.

Going Concern

The Company's 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. The Company has sustained operating losses since its inception (October 21, 1983). In addition, the Company has used substantial amounts of working capital in its operations. Further, at December 31, 2008, deficit accumulated during the development stage amounted to \$581,117,806.

In view of these matters, realization of a major portion of the assets in the accompanying consolidated balance sheet is dependent upon the Company's ability to meet its financing requirements and the success of its future operations. During 2008, the Company received approximately \$18,624 (net of offering costs) through the issuance of 77 shares of its common stock and received \$1,305,000 through the issuance of convertible debt. The Company plans to continue raising funds through the sale of its common stock and issuance of debt through private offerings which management expects to continue in 2009. The Company's has commenced marketing its current technologies and continues to develop new methods and applications.

Management believes that these sources of funds and current liquid assets will allow the Company to continue as a going concern through the end of 2009. Management of the Company

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MATECH CORPORATION
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For years ended December 31, 2008 and 2007

will need to raise additional debt and/or equity capital to finance future activities beyond 2009. 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 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying financial statements include the accounts and transactions of Material Technologies, Inc., its wholly owned subsidiaries Matech International, Inc., ("International") Materials Monitoring Technologies, Inc., ("Monitoring"), Stress Analysis Technologies, Inc. ("SATI"), Damage Assessment Technologies, Inc., ("DATI"), Non-Destructive Assessment Technologies, Inc., ("NDATI"), Bridge Testing Concepts, Inc., ("BTCI") and its substantially owned subsidiary Matech Aerospace, Inc., ("Aerospace"). Intercompany transactions and balances have been eliminated in consolidation. The minority owners' interests in a subsidiary have been reflected as minority interest in the accompanying consolidated balance sheet.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the fair value of marketable securities, the value of shares issued for non-cash consideration, and the recoverability of deferred tax assets. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statements of cash flows, the Company considers cash equivalents to include highly liquid investments with original maturities of three months or less.

Investments

Marketable securities purchased with the intent of selling them in the near term are classified as

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MATECH CORPORATION
(A DEVELOPMENT STAGE COMPANY)

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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. 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 an impairment loss.

Non-marketable securities consist of equity securities for which there are no quoted market prices. Such investments are initially recorded at their cost. In the case of non-marketable securities acquired with the Company's common stock, the Company values the securities at a significant discount to the stated per share cost based upon the Company's historical experience with similar transactions as to the amount ultimately realized from the sale of the shares. Such investments will be reduced if the Company receives 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 Note 3).

Accounts Receivable

Accounts receivable are reported at the customers' outstanding balances less any allowance for doubtful accounts. The Company does not accrue interest on overdue accounts receivable.

The allowance for doubtful accounts is charged to income in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers. As of December 31, 2007 and 2008, management believes all accounts receivable are collectible. Accordingly, no allowance for doubtful accounts is included in the accompanying consolidated balance sheets.

Long-Lived Assets

The Company accounts for its long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived

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MATECH CORPORATION
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For years ended December 31, 2008 and 2007

assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. As of December 31, 2007 and 2008, the Company does not believe there has been any impairment of its long-lived assets.

Intangible Assets

Intangible assets consist of patents, license agreements and website design costs and are recorded at cost. Patents and license agreements are amortized over 17 years and website design costs are amortized over five years. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the carrying values of intangible assets are evaluated for impairment annually or whenever events or changes in circumstances indicate that the historical cost carrying value may no longer be appropriate. As of December 31, 2007, the Company deemed all of its acquired licenses in 2007 to be impaired and has charged the total cost assigned of \$19,294,875 to operations. As of December 31, 2008, The Company determined that none of its remaining intangible assets have been impaired.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred tax assets and liabilities are recognized for future tax benefits or consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be realized through future operations.

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MATECH CORPORATION
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For years ended December 31, 2008 and 2007

Convertible Debentures

If the conversion feature of conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (“BCF”). A BCF is recorded by the Company 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 Instruments. In those circumstances, the convertible debt will be recorded net of the discount related to the BCF. The Company amortizes the discount to interest expense over the life of the debt using the effective interest method.

Derivative Financial Instruments

In the case of non-conventional convertible debt, the Company bifurcates its embedded derivative instruments and records 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. The Company’s derivative financial instruments consist of embedded derivatives related to the non-conventional notes (“Notes”) entered into with Golden Gate Investors (“GGI”) and Palisades Capital, LLC or its registered assigns (“Palisades”) (see Note 10). These embedded derivatives include the conversion features, liquidated damages related to registration rights, warrants issued and default provisions. The accounting treatment of derivative financial instruments requires that the Company 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. 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, the Company will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income.

Fair Value of Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable, accrued expenses, notes payable and convertible debentures. Pursuant to SFAS No. 107, Disclosures About Fair Value of Financial Instruments, the Company is required to estimate the fair value of all financial instruments at the balance sheet date. The Company cannot determine the estimated fair value of the convertible debentures as instruments similar to the convertible debentures could not be found. Other than this item, the Company considers the carrying values of its financial instruments in the financial statements to approximate their fair values.

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MATECH CORPORATION
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For years ended December 31, 2008 and 2007

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin (“SAB”) No. 101, Revenue Recognition in Financial Statements, as revised by SAB No. 104. As such, the Company recognizes revenue on its bridge inspections when the inspection is completed and the required inspection report is provided to the client.

Research and Development

The Company expenses research and development costs as incurred.

Basic & Diluted Net Loss per Share

The Company adopted the provisions of SFAS No. 128, Earnings Per Share (“EPS”). SFAS No. 128 provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the year December 31, 2007 and 2008, basic and diluted loss per share is the same. Since the calculation of diluted per share amounts would result in an anti-dilutive calculation that is not permitted and therefore not included. If such shares were included in diluted EPS, they would have resulted in weighted-average common shares of 38,753,561 and 146,060,747 for 2007 and 2008, respectively. Such amounts include shares potentially issuable pursuant to convertible debentures (see Note 10), and outstanding options and warrants (see Note 13).

Issuance of Stock for Non-Cash Consideration

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

The Company's 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

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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 with 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, the Company records the fair value of the fully vested non-forfeitable common stock issued for future consulting services as prepaid services in its consolidated balance sheet.

Stock-Based Compensation

The Company adopted SFAS No. 123 (Revised 2004), Share Based Payment ("SFAS No. 123R"), under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, the Company accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

Concentrations of Credit Risk

The Company maintains its cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. From time to time, the Company's cash balances exceed the amount insured by the FDIC. Management believes the risk of loss of cash balances in excess of the insured limit to be low.

During the year ended December 31, 2008, the Company's revenues were generated from eight customers. As of December 31, 2008, the Company's receivables are from three customers of which balances from two customers each exceed 10% of the total accounts receivable balance.

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During the year ended December 31, 2007, the Company's revenues were generated from three customers. As of December 31, 2007, the Company's receivables are from three customers of which balances from all three customers each exceed 10% of the total accounts receivable balance.

Recent 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 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 should not have a significant impact on our consolidated 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 should not have a significant impact on our consolidated financial statements.

SFAS No. 162 - In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the

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preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will become effective 60 days following Securities and Exchange Commission (“SEC”) approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company does not anticipate the adoption of SFAS 162 to have a material impact on our results of operations, financial position, or cash flows.

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. We are currently assessing the impact of EITF 03-6-1, but do not expect that such adoption will have a material effect on our results of operations, financial position, or cash flows.

SFAS No. 157 - The Company plans to adopt 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. The adoption of SFAS No. 157 should not have a significant impact on our consolidated financial statements, and the resulting fair values calculated under SFAS No. 157 after adoption were not significantly different than the fair values that would have been calculated under previous guidance.

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 consolidated financial statements or the fair values of our financial assets and liabilities.

In December 2008, the FASB issued Financial Staff Position (“FSP”) Financial Accounting Standard No. 140-4 and FASB Interpretation 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (“FSP FAS 140-4” and “FIN 46(R)-8”). The document increases disclosure requirements for public companies and is effective for reporting periods

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(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 consolidated financial statements.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are reported at the customers' outstanding balances less any allowance for doubtful accounts. The Company does not accrue interest on overdue accounts receivable.

The allowance for doubtful accounts is charged to income in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers. As of December 31, 2008, management believes all accounts receivable are collectible. Accordingly, no allowance for doubtful accounts is included in the accompanying consolidated balance sheet.

NOTE 4 – INVESTMENTS

Mutual Funds

As of December 31, 2007, the Company's investments in open-end mutual funds approximate their cost of \$300,000. The Company considers its investments in this account as being held for trading. During 2007, the Company purchased \$302,038 and sold \$137,174 of this investment with no gain or loss.

Investments as of December 31, 2007 are as follows:

| | Adjusted Cost | Unrealized
Loss | Fair Value |
|-------------------------------|---------------|--------------------|------------|
| Marketable trading securities | \$ 300,000 | \$ - | \$ 300,000 |

In 2008, the marketable securities were sold and as of December 31, 2008, the Company did not have any investment in marketable securities.

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Commercial Paper

As of December 31, 2007, the Company had investments in a bank's commercial paper totaling \$1,400,000, which accrue interest at rates ranging from 4.0% to 4.8% and mature on various dates through April 2008. As of December 31, 2007, accrued interest on these investments totaled \$10,758 that was credited to operations. Of the \$1,410,758 held at December 31, 2007, \$401,491 is considered a cash equivalent and is included in cash and cash equivalents on the balance sheet.

During the year ended December 31, 2008, the Company received \$1,565,000 on maturities of various investments in a bank's commercial paper. Also during the year, the Company reinvested \$565,000. The balance of the Company's investment in commercial paper at December 31, 2008 was \$0.

NOTE 5 - INVENTORIES

Inventories consist of the following:

| | December 31, | |
|----------------|--------------|------------|
| | 2007 | 2008 |
| Finished goods | \$ 62,616 | \$ 141,341 |

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

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | December 31, | |
|-------------------------------------|--------------|-----------|
| | 2007 | 2008 |
| Office and computer equipment | \$ 27,645 | \$ 27,645 |
| Manufacturing and testing equipment | 213,354 | 230,520 |
| | 240,999 | 258,165 |
| Less accumulated depreciations | (158,453) | (179,564) |
| | \$ 82,546 | \$ 78,601 |

Depreciation charged to operations for the year ended December 31, 2007 and 2008 amount to \$6,505 and \$21,111, respectively.

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NOTE 7 – INTANGIBLE ASSETS

Intangible assets consist of the following:

| | Period of
Amortization | December 31,
2007 | December 31,
2008 |
|----------------------------|---------------------------|----------------------|----------------------|
| Patent costs | 17 years | \$ 28,494 | \$ 28,494 |
| License agreement (Note 8) | 17 years | 6,250 | 6,250 |
| Website | 5 years | 5,200 | 5,200 |
| | | 39,944 | 39,944 |
| | | (37,104) | (38,180) |
| | | \$ 2,840 | \$ 1,764 |

Amortization charged to operations for the year ended December 31, 2007 and 2008 was \$1,076, and \$1,076, respectively.

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

| | |
|------|----------|
| 2009 | \$ 1,076 |
| 2010 | \$ 688 |

NOTE 8 – 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 is obligated to pay the University a 5% royalty on sales of products developed under the licensed technology. 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.

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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 year ended December 31, 2007 and 2008 amounted \$41,617 and \$39,220, respectively. The balance of the obligation (including accrued interest) at December 31, 2007 and 2008 amounted to \$785,650 and \$803,549, respectively, and is reflected in research and development sponsorship payable in the accompanying consolidated balance sheet. The current portion represents the minimum annual payment under the Workout Agreement, while the remaining balance is reflected as non-current as the Company does not expect to be required to make additional payments during the next twelve months.

North Carolina Agricultural and Technical State University ("NCAT")

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

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

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Year beginning

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

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

ISIS Innovation Limited (“ISIS”)

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

Year beginning

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

Iowa State University Research Foundation (“ISURF”)

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

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Year beginning

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

The Company abandoned the license in October 2008.

NOTE 9 – 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 11). The balance due on this loan as of December 31, 2007 and 2008 amounted to \$56,761 and \$58,384, respectively. Interest charged to operations during the year ended December 31, 2007 and 2008 amounted to was \$406 and \$406, respectively. Interest charged to operations during the year ended December 31, 2008 and 2007 was \$1,623 and \$1622, respectively.

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

On March 5, 2007, the Company borrowed \$200,000 from a shareholder. The loan is evidenced by an unsecured promissory note which is assessed interest at an annual rate of 8%. The note matures on March 5, 2009 when the principal and accrued interest becomes fully due and payable. The balance of the loan including accrued interest at December 31, 2007 and 2008 amounted to \$226,589, and \$231,158, respectively. Interest charged to operations during the year ended December 31, 2007 and 2008 was \$13,508 and \$17,650, respectively.

Maturities of notes payable are as follows:

| | | |
|------|----|---------|
| 2009 | \$ | 299,542 |
|------|----|---------|

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NOTE 10 – CONVERTIBLE DEBENTURES

Palisades

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

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

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

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- If an Event of Default occurs which is not cured within its applicable cure period, if it is curable, the conversion price of these debentures after such cure period has expired shall be reduced to half of the pre-Event of Default conversion price. For clarification, if the conversion price before an Event of Default were the lesser of 50% of market price or \$0.10, then the new conversion price would be the lesser of 25% of market price or \$0.05.
- The Company shall not issue any shares of its Class A Common Stock without a legend stating that such shares may not be sold, transferred, pledged, assigned or alienated for a period of at least one year following the date of the issuance of such certificate, other than shares issued to or with the written consent of the Holder. Notwithstanding the foregoing, this provision shall not apply to (i) any shares issued to purchasers in a financing where the Company receives net proceeds of at least Five Hundred Thousand Dollars (\$500,000) and the shares are sold for not less than fifty percent (50%) of the closing price of the Company's common stock reported as of the closing date of such financing, and (ii) any shares issued in connection with an acquisition of assets by the Company where (a) the Company provides to the Holder a fairness opinion as to the value of the acquired assets, and (b) the Company receives assets that are worth at least fifty percent (50%) of the closing price per share of the Company's common stock as of the closing date of the acquisition.
- The Company shall not enter into any agreement pursuant to which any party other than the Holder has pre-emptive rights, the right to receive shares of any class of securities of the Company for no additional consideration, the right to receive a set, pre-determined percentage of the outstanding shares of the Company for any period of time, or any other similar right that has the effect of maintaining a set percentage of the issued and/or outstanding shares of any class or classes of the capital stock of the Company.
- The Company shall not enter into any agreement giving another party anti-dilution protection unless (1) all shares received pursuant to such provision are subject to a two-year lock-up from the date of issuance, and (2) all such shares received are subject to a "dribble-out," following the two-year lock-up, restricting their sale to not more than 1/20th of 5% of the previous month's total trading volume in any single trading day.

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- The Company will not file any Registration Statement on Form S-8 nor issue any shares registered on Form S-8, exclusive of shares currently registered on Form S-8. However, when the total capital in the Company's cash account drops below \$500,000, the Company may issue up to \$30,000 worth of securities registered on Form S-8, valued at the market price of the common stock on the date of issuance, per month, non-cumulative. Any issuance of S-8 shares will be supported by an opinion of the Company's counsel that such issuance complies in all respects with federal securities laws. This opinion will be provided to the legal representative of the Holder upon request. Further, the Company will ensure that every entity or individual that receives S-8 shares will be subject to a "dribble-out" restricting their sale to not more than 1/20th of 2% of the previous month's total trading volume in any single trading day, non-cumulative. The above described dribble-out is not an aggregate sale restriction for all entities and individuals receiving S-8 shares;
- The Company acknowledges that the conversion price of the Debenture shall not be effected by any such reverse split, and that after giving effect to such reverse split, the conversion price shall remain the lesser of (i) 50% of the averaged ten closing prices for the Company's Common Stock for the ten trading days immediately preceding the Conversion Date or (ii) \$0.10. The Holder consents to this action. The parties acknowledge that the Company is not obligated to complete this reverse-split, or any reverse split.
- The shareholder lockup provisions will not apply to up to any shares held by Mr. Robert Bernstein, and sold by him personally in a bona-fide sale to an unrelated, unaffiliated third party; provided, that (i) the number of shares sold shall not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000) worth of stock, calculated based on the number of shares sold multiplied by the closing price of the stock on the date such shares are sold (if a market trade) or transferred on the books of the transfer agent (if a private transfer). Once Two Million Five Hundred Thousand Dollars (\$2,500,000) worth of stock has been sold as calculated above, the lockup on whatever remains of the shares owned by Mr. Bernstein (if any) goes back into effect. In this regard, if Mr. Bernstein sells any of his shares without legend, then he may only sell up to 1/20th of 5% of the previous month's total trading volume in any single trading day, and he may not sell more than 1% of the issued and outstanding shares of Matech during any 90 day period. Further, if Mr. Bernstein sells any of his shares, he must have such shares transferred on the books of the transfer agent within five business days of the sale. Mr. Bernstein shall comply with all reporting requirements under Section 16 of the Securities Exchange Act of 1934, as amended.

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

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

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

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

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

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

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In November 2008, the holders advanced an additional \$250,000 that was added to principal and increased principal for monthly consulting fees totaling \$120,000. Also during the year ended December 31, 2008, the Company paid \$20,000 and issued 2,834,000 shares of its Class A common stock through the conversion of \$394,000 of indebtedness. The Company failed to pay the required interest payments due for the three months ended December 31, 2008.

The balance of the Debenture, including accrued interest, at December 31, 2007 and 2008 was \$1,903,143 and (net of unamortized discount of \$993,233), and \$1,859,325 (net of unamortized discount of \$2,587,292), respectively. Interest charged to operation in on the face amount of the debentures for the year ended December 31, 2007 and 2008 was \$274,998 and \$319,331. Amortization expense of the discount also charged to operations as interest expense for the year ended December 31, 2007 and 2008 amounted to \$1,427,880 and \$2,250,421, respectively.

At December 31, 2008, the fair value of the derivative liabilities relating to the above indicated convertible debt amounted to \$152,963,623.

GGI

During the year ended December 31, 2008, the Company issued 229 shares of its Class A common stock through the conversion of the total balance due on the convertible debt amounting to \$91,384. Interest charged to operations relating to this debt during the year ended December 31, 2007 and 2008 amounted to \$4,761 and \$281, respectively.

In addition, since the Debentures allow the holders to convert the outstanding principal amount into shares of the Company's common stock at a discount to fair value, the Company recorded the fair value of the conversion feature of \$40,000 in 2005. Amortization expense of the discount also charged to operations as interest expense for the year ended December 31, 2007 and 2008 amounted to \$13,333 and \$13,333, respectively.

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.

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

The balance of the Debenture, including accrued interest, at December 31, 2008 was \$35,078 (net of unamortized discount of \$21,715). Interest charged to operations for the year ended December 31, 2008 amounted to \$1,793. 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 year ended December 31, 2008 amounted to \$6,425, respectively.

At December 31, 2008, the fair value of the derivative liabilities relating to the above indicated convertible debt amounted to \$3,140,001.

Kruetzfield

In July 2008, the Company entered into a financing agreement to borrow a total of \$1,000,000 through the issuance of a convertible note. Interest accrues on the outstanding loan balance at an annual rate of 10% per annum. Principal is due on the maturity date with accrued interest due quarter; however, the Company has the right to defer interest payments until the maturity date so long as it does not have positive 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 December 31, 2008 was \$300,756 (net of unamortized discount of \$231,158). Interest charged to operations on the debenture for the year ended December 31, 2008 amounted to \$39,446, 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 year ended December 31, 2008 amounted to \$146,575.

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The Company incurred fees in connection with obtaining the loan totaling \$375,000. The \$375,000 is being amortized into interest expense over the term of the note. The amount charged to interest expense during the year ended December 31, 2008 amounted to \$18,292. The unamortized balance of deferred loan fees is reflected on the balance sheet as an asset and its balance as of December 31, 2008 amounted to \$356,708.

At December 31, 2008, the fair value of the derivative liability was \$29,908,928.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Royalties

A summary of royalty interests that the Company has granted and are outstanding as of December 31, 2008 follows:

| | Fatigue
Fuse | EFS | Server
Array
System | X-Ray
Diffraction
Method | Nondestructive
evaluation
and
stimulate
industrial
innovation |
|--|-----------------|-------|---------------------------|--------------------------------|--|
| Variety Investments, Ltd. | 5.00% | - | - | - | - |
| University of Pennsylvania
(see Note 7) | | | | | |
| Net sales of licensed
products | - | 7.00% | - | - | - |
| Net sales of services | - | 2.50% | - | - | - |
| NCAT (see Note 7) ** | | | | | |
| Net sales of licensed
products | - | - | 3.50% | - | - |
| Sublicensing income | - | - | 25.00% | - | - |
| ISIS (see Note 7) ** | | | | | |
| Net sales of licensed
products | - | - | - | 2.5% | - |
| Sublicensing income | - | - | - | 25.00% | - |
| ISURF (see Note 7) ** | | | | | |
| Net sales of licensed
products | - | - | - | - | 3.0% |
| Sublicensing income | - | - | - | - | 25.00% |
| Shareholder | 1.00% | 0.50% | - | - | - |

** License cancelled
in 2008

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During 2008, the Company paid \$11,255 in royalties.

Litigation

Beck

In December 2006, the Company entered into a settlement agreement and release agreement, as well as irrevocable escrow instructions, to settle the lawsuit filed on March 8, 2006. As consideration under the settlement, the Company issued 5,000,000 shares of its common stock to Mr. Beck, with the shares to be held by an escrow agent and distributed to Mr. Beck monthly with a trading limit equal to 8% of the previous month's trading volume of the Company's common stock, until Mr. Beck has received a total of \$800,000. As the Company has guaranteed this debt to Mr. Beck in the amount of \$800,000, the Company originally recorded a liability for this amount at the time of the settlement. As Mr. Beck receives proceeds from the sale of his shares through the public market, the Company is reducing its guarantee by that amount. The balance of the liability at December 31, 2007 and 2008 amounted to \$230,000 and \$0, respectively.

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.

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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.

GEM

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

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

In the event the Company is determined to be in default under the settlement agreement, it is required to pay the plaintiff \$250,000 less any amounts already paid, plus 10% interest on the remaining amount of the \$250,000 settlement (commencing October 7, 2008 to the date of default), plus \$36,000 as a penalty. As 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 Company recorded a liability on this obligation and had balance at December 31, 2007 of \$250,000. The balance of the obligation at December 31, 2008 amounted to \$210,011. Interest charged to operations in 2007 and 2008 relating to this obligation amounted to \$0 and \$2,159, respectively.

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Maturities of the obligation are as follows:

| | | |
|------|----|---------|
| 2009 | \$ | 54,033 |
| 2010 | | 52,058 |
| 2011 | | 55,268 |
| 2012 | | 48,652 |
| | \$ | 210,011 |

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

Indemnities and Guarantees

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

NOTE 12 – 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 year ended December 31, 2008, the Company did not contribute to the plan.

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NOTE 13 – STOCKHOLDERS' DEFICIT

Class A Preferred Stock

The holders of the Class A convertible preferred stock have a liquidation preference of \$720 per share. Such amounts shall be paid on all outstanding Class A preferred shares before any payment shall be made or any assets distributed to the holders of the common stock or any other stock of any other series or class ranking junior to the shares as to dividends or assets.

These shares are convertible to shares of the Company's common stock at a conversion price of \$0.72 ("initial conversion price") per share of Class A preferred stock that will be adjusted depending upon the occurrence of certain events. The holders of these preferred shares shall have the right to vote and cast that number of votes which the holder would have been entitled to cast had such holder converted the shares immediately prior to the record date for such vote. The holders of these shares shall participate in all dividends declared and paid with respect to the common stock to the same extent had such holder converted the shares immediately prior to the record date for such dividend.

Class B Preferred Stock

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

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

Class C Preferred Stock

Each shareholder of Class C preferred stock is entitled to receive a cumulative dividend of 8% per annum for a period of two years. Dividends do not accrue or are payable except out of earnings before interest, taxes, depreciation and amortization. At December 31, 2008, no dividends are payable to Class C preferred shareholders. Holders of the Class C preferred stock

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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.

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 December 31, 2008. Holders of Class D preferred stock have the right to convert their shares to common stock on a 300-to-1 basis. As of December 31, 2008, there were no Class D Preferred shares outstanding.

Class E Convertible Preferred Stock

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

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

During the year ended December 31, 2008, 5,750 shares of Class E convertible preferred stock were converted into 8,578 shares of the Company's Class A common stock.

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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.

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 December 31, 2008:

| | |
|--|-------------------|
| Issued shares | 99,408,963 |
| Less shares held in escrow: | |
| Shares issued to the Company and held in escrow | (75,000,000) |
| Other | (19,169) |
| | (75,019,169) |
| Outstanding shares (including shares committed) | 24,389,794 |

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.

Common Shares Issued

2007

On January 9, 2007, the Company issued 20 shares of its common stock for services rendered in connection with its bridge testing which were valued at \$46,000. On January 9, 2007, the Company issued 5 shares of its common stock for legal services valued at \$11,500. On January 10, 2007, the Company issued 1,800 shares in consideration for the cancellation of \$180,000 of convertible debt. On January 16, 2007, the Company issued 20 shares of its common stock to two consultants for services rendered valued at \$45,000. On January 22, 2007, the Company issued 30 shares of its common stock to two consultants for services rendered valued at \$58,500. On February 1, 2007, the Company issued 10 shares of its common stock to a consultant for services rendered valued at \$20,500. On February 2, 2007, the Company issued 4,000 shares

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in consideration for the cancellation of \$400,000 of convertible debt. On February 7, 2007, the Company issued 15 shares of its common stock for legal services in connection with its private offering valued at \$33,750. On February 14, 2007, the Company issued 20 shares of its common stock for services rendered in connection with its bridge testing which were valued at \$44,000. On February 28, 2007, the Company issued 350 shares of its common stock to two consultants for services rendered subject to three year lock up agreement which were valued at \$507,500. Also on February 28, 2007, the Company issued 300 shares of its common stock for accounting services subject to a three year lockup agreement which were valued at \$435,000. On March 2, 2007, the Company issued 26 shares of its common stock for services rendered in connection with its bridge testing which were valued at \$41,600. On March 2, 2007, the Company issued 20 shares of its common stock to two consultants for services rendered valued at \$32,000. On March 6, 2007, the Company issued 1,002 shares of its common stock to two consultants subject to three year lockup agreements for services rendered valued at \$641,280. On March 9, 2007, the Company issued 57 shares of its common stock to two consultants subject to three year lockup agreements for services rendered valued at \$71,967. On March 12, 2007, the Company issued 150 shares of its common stock to a consultant subject to three year lockup agreement for services rendered valued at \$217,500. On March 16, 2007, the Company issued 3 shares of its common stock to a consultant subject to three year lockup agreement for services rendered valued at \$4,963. On March 19, 2007, 50 shares of common stock were returned and subsequently cancelled. On March 19, 2007, the Company issued 50 shares of its common stock to a consultant subject to three year lockup agreement for services rendered valued at \$77,500. On March 27, 2007, the Company issued 169 shares of its common stock to two consultants subject to three year lockup agreements for services rendered valued at \$279,345.

On April 6, 2007, the Company issued Mr. Stephen Beck 1,446 shares of its common stock pursuant to the anti-dilution provision of his settlement agreement with the Company. On April 9, 2007, the Company cancelled 9,040 shares that it held in reserve for future financing. These shares were originally considered issued but not outstanding. On April 17, 2007, the Company issued 7 shares of its common stock subject to a three year lockup agreement and valued at \$10,040. On April 20, 2007, the Company issued 405 shares of its common stock in connection with the exercise of warrants to purchase 2,250,000 shares of the Company's common stock. The 405 shares were valued at \$587,250 and charged against equity. On April 25, 2007, the Company issued 2 shares of its common stock subject to a three year lockup agreement and valued at \$3,346. On April 27, 2007, the Company issued 30 of its common stock shares to a consultant subject to a 2 year lock up agreement and valued at \$45,000. On April 27, 2007, the Company issued 10,000 of its common stock in exchange for 3,000,000 common shares of Rocket City Automotive Group, Inc which were valued at \$13,832,000. On April 27, 2007, the Company issued 7,500 shares of its common stock in exchange for 100% of the outstanding stock in Damage Assessment Technologies, Inc. The 7,500 shares were valued at \$11,250,000 of which \$11,000,000 was expensed as an impairment loss. On May 3, 2007, the Company issued 1,250 shares

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of its common stock to an officer for consultant on the Company's technology subject to a three year lockup agreement and valued at \$1,837. Also on May 3, 2007, the Company issued a total of 2,450 shares of its common stock to 3 consultants subject to three year lockup agreements and valued at \$3,601,500. On May 3, 2007, the Company issued 750 shares of its common stock to a consultant involved in the Company's acquisition of Damage Assessment Technologies, Inc. valued at \$1,102,500 which was charged against equity. On May 11, 2007, the Company issued 304 shares of its common stock for investment relations services pursuant to the terms of the agreement with the consultant. The 304 were valued at \$456,000. On May 14, 2007, 350 shares of the Company's common stock were returned to treasury and cancelled. On May 21, 2007, the Company issued 644 shares of its common stock pursuant to the anti-dilution provision of an agreement the Company has with a consultant. On June 11, 2007, the Company issued 4 shares of its common stock pursuant to the terms of the agreement the Company has with an investment relations firm valued at \$5,600. On June 11, 2007, the Company issued 250 shares of its common stock to a consultant valued at \$350,000. On June 19, 2007, the Company issued 2,250 shares of its common stock in exchange for the cancellation of \$225,000 of debt owed on certain convertible notes. On June 21, 2007, the Company issued 1,000 shares to a consultant subject to a 3 year lockup agreement valued at \$1,070,000. On June 26, 2007, the Company issued 100,000 shares of its common stock for future financing. On June 27, 2007, the Company issued 6,413 shares of its common stock in exchange for 100% of the outstanding stock of Non-Destructive Assessment Technologies, Inc ("NDTAI"). The 6,413 shares were valued at \$7,630,875 of which \$7,380,875 was charged to operations as an impairment loss. As part of the agreement to purchase NDATI, the Company issued 337 shares of its common stock to a consultant valued at \$64,463, which was charged against equity.

On July 17, 2007, the Company issued 265 shares of its common stock to Mr. Stephen Beck pursuant to the anti-dilution provision of Mr. Beck's settlement agreement. The 265 shares were valued at par. On July 17, 2007, the Company issued 4 shares of its common stock to an investment relations firm for services valued at \$4,200. On July 20, 2007, the Company issued 107 shares of its common stock to a consultant valued at \$106,500. On July 27, 2007, the Company issued 100,000 shares in its name that it is holding for future financing. On July 30, 2007, the Company issued 250 shares of its common stock to a consultant valued at \$260,000. On July 30, 2007, the Company issued 4 shares of its common stock to an investment relations firm for services valued at \$4,160. On August 24, 2007, the Company issued 950 shares of its common stock to two consultants valued at \$988,000. On August 27, 2007, the Company issued 9 shares of its common stock to a consultant for services valued at \$8,583. On September 11, 2007, the Company issued 290 shares of its common stock for legal services valued at \$208,800. On September 19, 2007, the Company issued 2,000 shares of its common stock in exchange for the cancellation of \$200,000 of debt owed on certain convertible notes. On September 19, 2007, the Company issued 4 shares of its common stock to an investment relations firm for services valued at \$2,680. On September 21, 2007, the Company issued 250 shares of its common stock

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to two consultants valued at \$167,500. On September 24, 2007, the Company issued 1,000 shares of its common stock to a consultant valued at \$670,000. On September 26, 2007, the Company issued 240 shares of its common stock to a consultant valued at \$165,600. On September 28, 2007, the Company issued 1,500 shares of its common stock to its chief engineer as part consideration in the acquisition of Bridge Testing Concepts, Inc., a corporation wholly owned by chief engineer. The Company deemed the acquisition as a related party transaction and valued the 1,500 shares at par. On September 28, 2007, the Company issued 675 shares of its common stock to a consultant valued at \$540,000.

On October 1, 2007, the Company issued 400 shares of its common stock to an employee. The shares vest over three years and were valued at \$288,000. The Company is charging the \$288,000 to operations over the three year vesting period. On October 2, 2007, the Company issued 76 shares of its common stock to a consultant for services valued at \$51,121. On October 4, 2007, certain shareholders returned 18 shares of the Company's common stock which were subsequently cancelled. On October 12, 2007, the Rocket City Automotive returned the 10,000 shares of the Company's common stock that was subsequently cancelled. On December 6, 2007, the Company issued 63 shares of its common stock in connection with a private offering. The 63 shares were valued at \$26,250 and was charged against the proceeds received. On December 10, 2007, the Company issued 250 shares to one of its advisors for services valued at \$155,000. On December 12, 2007, the Company issued 200,000 shares in its name for future financing. On December 27, 2007, the Company issued 231 shares of its common stock to Mr. Beck pursuant to the anti-dilution provision of his settlement agreement with the Company.

2008

On January 1, 2008, the Company issued 200 shares of its common stock to a consultant for services rendered valued at \$104,000. On January 9, 2008, the Company issued 15 shares of its common stock in exchange for the cancellation of \$5,000 of debt owed on certain convertible notes. On January 9, 2008, the Company issued 425 shares of its common stock to a consultant for services rendered subject to two-year lock up agreement valued at \$187,000. On January 14, 2008, the Company issued a total of 7,000 shares of common stock to a consultant for services rendered valued at \$3,150,000. On January 16, 2008, the Company issued 46 shares of its common stock in exchange for the cancellation of \$15,000 of debt owed on certain convertible notes. On January 17, 2008, the Company issued 4,000 shares of its common stock in exchange for the cancellation of \$400,000 of debt owed on certain convertible notes. On January 21, 2008, the Company issued 8 shares of its common stock to a consultant for services rendered subject to three-year lock up agreement valued at \$4,275. On January 22, 2008, the Company issued 61 shares of its common stock in exchange for the cancellation of \$20,000 of debt owed on certain convertible notes. On January 24, 2008, the Company issued 107 shares of its common stock

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in exchange for the cancellation of \$35,000 of debt owed on certain convertible notes. On January 30, 2008, the Company issued Mr. Stephen Beck 378 shares of its common stock pursuant to the anti-dilution provision of his settlement agreement with the Company valued at par. On February 19, 2008, the Company issued 200 shares of its common stock to a consultant for services rendered valued at \$51,000. On February 25, 2008, the Company issued 150 shares of its common stock to a consultant for services rendered on the Companies technology valued at \$34,500. On February 27, 2008, the Company issued a total of 225 shares of its common stock to two consultants for services rendered valued at \$49,625. On March 10, 2008, a former employee returned 450 shares of unvested common stock to the Company for cancellation. On March 21, 2008, the Company returned 400,000 shares of common stock it held in escrow for cancellation. Prior to cancellation, these 400,000 shares were considered issued but not outstanding. On March 26, 2008, the Company issued 34,500 shares of its common stock through the cashless exercise of warrants. The Company reduced its derivative liability by the fair value of the warrants exercised totaling \$1,151,900.

On April 9, 2008, the Company issued 2,000 shares of its common stock to its President as compensation valued at \$52,000. On April 11, 2008, the Company issued 77 shares of its common stock for cash proceeds totaling \$18,624. On April 15, 2008, the Company issued 1,040 shares of its common stock in exchange for the cancellation of 1,300 shares of the Company's Class E Convertible Preferred Stock. On April 29, 2008, the Company's President returned to the Company 30,000 shares of its common stock for cancellation. On May 12, 2008, the Company issued 1,500 shares of its common stock to a consultant for services rendered valued at \$7,500. On June 12, 2008, the Company issued 1,500 shares of its common stock to a consultant for services rendered valued at \$28,500.

On July 1, 2008, the Company issued 7,538 shares of its common stock in exchange for the cancellation of 4,450 shares of the Company's Class E Convertible Preferred Stock. On July 9, 2008, a consultant returned 250 shares of the Company common stock that were subsequently cancelled. On July 9, 2008, the Company issued a total of 42 shares of its common stock to two consultants for services rendered valued at \$625. On July 14, 2008, the Company issued 10,000 shares of its common stock in exchange for the cancellation of \$70,000 of debt owed on certain convertible notes. On August 7, 2008, the Company cancelled 93 shares of common stock that it held in treasury previously purchased for \$94,399. On August 14, 2008, the Company issued 20,000 shares of its common stock in exchange for the cancellation of \$44,000 of debt owed on certain convertible notes.

During the fourth quarter of 2008, pursuant to a settlement with certain shareholders for failure to affect the registration of certain common shares, the Company issued a total of 19,600,750 shares of its common stock valued at \$35,281,350. On October 22, 2008, the Company issued 500,000 shares of its common stock in exchange for the cancellation of \$50,000 of debt owed

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on certain convertible notes. On October 27, 2008, the Company issued 170,000 shares of its common stock in exchange for the cancellation of \$170,000 of debt owed on certain convertible notes. On November 26, 2008, 75,000,000 shares were issued to the Company's that were placed in escrow. These shares are considered issued but not outstanding. On December 23, 2008, the Company issued 900,000 shares of its common stock in exchange for the cancellation of \$90,000 of debt owed on certain convertible notes. On December 31, 2008, the Company issued 1,400,000 shares of its common stock in exchange for the cancellation of \$140,000 of debt owed on certain convertible notes. On December 31, 2008, the Company issued 100,000 shares of its common stock to a consultant for services rendered valued at \$364,000.

Stock Options

The Company has the following stock option plans: The 2003 Stock Option, SAR and Stock Bonus Consultant Plan ("the 2003 Plan"), the 2006 Non-Qualified Stock Grant and Option Plan (the "2006 Plan"), and the 2006/2007 Non-Qualified Stock Grant and Option Plan (the "2006/2007 Plan"), and the 2008 Incentive and Nonstatutory Stock Option Plan.

In April 2006, the Company adopted the 2006 Plan and reserved 100,000 shares of its common stock for grant. Eligible plan participants include independent consultants, and the Company may issue shares of stock or options may be granted at any price. The plan expires upon the earlier of all reserved shares being granted or April 18, 2016.

In December 2006, the Company adopted the 2006/2007 Plan and reserved 3,000,000 shares of its common stock for grant. Eligible plan participants include independent consultants, and the Company may issue the shares of the stock or option may be granted at any price. The plan expires upon the earlier of all reserved shares being granted or December 1, 2016.

On April 22, 2008, the Board of Directors adopted the 2008 Incentive and Nonstatutory Stock Option Plan for its employees, directors, and consultants. The Company initially reserved 100,000,000 shares of its Class A common shares to be issued under the plan. The plan was later amended to increase the number of shares reserved to 400,000,000. On April 22, 2008, the Company granted Mr. Bernstein options under the plan to purchase 30,000,000 shares of the Company's Class A common stock at a revised price of \$.011 per share. The options expire ten years after grant. On April 23, 2008, the Company granted Mr. Bernstein options under the plan to purchase 300,000,000 shares of the Company's Class A common stock at a price of \$.00462 per share. These options were returned by Mr. Bernstein on September 4, 2008 for cancelation. On May 4, 2008, the Company granted Mr. Bernstein options under the plan to purchase 70,000,000 shares of the Company's Class A common stock at a price of \$.0077 per share. The options expire ten years after grant. These options were returned by Mr. Bernstein on November 19, 2008 for cancelation. The number of shares exercisable under the plan was amended on December 4, 2008 and was reduced to 30,400,000.

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These option agreements allow for cashless exercises when the fair market value of the Company's common stock exceeds the respective exercise price. The Company deemed the remaining options to purchase 30,000,000 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 December 31, 2008, the Company recorded a derivative liability on these options totaling \$8,595,989.

On April 30, 2008, the Company granted options under its 2006/2007 Non-Qualified Stock Grant and Option Plan to purchase a total of 800,000 shares of its common stock to three officers and its Corporate Secretary. The exercise price of the options is \$.011 per share and they expire on April 30, 2016. The options were valued using the Black-Scholes option-pricing model using the following assumptions: term of 8 years, a risk-free interest rate of 3.29%, a dividend yield of 0% and volatility of 659%. Compensation recognized on the above option grants was \$8,800 and was charged to operations. These 800,000 options were cancelled on November 30, 2008.

On April 9, 2008, pursuant to a consulting agreement, the Company granted options to a consultant to purchase 15,390,546 shares of Class A common stock at a price of \$.025 per share. The options expire on April 9, 2018. The terms of the grant allow for cashless exercises when the fair market value of the Company's common stock exceeds the respective exercise price. The Company deemed these options to be derivatives based upon their terms and recorded a derivative liability on December 31, 2008 of \$4,427,716.

Stock Warrants

During the year ended December 31, 2006 the Company issued 35,000,000 warrants to Palisades as part of the Company's modification of Palisades' convertible debentures (see Note 10). The Company has valued these warrants using a market capitalization method in accordance with its established accounting policy. The warrants are exercisable at a price of the lesser of: (a) \$0.001 per share; (b) 50% of the market price on the date of exercise. 34,500,000 warrants were exercised during 2008.

In addition to the 500,000 warrants as indicated above, the Company has granted as part of a private offering, warrants to purchase 4,618,334 shares of its Class A Common Stock. The Company was obligated to register the underlying 4,618,334 shares, but failed to do so, On August 19, 2008, in settlement for the failure to file the registration statement. The Company cancelled the 4,618,334 warrants and granted to the holders warrants to purchase 18,575,200 shares of its common stock at a purchase price of \$0.20 per share. These warrants expire on August 19, 2009.

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Under the terms of its June 16, 2008 settlement agreement with Palisades, the Company granted warrants to the debenture holders to purchase a total of 35,000,000 shares of the Company's common stock at a price per share of the lesser of (i) \$0.001 per share, or (ii) 50% of market price. The Warrants expire on October 16, 2016. The Company also granted warrants to purchase 5,000,000 shares of its common stock to an affiliate of the debenture holders as part consideration for consultant services. The 5,000,000 warrants are exercisable at a price per share of the lesser of (i) \$0.10 per share, or (ii) 50% of market price. The Warrants expire on October 16, 2015. The terms of the respective warrant agreements allow the warrant holder certain piggyback registration rights. The Company deemed these warrants to be derivatives based upon their terms and recorded a derivative liability on December 31, 2008 of \$11,461,318.

The following table summarizes the warrants and options outstanding at December 31, 2008:

| | Options/
Warrants
Outstanding | Weighed
Average
Exercise
Price |
|-----------------------------|-------------------------------------|---|
| Balance – December 31, 2007 | 40,118,334 | \$ 0.46 |
| Granted | 482,940,746 | \$.016 |
| Exercised | (34,500,000) | \$ (.001) |
| Forfeited | (375,918,334) | \$ (.005) |
| Balance – December 31, 2008 | 112,640,746 | \$.050 |

NOTE 14 – RELATED PARTY TRANSACTIONS

As of December 31, 2007 and 2008, the Company was owed by its President \$8,524 and \$9,412, respectively. The loan is assessed interest at an annual rate of 10%. Interest credited to operations relating to this loan during the year ended December 31, 2007 and 2008 was \$802, and \$887, respectively.

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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. On April 29, 2008, the President returned the 30,000,000 shares to the Company for cancellation. The Company ceased recognizing compensation when these shares were returned. During the year ended December 31, 2007 and 2008, the Company charged to operations \$60,000,000 and \$19,833,333, respectively.

On April 9, 2008, the Company issued 2000 shares of its common stock to its President as compensation valued at \$52,000. During 2008, the Company granted options to its President to purchase a total of 400,000,000 shares of which options to purchase 370,000,000 shares were subsequently cancelled (See Note 13). On April 30, 2008, the Company issued options to other officers and an employee to purchase 800,000 shares of common stock. The options were valued at \$8,800 and charged to operations as compensation. The options were subsequently cancelled on November 25, 2008.

In September 2008, the Company entered into an agreement with Fatigue Solutions Corp ("FSC") to provide services on a contract between FSC and an unrelated third party. The service agreement between the Company and FSC is for five years and under the agreement, FSC required to pay the Company a total of \$300,000 of which \$100,000 has been paid. The remaining \$200,000 is paid through a 10% royalty on all income derived from FSC intellectual properties. FSC is owned by certain officers and a consultant of the Company.

The Company is crediting the amounts received from FSC to income as the services are performed. As of December 31, 2008, the Company credited \$10,000 to income. The remaining \$90,000 received is included in liabilities as deferred income.

NOTE 15 – SUBSEQUENT EVENTS

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

On February 5, 2009, the Company granted a consultant warrants to purchase 480,000 shares of the Company's common stock at a price of \$0.10 per share. The warrants are immediately exercisable and expire on February 5, 2010. The terms of the warrant allow for cashless exercises.

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ITEM 9 – Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Effective March 13, 2008, Material Technologies, Inc. (the “Company”) and its independent auditor, Kabani & Company, Inc. (“Kabani”), mutually agreed to terminate their relationship for the fiscal year ended December 31, 2007. The decision to change auditors was approved by the Company’s Board of Directors. Kabani was engaged by the Company on November 5, 2007. Kabani’s services for the Company were limited to a review of the Company’s Quarterly Reports on Form 10-QSB for the quarter ended September 30, 2007. During their engagement, there were no disagreements with Kabani on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Kabani would have caused Kabani to make reference to the matter in their reports.

We then engaged Gruber & Co. LLC (hereinafter “Gruber”) of Encinitas, California, as the principal accountants to audit our financial statements effective as of March 13, 2008. We, during our most recent fiscal year and any subsequent interim period to the date hereof, did not have discussions nor have we consulted with Gruber regarding the following: (i) the application of accounting principles to a specified transaction, either completed or proposed or the type of audit opinion to be rendered on the our financial statements, and neither a written report was provided to us nor oral advice was provided that Gruber concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matters that were the subject of a “disagreement,” as that term is defined in Item 304(a)(1)(iv) of Regulation S-B and the related instructions to Item 304 of Regulation S-B, or a reportable event.

ITEM 9A(T) – Controls and Procedures

MANAGEMENT’S INTERNAL CONTROL OVER FINANCIAL REPORTING

99Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) are not adequate to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. These matters persist despite our having developed and partially implemented a plan to ensure that all information will be recorded accurately, processed effectively, summarized promptly and reported on a timely basis. Our plan to date has involved, in part, reallocation of responsibilities among officers, including the hiring of a new accounting consultant who is a Certified Public Accountant. One of several specific additional steps that the Company believes it must undertake is to retain a consulting firm to, among other things, design and implement adequate systems of accounting and financial statement disclosure controls during the current fiscal year to comply with the requirements of the SEC. We believe that the ultimate success of our plan to improve our disclosure controls and procedures will require a combination of additional financial resources, outside consulting services, legal advice, additional personnel, further reallocation of responsibility among various persons, and substantial additional training of those of our officers, personnel and others, including certain of our directors such as our Chairman of the Board and committee chairs, who are charged with implementing and/or carrying out our plan. It should also be noted that the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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The Company's internal control over financial reporting disclosure, financial controls, and reporting procedures are designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer. The Company's Chief Executive Officer and Chief Financial Officer is solely involved in implementing the Company's internal control over financial reporting disclosure, financial controls, and reporting procedures in an effort to provide reasonable assurance regarding the reliability of financial reporting, the preparation of financial statements, and the structural flexibility required to effectuate such procedures. The Company does not presently have any Board of Director members, management, or other personnel responsible for the Company's internal control over financial reporting.

The Company's internal control over financial reporting disclosure, financial controls, and reporting procedures are consistent with generally accepted accounting principles, and include policies and procedures that:

- (1) pertain to the maintenance of records in reasonable detail, and accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only with the authorization of the Company's Chief Executive Officer and Chief Financial Officer; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets, and unauthorized transactions, that could have a material effect on the Company's financial statements.

Management's Report of Internal Control over Financial Reporting

Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report. Our independent registered public accounting firm has not issued an attestation report on the effectiveness of our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during its fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

ITEM 9B – Other Information

Not applicable

PART III

ITEM 10 – Directors, Executive Officers, Promoters and Corporate Governance

Directors and Executive Officers

The following table sets forth the names, positions, and ages of our current directors and executive officers. Our executive officers are appointed by the Board of Directors. The directors serve one-year terms until their successors

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are elected. The executive officers serve until their death, resignation or removal by the Board of Directors. Unless described below, there are no family relationships among any of the directors and officers, and none of our officers or directors serves as a director of another reporting issuer.

| Name | Age | Position(s) |
|---------------------------|-----|--|
| Robert M. Bernstein | 75 | Chief Executive Officer, President, Chief Financial Officer, Director Officer and Chairman of the Board (1988) |
| Marybeth Miceli
Newton | 32 | Chief Operating Officer |
| Joel R. Freedman | 48 | Secretary and Director |
| William I. Berks | 78 | Vice President and Director |
| Brent Phares | 37 | Chief Engineer |

Robert M. Bernstein, President, CEO, Chief Financial Officer, and Director. Mr. Bernstein received a Bachelor of Science degree from the Wharton School of the University of Pennsylvania in 1956. From August 1959 until his certification expired in August 1972, he was a Certified Public Accountant licensed in Pennsylvania. From 1961 to 1981, he was a consultant specializing in mergers, acquisitions, and financing. From 1981 to 1986, Mr. Bernstein was Chairman and Chief Executive Officer of Blue Jay Enterprises, Inc. of Philadelphia, Pennsylvania, an oil and gas exploration company. In December 1985, Mr. Bernstein formed a research and development partnership for our company, funding approximately \$750,000 for research on the Fatigue Fuse. In October 1988, Mr. Bernstein became our President, CEO, and Chief Financial Officer.

Joel R. Freedman, Secretary and Director. From October 1989 and continuing through the present, Mr. Freedman has been our Secretary and a Director. From 1983 through 1999, Mr. Freedman was President of Genesis Advisors, Inc., an investment advisory firm in Bala Cynwyd, Pennsylvania. From January 2000 through December 2002, Mr. Freedman was a Senior Vice President of PMG Capital Corp., a securities brokerage and investment advisory firm in West Conshohocken, Pennsylvania. From December 2002 and continuing through the present, Mr. Freedman has been Senior Vice President of Wachovia Securities, LLC, a securities brokerage and investment advisory firm in Conshohocken, Pennsylvania.

William Berks, Vice President and Director. Mr. Berks joined us as our Vice President and Director in June 1997. Mr. Berks holds six patents and has over 30 years experience in spacecraft mechanical systems engineering. Mr. Berks has a Bachelor of Science in Aeronautical Engineering and a Master of Science in Applied Mechanics from Polytechnic Institute of New York, as well as a Master of Science in Industrial Engineering from Stevens Institute of Technology. Prior to joining us, Mr. Berks was with TRW Incorporated for 26 years in a variety of management positions, where his duties included flight hardware fabrication and testing and where he was responsible for overseeing 350 employees.

Marybeth Miceli, Chief Operating Officer. Ms. Miceli has over 12 years experience in nondestructive evaluation and testing of civil infrastructure. Ms. Miceli joined us as our Chief Operating Officer in July 2007. From June 2005 through August 2007, Ms. Miceli was Director of Marketing for Sam Schwartz, LLC, Engineering and Planning Consultants, New York, in the areas of infrastructure management, non-destructive testing, and fatigue testing. From January 2001 through May 2005, Ms. Miceli was with Lucius Pitkin, Inc., Engineering Consultants, where Ms. Miceli's responsibilities included Quality Assurance Manager, and Assistant Radiation Safety Officer. Among Ms.

Miceli's duties was the supervision and performance of failure analysis investigations, fatigue testing investigations, and interfacing with government agencies on testing, regulations, and safety. Ms. Miceli is currently in the first

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year of a three year term serving as a director of the American Society of Non-destructive Testing, and Chairman in 2003 of the Metropolitan New York Chapter. Ms. Miceli is a graduate of Johns Hopkins University and has a Master of Science in Materials Science and Engineering, from Virginia Polytechnic Institute. Ms. Miceli is a member of the American Society of Metals and has published several papers on non-destructive testing of bridge components and other related subjects.

Brent M. Phares, Chief Engineer. Dr. Phares has over 15 years of management, inspection, research, and testing experience related to bridge structures. From October 2001 and continuing through the present, Dr. Phares has been the Associate Director for Bridges and Structures at Iowa State University. In this position, Dr. Phares is responsible for the development and deployment of innovative bridge evaluation and techniques and for the development of applications for innovative materials in bridge engineering. From June 2001 through October 2004, Dr. Phares served as President and CEO of MGPS, Inc., an engineering firm specializing in the evaluation of civil infrastructure based on innovative sensors and monitoring strategies. Dr. Phares has served as a consulting Research Engineer at the Federal Highway Administration's Nondestructive Evaluation Validation Center where he led the execution of several validation and developmental studies. Dr. Phares is a registered professional engineer and serves as a voting member of many national and international technical committees. Dr. Phares joined us in June 2007.

Committees of the Board of Directors

We presently do not have an audit committee, compensation committee, nominating committee, an executive committee of our board of directors, stock plan committee or any other committee of our board of directors.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers and persons who own more than ten percent of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Code of Ethics

We have adopted a corporate code of ethics. We believe our code of ethics is reasonably designed to deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code. A copy of the Code of Ethics is attached hereto.

Terms of Office

Our directors are appointed for a one year term to hold office until the next annual general meeting of the holders of our Common Stock or until removed from office in accordance with our by-laws. Our officers are appointed by our board of directors and hold office until removed by our board of directors.

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On November 17, 2006, we entered into an indemnification agreement with each of our directors. Under the terms of the indemnification agreements, we agreed to indemnify each director to the fullest extent permitted by law if the director was or is a party or threatened to be made a party to any action or lawsuit by reason of the fact that he is or was a director. The indemnification shall cover all expenses, penalties, fines and amounts paid in settlement, including attorneys' fees. A director will not be indemnified for intentional misconduct for the purpose of his own personal benefit.

ITEM 11 – Executive Compensation

Summary Compensation Table

Set forth below is a summary of compensation for our principal executive officer and our two most highly compensated officers other than our principal executive officer (collectively, the “named executive officers”) for our last two fiscal years. There have been no annuity, pension or retirement benefits ever paid to our officers, directors or employees.

With the exception of reimbursement of expenses incurred by our named executive officers during the scope of their employment and unless expressly stated otherwise in a footnote below, none of the named executive officers received other compensation, perquisites and/or personal benefits in excess of \$10,000.

| Name and
Principal
Position | Year | Salary | Bonus | Stock
Awards | Option
Awards | Non-equity
Incentive All | | | Total |
|--|------|--------------|--------|-----------------|------------------|-----------------------------|--------|--------|--------------|
| | | | | | | Compensation | Plan | Other | |
| Robert M.
Bernstein,
CEO,
President,
CFO | 2007 | \$ 250,000 | \$ -0- | \$ 52,000 | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 302,000 |
| | 2008 | \$ 195,833 | \$ -0- | \$ 52,000 | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 247,833 |
| Marybeth
Miceli
Newton,
COO | 2007 | \$ 52,083.33 | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 52,083.33 |
| | 2008 | \$ 240,333 | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 240,333 |
| Brent Phares,
Chief
Engineer | 2007 | \$ 65,625 | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 65,625 |
| | 2008 | \$ 171,937 | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 171,937 |

Employment Agreements

On October 1, 2006, we entered into an Employment Agreement with Robert M. Bernstein, our Chief Executive Officer, President and Chief Financial Officer, which provides certain terms and conditions with respect to Mr. Bernstein's employment. The Employment Agreement is for a three year term. Under the Employment Agreement, Mr. Bernstein will be paid an annual salary of \$250,000, with one year of paid severance if he is terminated without good cause prior to the expiration of the employment term.

Other Compensation

There are no annuity, pension or retirement benefits proposed to be paid to officers, directors, or employees of our Company in the event of retirement at normal retirement date as there was no existing plan as of December 31, 2008 provided for or contributed to by our Company.

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Director Compensation

Our directors are not compensated for their services, but are entitled for reimbursement of expenses incurred in attending board of directors meetings.

Grants of Plan Based Awards

There were no grants of plan based awards made in 2008.

Outstanding Equity Awards at Fiscal Year-End

There were no outstanding equity awards as of December 31, 2008.

ITEM 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters

The following table sets forth certain information regarding our shares of outstanding common stock beneficially owned as of the date hereof by (i) each of our directors and executive officers, (ii) all directors and executive officers as a group, and (iii) each other person who is known by us to own beneficially more than 5% of our common stock based upon 24,408,963 shares of Class A common stock issued and outstanding.

| Name and Address of Beneficial Owners ¹ | Class A Common Stock | | Class B Common Stock | |
|--|---|---|---|----------------------------|
| | Amount and Nature of Beneficial Ownership | Percent Ownership of Class ² | Amount and Nature of Beneficial Ownership | Percent Ownership of Class |
| Robert M. Bernstein, President, CEO, CFO, and Director | 30,000,072 ³ | 55.1% | 597,000 ⁴ | 99.5% |
| William Berks, Vice President and Director | 202,520 | .001% | 0 | 0% |
| Joel R. Freedman, Secretary and Director | 203,505 | .001% | 0 | 0% |
| Marybeth Miceli, Chief Operating Officer | 202,040 | .001% | 0 | 0% |
| Brent Phares, Chief Engineer | 3,313 | .001% | 0 | 0% |
| Discover Advisory Company
Frohalpstrasse 20
Zurich 8038
Switzerland | 6,100,000 | 24.9% | 0 | 0% |

| | | | | |
|--|-----------|------|---|----|
| Cede & Co
PO Box 222
Bowling Green
Station, NY
10274 | 2,312,005 | 9.5% | 0 | 0% |
|--|-----------|------|---|----|

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| | | | | |
|--|------------|-------|---------|-------|
| Delana International Inc.
38 Ru De La Faiencerie
L-1510 Luxembourg | 1,500,000 | 6.1% | 0 | 0% |
| Montalcino SA
c/o Barry Mitchelll
32107 Linder
Westlake Village, CA 91361 | 2,000,000 | 8.2% | 0 | 0% |
| Picasso LLC
8930 Burton Way 304
Beverly Hills, CA 90211 | 1,500,000 | 6.1% | 0 | 0% |
| RBC Dexia Investor Services
Hohlstrasse 602
CH-B040
Zurich Switzerland | 3,556,350 | 14.6% | 0 | 0% |
| All executive officers and
directors as a group (five
persons) | 30,011,450 | 55.1% | 597,000 | 99.5% |

1 C/o our address, 11661 San Vicente Blvd., Suite 707, Los Angeles, CA 90049, unless otherwise noted.

2 Except as otherwise indicated, we believe that the beneficial owners of common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage of the person holding such options or warrants, but are not deemed outstanding for purposes of computing the percentage of any other person.

3 Includes options to purchase 30,000,000 shares of Class A common stock at \$0.011 per share expiring on April 22, 2018.

4 Each share of Class B common stock has 2,000 votes on any matter which is brought for shareholders for a vote. As a result, Mr. Bernstein holds 1,194,000,000 votes represented by the Class B common stock, and approximately 69% of the overall votes.

5 Includes 1,000,000 shares of common stock issuable upon exercise of warrants expiring September 18, 2009 at an exercise price of \$0.20 per share.

ITEM 13 – Certain Relationships and Related Transactions

None.

ITEM 14 – Principal Accounting Fees and Services

Gruber & Company LLC (the “Independent Auditor”) was our independent auditor and examined our financial statements for the years ended December 31, 2007 and 2008. The Independent Auditor performed the services listed below and were as paid the aggregate fees listed below for the years ended December 31, 2007 and 2008.

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Audit Fees

The Independent Auditor was paid aggregate fees of approximately \$55,000 for the fiscal year ended December 31, 2008 and approximately \$40,000 for the fiscal year ended December 31, 2007 for professional services rendered for the audit of our annual financial statements and for the reviews of the financial statements included in our quarterly reports on Form 10-QSB and Form 10-Q during these periods.

Audit Related Fees

The Independent Auditor was not paid additional fees for either the year ended December 31, 2008 or the fiscal year ended December 31, 2007 for assurance and related services reasonably related to the performance of the audit or review of our financial statements.

Tax Fees

The Independent Auditor was not paid fees for the year ended December 31, 2007 or the fiscal year ended December 31, 2008 for professional services rendered for tax compliance, tax advice and tax planning during this fiscal year period.

All Other Fees

The Independent Auditor was not paid any other fees for professional services during the year ended December 31, 2007 or the fiscal year ended December 31, 2008.

PART IV

ITEM 15 – Exhibits

3.1 Certificate of Incorporation of Material Technologies, Inc., dated March 4, 1997¹

3.2 Certificate of Amendment to Articles of Incorporation, dated February 16, 2000²

3.3 Certificate of Amendment to Articles of Incorporation, dated July 12, 2000²

3.4 Certificate of Amendment to Articles of Incorporation, dated July 31, 2000²

3.5 Amended and Restated Articles of Incorporation, dated September 12, 2003³

3.6 Certificate of Amendment to Articles of Incorporation, dated May 31, 2006⁴

3.7 Certificate of Amendment to Articles of Incorporation, dated October 25, 2006⁴

1 Incorporated by reference from our registration statement on Form S-1 filed with the Commission on April 30, 1997.

2 Incorporated by reference from our Annual Report on Form 10-KSB filed with the Commission on March 30, 2001.

3 Incorporated by reference from our Annual Report on Form 10-KSB filed with the Commission on April 9, 2004.

4 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on November 8, 2006.

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| 3.8 | Certificate of Amendment of Certificate of Incorporation dated September 30, 2008 is hereby incorporated by reference to Exhibit 3.1 to the Form 10-Q quarterly report of the Company for the three month period ended September 30, 2008, filed on November 14, 2008. |
| 3.9 | Bylaws <u>1</u> |
| 4.1 | Class A Convertible Preferred Stock Certificate of Designation <u>1</u> |
| 4.2 | Class B Convertible Preferred Stock Certificate of Designation <u>1</u> |
| 4.3 | Class E Convertible Preferred Stock Certificate of Designation <u>5</u> |
| 10.1 | License Agreement between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania, dated August 26, 1993 <u>1</u> |
| 10.2 | Sponsored Research Agreement between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania, dated August 31, 1993 <u>1</u> |
| 10.3 | Amendment No. 1 to the License Agreement between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania, dated October 15, 1993 <u>1</u> |
| 10.4 | Repayment Agreement between Tensiodyne Scientific Corporation and the Trustees of the University of Pennsylvania, dated October 15, 1993 <u>1</u> |
| 10.5 | Teaming Agreement between Tensiodyne Scientific Corporation and Southwest Research Institute, dated August 23, 1996 <u>1</u> |
| 10.6 | Letter Agreement between Tensiodyne Scientific Corporation, Robert M. Bernstein, and Stephen Forrest Beck and Handwritten modification, dated February 8, 1995 <u>1</u> |
| 10.7 | Agreement between Tensiodyne Corporation and Tensiodyne 1985-1 R&D Partnership <u>6</u> |
| 10.8 | Amendment to Agreement between Material Technologies, Inc. and Tensiodyne 1985-1 R&D Partnership <u>6</u> |
| 10.9 | Agreement between Advanced Technology Center of Southeastern Pennsylvania and Material Technologies <u>6</u> |
| 10.10 | Addendum to Agreement between Advanced Technology Center of Southeastern Pennsylvania and Material Technologies, Inc. <u>6</u> |
| 10.11 | Class A Senior Preferred Convertible Debenture issued to Palisades Capital, LLC, dated September 23, 2003 <u>3</u> |

5 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on February 6, 2007.

6 Incorporated by reference from our registration statement on Form S-1 which became effective on January 19, 1996.

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| 10.12 Stock Purchase Agreement, dated April 7, 2005, with Birchington Investments Ltd. | <u>7</u> |
| 10.13 Escrow Agreement with Birchington Investments Ltd, dated April 7, 2005 | <u>7</u> |
| 10.14 Workout Agreement with the Trustees of the University of Pennsylvania, dated August 15, 2005 | <u>7</u> |
| 10.15 Securities Purchase Agreement with Golden Gate Investors, Inc., dated December 16, 2005 | <u>8</u> |
| 10.16 Convertible Debenture issued to Golden Gate Investors, Inc., dated December 16, 2005 | <u>8</u> |
| 10.17 Common Stock Purchase Warrant issued to Golden Gate Investors, Inc., dated December 16, 2005 | <u>8</u> |
| 10.18 Registration Rights Agreement for Golden Gate Investors, Inc., dated December 16, 2005 | <u>8</u> |
| 10.19 Letter Agreement with Golden Gate Investors, Inc., dated December 16, 2005 | <u>8</u> |
| 10.20 Letter Agreement with Golden Gate Investors, Inc., dated December 16, 2005 | <u>8</u> |
| 10.21 Addendum to Convertible Debenture, Warrant to Purchase Common Stock and Securities Purchase Agreement with Golden Gate Investors, Inc., dated December 16, 2005 | <u>8</u> |
| 10.22 Addendum to Convertible Debenture and Warrant to Purchase Common Stock with Golden Gate Investors, Inc., dated December 16, 2005 | <u>8</u> |
| 10.23 Addendum to Convertible Debenture, Warrant to Purchase Common Stock and Securities Purchase Agreement, dated May 2, 2006, with Golden Gate Investors, Inc. | <u>9</u> |
| 10.24 Securities Purchase Agreement, dated May 30, 2006, with La Jolla Cove Investors, Inc. | <u>10</u> |
| 10.25 Warrant to Purchase Common Stock issued to La Jolla Cove Investors, Inc., dated May 30, 2006 | <u>10</u> |
| 10.26 Addendum to Warrant to Purchase Common Stock, dated as of June 12, 2006, issued to La Jolla Cove Investors, Inc. | <u>11</u> |
| 10.27 Addendum to Convertible Debenture, Warrant to Purchase Common Stock and Securities Purchase Agreement dated as of May 2, 2006 | <u>12</u> |

7 Incorporated by reference from our Quarterly Report on Form 10-QSB filed with the Commission on November 14, 2005.

8 Incorporated by reference from our Current Report on Form 8-K/A filed with the Commission on January 5, 2006.

9 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on May 17, 2006.

10 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on June 8, 2006.

11 Incorporated by reference from our Current Report on Form 8-K/A filed with the Commission on June 15, 2006.

12 Incorporated by reference from our registration statement on Form SB-2 filed with the Commission on June 15, 2006.

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| 10.28 Regulation S Distribution Agreement and Instruction of Escrow, dated May 31, 2006 | <u>13</u> |
| 10.29 Acquisition Agreement with UTEK Corporation and Materials Monitoring Technologies, Inc., dated August 18, 2006 | <u>14</u> |
| 10.30 License Agreement between Material Monitoring Technologies, Inc. and North Carolina A&T State University, dated August 18, 2006 | <u>14</u> |
| 10.31 Consulting Agreement with Mannur J. Sundaresan, PhD, dated August 18, 2006 | <u>14</u> |
| 10.32 Settlement Agreement and General Release, dated August 23, 2006, with Ben Franklin Technology Partners of Southeastern Pennsylvania | <u>15</u> |
| 10.33 Settlement Agreement and General Release, dated October 27, 2006 | <u>16</u> |
| 10.34 Warrant Agreement, dated October 27, 2006, with Palisades Capital, LLC | <u>16</u> |
| 10.35 Warrant Agreement, dated October 27, 2006, with Hyde Investments, Ltd. | <u>16</u> |
| 10.36 Warrant Agreement, dated October 27, 2006, with Livingston Investments, Ltd. | <u>16</u> |
| 10.37 Warrant Agreement, dated October 27, 2006, with Palisades Capital, LLC | <u>16</u> |
| 10.38 Warrant Agreement, dated October 27, 2006, with GCH Capital, Ltd. | <u>16</u> |
| 10.39 Amendment to Class A Senior Secured Convertible Debenture, dated October 27, 2006, with Palisades Capital, LLC | <u>16</u> |
| 10.40 Amendment to Class A Senior Secured Convertible Debenture, dated October 27, 2006, with Hyde Investments, Ltd. | <u>16</u> |
| 10.41 Amendment to Class A Senior Secured Convertible Debenture, dated October 27, 2006, with Livingston Investments, Ltd. | <u>16</u> |
| 10.42 Stockholder Lockup Agreement, dated October 27, 2006 with Robert M. Bernstein | <u>16</u> |
| 10.43 Escrow Agreement, dated October 27, 2006 | <u>16</u> |
| 10.44 Employment Agreement with Robert M. Bernstein, dated October 1, 2006 | <u>17</u> |

13 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on June 9, 2006.

14 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on August 24, 2006.

15 Incorporated by reference from our Quarterly Report on Form 10-QSB filed with the Commission on November 14, 2006.

16 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on November 2, 2006.

17 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on November 28, 2006.

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| 10.45 Stock Grant and General Release Agreement with Robert M. Bernstein, dated November 21, 2006 | <u>17</u> |
| 10.46 Settlement Agreement and Release with Stephen F. Beck, dated as of December 27, 2006 | <u>18</u> |
| 10.47 Irrevocable Escrow Instructions with Stephen F. Beck, dated as of December 27, 2006 | <u>18</u> |
| 10.48 Promissory Note, dated March 30, 2007, with Nathan J. Esformes | <u>19</u> |
| 10.49 Acquisition Agreement with UTEK Corporation and Damage Assessment Technologies, Inc., dated May 3, 2007 | <u>20</u> |
| 10.50 Acquisition Agreement with UTEK Corporation and Non-Destructive Assessment Technologies, Inc., dated June 28, 2007 | <u>21</u> |
| 10.51 Agreement with Livingston Investments, Ltd., dated as of July 3, 2007 | <u>22</u> |
| 10.52 Amendment No. 2 to Class A Senior Secured Convertible Debenture, dated October 11, 2007, with Palisades Capital, LLC | <u>22</u> |
| 10.53 Acquisition Agreement with Brent Phares and Bridge Testing Concepts, Inc., dated September 28, 2007 | <u>23</u> |
| 10.54 Amendment to Consulting Agreement with Strategic Advisors, Ltd., dated April 9, 2008 | <u>22</u> |
| 10.55 Consulting Agreement with Bud Shuster, dated April 9, 2008 | <u>22</u> |
| 10.56 Consulting Agreement with Kelly Shuster, dated April 9, 2008 | <u>22</u> |
| 10.57 Class A Common Stock Option Agreement with Bud Shuster, dated April 9, 2008 | <u>22</u> |
| 10.58 Class A Common Stock Option Agreement with Kelly Shuster, dated April 9, 2008 | <u>22</u> |
| 10.59 Class B Common Stock Option Agreement with Bud Shuster, dated April 9, 2008 | <u>22</u> |
| 10.60 Class B Common Stock Option Agreement with Kelly Shuster, dated April 9, 2008 | <u>22</u> |
| 10.61 Settlement Agreement dated February 12, 2009 with Stephen F. Beck is hereby incorporated herein by reference to Exhibit 10.1 to the Form 8-K current report of the Company dated February 12, 2009 | |

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- 18 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on January 3, 2007.
19 Incorporated by reference from our Annual Report on Form 10-KSB filed with the Commission on April 3, 2007.
20 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on May 4, 2007.
21 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on July 3, 2007.
22 Incorporated by reference from our Annual Report on Form 10-KSB filed with the Commission on April 14, 2008.
23 Incorporated by reference from our Current Report on Form 8-K filed with the Commission on October 29, 2007.

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| 10.62 Settlement Agreement and Release with RCB Dexia Investor Services Bank Luxembourg, Anima S.G.R.P.A. Rubrica Anima America, and Kreuzfeld Ltd, dated August 19, 2008 ²⁴ |
| 10.63 Amendment to Settlement Agreement and Release with Kreuzfeld Ltd., dated August 19, 2008 ²⁴ |
| 10.64 Settlement Agreement and Release with Patrick Fischli, dated August 28, 2008 ²⁴ |
| 10.65 Settlement Agreement and Release with Rubrica Anima Fondattivo, dated August 28, 2008 ²⁴ |
| 10.66 Settlement Agreement and Release with Rubrica Anima Fondo Trading, dated August 28, 2008 ²⁴ |
| 10.67 Settlement Agreement and Release with Bank Julius Baer & Co. Hong Kong, dated August 28, 2008 ²⁴ |
| 10.68 Warrant Agreement with RBC Dexia Investor Services Bank Luxembourg, dated August 29, 2008 ²⁴ |
| 10.69 Warrant Agreement with Kruezfeld Ltd., dated August 29, 2008 ²⁴ |
| 10.70 Warrant Agreement with Patrick Fischli, dated August 29, 2008 ²⁴ |
| 10.71 Warrant Agreement with Rubrica Anima Fondo Trading, dated August 29, 2008 ²⁴ |
| 10.72 Warrant Agreement with Rubrica Anima Fondattivo, dated August 29, 2008 ²⁴ |
| 10.73 Warrant Agreement with Bank Julius Baer & Co. Hong Kong, dated August 29, 2008 ²⁴ |
| 10.74 Warrant Agreement with Anima S.G.R.P.A. Rubrica Anima America, dated August 29, 2008 ²⁴ |
| 10.75 Warrant Agreement with Continental Advisors, dated August 29, 2008 ²⁴ |
| 10.76 Amendment to Settlement Agreement with RBC Dexia Investor Services Bank Luxembourg, dated November 4, 2008 ²⁴ |
| 10.77 License Agreement, Fatigue Solutions ²⁵ |
| 10.78 Incentive Stock Option Agreement ²⁵ |
| 10.79 Business Agreement, India-America Technology Agency ²⁵ |
| 10.80 Indemnification Agreement, Miceli Newton ²⁵ |
| 10.81 Teaming Agreement, E-Radlik, Inc. ²⁵ |

24 Incorporated by reference from our Quarterly Report on Form 10-Q filed with the Commission on November 14, 2008, for the three month period ended September 30, 2008.

25 Incorporated by reference from our Quarterly Report on Form 10-Q filed with the Commission on August 19, 2008 for the three month period ended June 30, 2008.

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10.82 Convertible Debenture Kreuzfeld, Ltd. 25

10.83 Security Agreement, Kreuzfeld, Ltd. 25

10.84 Financing Escrow Agreement 25

10.85 Registration Rights Agreement, Kruezfeld, Ltd 25

14.1 Code of Ethics is incorporated herein by reference to Exhibit 14.1 to the Form 10-KSB/A of the Company filed on July 29, 2008

23.1 Consent of Gruber & Company, LLC

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 13, 2009

MATECH Corp.

By:

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

