GLOBAL MATRECHS, INC.
Form 10QSB/A
October 07, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2005

o 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 0-29204

GLOBAL MATRECHS, INC.
(Exact Name Of Registrant As Specified In Its Charter)

Delaware	**58-2153309**
(State Or Other Jurisdiction Of Incorporation Or Organization)	*(Irs Employer Identification No.)*

90 Grove Street
Suite 201
Ridgefield, CT 06877
(Address Of Principal Executive Offices)

(203) 431-6665
(Issuer's Telephone Number)

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

As of May 26, 2005, there were 78,322,888 shares of our common stock, par value $0.0001 per share, outstanding.

Transitional Small Business Disclosure Format (check one): Yes ¨ No x

Global Matrechs, Inc.

Form 10-QSB/A

Quarterly Report

March 31, 2005

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GLOBAL MATRECHS, INC.
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2005 AND DECEMBER 31, 2004

	March 31, 2005 restated (unaudited)	December 31, 2004 (restated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 42,905	$ 131,470
Accounts receivable, net	144,128	94,551
Inventory	142,238	67,906
Prepaid expenses	6,750	242,110
Loan to Tulix	74,083	72,858
Other current assets	5,000	—
Total current assets	415,104	608,895
Fixed Assets	5,568	28,430
Deposits	2,575	2,575
Note receivable	250,000	—
Investment in Tulix	51,949	51,949
Intangible assets	986,223	986,223
Less: Accumulated amortization	(361,615)	(312,304)
Goodwill	1,469,108	1,469,108
Intangibles, net	2,093,716	2,143,027
Total assets	$ 2,818,912	$ 2,834,876
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 601,822	$ 574,236
Loans payable	124,631	182,784
Due to officer	89,650	147,309
Current maturities of long term debt	120,684	106,860
Convertible loans payable - net of discount	2,427,261	1,327,245
Derivative conversion feature - convertible preferred stock	842,992	1,050,863
Total current liabilities	4,207,040	3,389,297
Warrant liability	1,928,159	742,448
Note payable	250,000	—
Long term debt	400,000	415,302
Total liabilities	6,785,199	4,547,047
Convertible preferred stock	5,392,783	6,128,223

STOCKHOLDERS' DEFICIT:				
Common stock, $.0001 par value, 300,000,000 shares authorized, 66,897,187 shares issued and outstanding at March 31, 2005 and 45,895,431 shares issued and outstanding at December 31, 2004		6,609		4,590
Preferred stock, Series H, $.01 par value, 13,500 shares authorized, 12,000 shares issued and outstanding at March 31, 2005 and December 31, 2004, convertible, participating, $12,000,000 liquidation value at March 31, 2005 and December 31, 2004		108		133
Preferred stock, Series I, $.01 par value, 490.5 shares authorized, 490.5 shares issued and outstanding at March 31, 2005 and December 31, 2004, convertible, participating, $49,050 liquidation value at March 31, 2005		5		5
Treasury stock, 5,028,695 shares at March 31, 2005 and December 31, 2004		(327,484)		(327,484)
Additional paid-in capital		23,640,094		22,844,110
Accumulated deficit		(32,678,402)		(30,361,748)
Total stockholder deficit		(9,359,070)		(7,840,394)
Total liabilities and stockholder deficit	$	2,818,912	$	2,834,876

The accompanying notes are an integral part of these financial statements.

GLOBAL MATRECHS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

	Three Months Ended March 31, 2005 restated (unaudited)	Three Months Ended March 31, 2004 restated (unaudited)
Revenues	$ 369,681	$ 620
Cost of revenues	148,203	558
Gross profit	221,478	62
Operating expenses:		
Selling, general and administrative	612,611	262,566
Depreciation and amortization	51,268	49,311
Total operating expenses	663,879	311,877
Operating loss	(442,401)	(311,815)
Other expenses (income)		
Interest expense	1,810,560	82,212
Change in fair value of warrants	64,918	—
Change in fair value of derivative conversion feature	—	13,460
Interest income	(1,225)	—
Loss from continuing operations before income taxes	(2,316,654)	(407,487)
Income tax provision (benefit)	—	—
Loss from continuing operations	(2,316,654)	(407,487)
Income from discontinued operations	—	43,189
Net loss	$ (2,316,654)	$ (364,298)
Income (loss) per share - basic and diluted:		
Continuing operations	$ (0.04)	$ (0.02)
Discontinued operations	—	—
	$ (0.04)	$ (0.02)
Weighted number of shares outstanding - basic and diluted	57,918,004	14,999,157

The accompanying notes are an integral part of these financial statements.

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GLOBAL MATRECHS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

	Three Months Ended March 31, 2005 restated (unaudited)	Three Months Ended March 31, 2004 restated (unaudited)
Cash flows from operating activities:		
Net loss	$ (2,316,654)	$ (364,298)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation	1,957	
Barter transaction	20,904	
Provision for bad debts	—	22,537
Amortization	49,311	—
Change in fair value of warrants	64,918	
Amortization of beneficial conversion feature of convertible loans	1,786,325	—
Change in fair value of derivative conversion feature	—	13,460
Common stock issued in exchange for services performed	82,261	—
Loan to Tulix	(1,225)	
Change in operating assets and liabilities:		
Accounts receivable	(49,577)	113,245
Inventory	(74,332)	—
Prepaid expenses	17,250	15,419
Other assets	(5,000)	—
Accounts payable and accrued expenses	20,725	161,086
Net cash used in operating activities	(403,137)	(38,551)
Cash flow from financing activities:		
Net repayments to officer	(57,659)	—
Borrowings of loans payable	5,382	
Repayments of loans payable	(58,152)	—
Proceeds from issuance of convertible loans	425,000	109,000
Net cash provided by financing activities	314,571	109,000
Net increase (decrease) in cash and cash equivalents	(88,566)	70,449
Cash and cash equivalents at beginning of period	131,471	71,818
Cash and cash equivalents at end of period	$ 42,905	$ 142,267

Non-cash investing and financing activities:

Conversion of preferred shares into 19,826,606 shares of common stock	$	735,440
Issuance of 1,175,150 shares of common stock for services rendered	$	82,261
Service vehicle distributed for services performed	$	20,904

The accompanying notes are an integral part of these financial statements.

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GLOBAL MATRECHS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to Article 10 of Regulation S-X of the Securities and Exchange Commission. The accompanying unaudited financial statements reflect, in the opinion of management, all adjustments necessary to achieve a fair statement of the financial position and results of operations of Global Matrechs, Inc. (the "Company," "we" or "us") for the interim periods presented. All such adjustments are of a normal and recurring nature.

2. GOING CONCERN MATTERS AND RECENT EVENTS

The Company's financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplate the realization of assets and liquidations of liabilities in the normal course of business. The Company has incurred significant losses since its incorporation resulting in an accumulated deficit as of March 31, 2005 of approximately $32.7 million. The Company continues to experience negative cash flows from operations. These factors raise doubt about the Company's ability to continue as a going concern.

On December 31, 2004 we acquired True To Form, Limited. As a result of the merger, True To Form is now our wholly owned subsidiary. True To Form designs, develops, manufactures and sells specialty lighting products to targeted segments of the traditional lighting industry and has recently established a division that will focus on the homeland security market. True To Form markets "high-end" lighting and architectural products for both commercial and residential applications, including pendants, surface and ceiling luminaries, table and floor lamps, commercial down-lights, bath fixtures, and custom fixtures.

On May 31, 2004, the Company completed the sale of its internet hosting and website maintenance business to Tulix Systems, Inc. ("Tulix"), a company in which Gia Bokuchava, Nino Doijashvili and Timothy R. Robinson, who were officers and directors of the Company, are officers, directors and founding shareholders. The Company recorded a loss on the sale of this business of $125,030 in the fourth quarter of 2003 and recorded an additional loss of $124,385 in the second quarter of 2004 for adjustments to the closing as provided for in the closing documents.

Mr. Robinson, Dr. Bokuchava, and Dr. Doijashvili have subsequently resigned from the Company and have released the Company from all further employment obligations.

NON-RELIANCE ON HISTORICAL FINANCIAL STATEMENTS

On April 15, 2005, the Company's management, in consultation with the Company's independent registered public accounting firm, concluded that the Company's historical financial information related to fiscal 2001 through fiscal 2003 and for the first three fiscal quarters of 2004 accounted incorrectly for certain convertible preferred stock instruments. As such, the management has concluded that the Company's historical financial statements should no longer be relied upon. While the Company does not intend to amend its previously filed annual and quarterly reports covering the periods noted above, the Company has restated historical financial information for the periods required to be presented in its annual report on Form 10-KSB for the year ended December 31, 2004 to reflect the correct accounting treatment. The Company has also included in its annual report on Form 10-KSB five years of restated financial information highlighting the differences resulting from the application of the change in accounting treatment to its historical financial statements and restated selected quarterly information for 2003 and 2004.

RESTATED FINANCIAL STATEMENTS

On October 7, 2005, the Company amended its Annual Report on Form 10-KSB/A for the year ending December 31, 2004. For a full discussion on the nature of the restatements, these financial statements should be read in conjunction with the financial statements and notes thereto included in the amended filing. The Company has amended this Quarterly Report on Form 10-QSB for the quarter ending March 31, 2005 to reflect the impact of these changes.

Warrants

The fair values of the warrants issued in connection with the convertible promissory notes (described in Note 2) were originally recorded as credits to additional paid-in capital and debits to unamortized note discount (up to the amount of the proceeds received), and prepaid expense (representing the value of the warrants in excess of the proceeds received). Both the prepaid expense and unamortized discount were amortized to interest expense over the lives of the notes. In this amended filing, the accounting for the warrants has been restated to (a) expense the value of the warrants in excess of the proceeds received (i.e., write-off the prepaid expense), (b) reduce interest expense for the reversal of the amortization of the prepaid expense, (c) record the fair values of the warrants as a long-term liability, and (d) record the changes in the fair values of the warrants from their issue dates to the balance sheet date in current income under the caption “change in fair value of warrants.”

ENTRANCE INTO EXCHANGE AGREEMENT WITH WOODWARD LLC

On January 31, 2005, we entered into an Exchange Agreement with Woodward LLC pursuant to which we acquired promissory notes, and have accordingly assumed all rights pertaining thereto, issued by Eurotech Ltd. The notes are currently in default and have an aggregate outstanding principal amount of $290,000. The notes carry a default annual interest rate of 18% and are past due in their entirety. In exchange for these notes, we issued to Woodward a promissory note in the principal amount of $250,000.

Under the terms of the Exchange Agreement, in the event we propose to register securities under the Securities Act of 1933, as amended, we are required to notify Woodward in advance of such registration and, at its request (subject to limited exceptions), include the shares of our common stock underlying the note on the registration statement filed in connection with such registration, and assume any expenses associated therewith.

SECOND PURCHASE AGREEMENT WITH SOUTHRIDGE PARTNERS

On January 31, 2005, we entered into a Second Securities Purchase Agreement with Southridge Partners LP, one of our existing investors, whereby we agreed to sell a convertible promissory note in the principal amount of $250,000 and warrant to purchase up to 10,000,000 shares of our common stock to Southridge in exchange for its $250,000 investment. Under the terms of this purchase agreement, Southridge may, at its option, and at any time prior to July 1, 2005, purchase an additional note in the principal amount of up to $1,500,000, and otherwise on substantially the same terms as the note issued on January 31, 2005.

The note is convertible, at the option of the holder, into shares of our common stock at a conversion price of $0.02 per share. Southridge may require us to repurchase some or all of its note if the market price of our common stock falls below $0.03 per share for ten (10) consecutive trading days, at a repurchase price equal to 140% of the principal amount of the note. In the event we default under the terms of the note, the entire outstanding principal (and any outstanding interest accrued thereon) shall become immediately due and payable, and the interest rate will rise to 18% per annum.

We have secured the payment of the notes with a subordinated security interest in our accounts, general intangibles, inventories, and other collateral. In addition, in the event we propose to register securities under the Securities Act of 1933, as amended, we are required to notify Southridge in advance of such registration and, at its request (subject to limited exceptions), include the shares of our common stock underlying the note and warrant on the registration statement filed in connection with such registration (and assume any expenses associated therewith).

The warrant has an expiration date of January 31, 2010. It contains a cashless exercise provision whereby the holder may pay the exercise price associated with any exercise by having us withhold a number of shares otherwise issuable upon such exercise having a fair market value equal to the applicable aggregate exercise price. In the event such provision is used with respect to an exercise, we would receive no proceeds upon such exercise.

The beneficial conversion feature was valued at $690,000. Since the conversion is at the option of the holder, the value of the beneficial conversion feature was amortized to interest expense in full during the quarter ending March 31, 2005.
As of March 31, 2005, these warrants have been adjusted to their fair value of $541,728. During the quarter ended March 31, 2005, the fair value of the warrants decreased by $100,314. Since the value of the warrants exceeds the proceeds received, the excess of $392,042 has been charged to interest expense during the period.

SOUTHRIDGE EXERCISES OPTION TO PURCHASE ADDITIONAL NOTES AND WARRANTS

On March 2, 2005, Southridge Partners LP exercised its option to purchase an additional note and warrant under its Second Securities Purchase Agreement. In connection with such exercise, we issued to Southridge a convertible promissory note in the principal amount of $175,000 and a warrant to purchase up to 7,000,000 shares of our common stock in exchange for its $175,000 investment. The note is convertible, at the option of the holder, into shares of our common stock at a conversion price of $0.02 per share. Southridge may require us to repurchase some or all of its note if the market price of our common stock falls below $0.03 per share for ten (10) consecutive trading days, at a repurchase price equal to 140% of the principal amount of the note. In the event we default under the terms of the note, the entire outstanding principal (and any outstanding interest accrued thereon) shall become immediately due and payable, and the interest rate will rise to 18% per annum. The note matures on March 2, 2007.

The warrant has an expiration date of March 2, 2010. It contains a cashless exercise provision whereby the holder may pay the exercise price associated with any exercise by having us withhold a number of shares otherwise issuable upon such exercise having a fair market value equal to the applicable aggregate exercise price. In the event such provision is used with respect to an exercise, we would receive no proceeds upon such exercise.

In determining the value of the beneficial conversion feature of the Southridge notes, the Company first allocated $478,751 and $642,042, respectively to the value of the warrants. Since this value exceeds the proceeds received, the differential was recorded as additional paid in capital, discount on notes payable and a prepaid expense. The prepaid expense is amortized over the 24 month period of the convertible note. The value of beneficial conversion feature was valued at $690,000 and $350,000, respectively. Since the conversion is at the option of the holder, the value of the beneficial conversion feature was amortized to interest expense in full during the quarter ended March 31, 2005.

The beneficial conversion feature was valued at $350,000. Since the conversion is at the option of the holder, the value of the beneficial conversion feature was amortized to interest expense in full during the quarter ending March 31, 2005.
As of March 31, 2005, these warrants have been adjusted to their fair value of $380,970. During the quarter ended March 31, 2005, the fair value of the warrants decreased by $97,781. Since the value of the warrants exceeds the proceeds received, the excess of $303,751 has been charged to interest expense during the period.

SOUTHRIDGE EXERCISES OPTION TO PURCHASE ADDITIONAL NOTES AND WARRANTS

On April 11, 2005, Southridge Partners LP exercised its option to purchase an additional note and warrant pursuant to the Second Securities Purchase Agreement. In connection with such exercise, we issued to Southridge a convertible promissory note in the principal amount of $125,000 and a warrant to purchase up to 5,000,000 shares of our common stock to Southridge in exchange for its $125,000 investment. The note is convertible, at the option of the holder, into shares of our common stock at a conversion price of $0.02 per share. Southridge may require us to repurchase some, or all, of its note if the market price of our common stock falls below $0.03 per share for ten (10) consecutive trading days, at a repurchase price equal to 140% of the principal amount of the note. In the event we default under the terms of the note, the entire outstanding principal (and any outstanding interest accrued thereon) shall become immediately due and payable, and the interest rate will rise to 18% per annum. The note matures on April 11, 2007.

The beneficial conversion feature was valued at $325,000. Since the conversion is at the option of the holder, the value of the beneficial conversion feature will be amortized to interest expense in full during the quarter ending June 30, 2005.
Since the value of the warrants exceeds the proceeds received, the excess of $130,957 has been charged to interest expense during the period.

3. SEGMENT INFORMATION

On May 31, 2004 the Company sold substantially all of the remaining assets of the Company's Internet Services segment. With the execution of the licensing agreement with Eurotech on May 22, 2003, and the closing of the sale to Tulix Systems on May 31, 2004, our Licensed Technologies Division is now the Company's only operating segment. The Internet Services segment has been presented as a discontinued operation.

The Company is currently operating in two major segments. These segments are defined as the Licensed Technologies Division which consists of the marketing of the technologies licensed from and the Specialty Lighting Division which consists of the design, development, manufacture and sales of specialty lighting and architectural products acquired in the merger with True To Form, Limited.

	For The Three Months Ended March 31, 2005			
	Licensed Technologies Division	Specialty Lighting Division	Eliminations	Total
Total Assets	$ 2,739,251	$ 323,209	$ (243,548)	$ 2,818,912
Total Revenue	—	$ 369,681	—	$ 369,681
Net Income (Loss)	$ (2,366,639)	$ 49,985	—	$ (2,316,654)

Proforma Financial Information

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of True to Form had occurred as of the beginning of the following period:

	Quarter Ended March 31, 2004
Net revenues	$ 203,369
Net loss from continuing operations	$ (404,529)
Net loss	$ (367,143)
Net loss per share	$ (0.025)

Pro forma data does not purport to be indicative of the results that would have been obtained had these events actually occurred at the beginning of the period presented and is not intended to be a projection of future results.

4. STOCK OPTIONS

The Company has adopted the disclosure requirement of Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation-Transition and Disclosure" effective December 15, 2002. SFAS 148 amends Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and also amends the disclosure requirements of SFAS 123 to require prominent disclosure in both annual and interim financial statements about the methods of accounting for stock-based employee compensation and the effect of the method used on report results. As permitted by SFAS 148 and SFAS 123, the Company continues to apply the accounting provisions of APB 25, and related interpretations, with regard to the measurement of compensation cost for options granted under the Company's Stock Option Plan. No compensation expense has been recorded as all options granted had an exercise price equal to the market value of the underlying stock on the grant date. The pro-forma effect on our results of operations, had expense been recognized using the fair value method described in SFAS 123, using the Black-Scholes option pricing model, is shown below.

	For The Three Months Ended March 31, 2005	2004
Loss applicable to common shareholders:		
As reported	$ (2,316,654)	$ (364,298)
Pro forma	$ (2,320,379)	$ (369,023)
Basic and diluted loss per share:		
As reported	$ (0.04)	$ (0.02)
Pro forma	$ (0.04)	$ (0.02)

5. TAXES

There was no provision for cash payment of income taxes for the three months ended March 31, 2005, as the Company anticipates a net taxable loss for the year ended December 31, 2005.

6. CONVERTIBLE PREFERRED STOCK

As a requirement of the private placements of the Company's Series B, C, D and E Convertible Preferred Stock, originally, the Company was obligated to file and have declared effective, within a specified time period, a registration statement with respect to a minimum number of shares of common stock issuable upon conversion of the Series B, C, D and E Preferred Stock. As of March 31, 2005, such registration statement has not been declared effective. As of March 14, 2003, the holders of these series waived all penalties related to the registration, along with mandatory conversion dates.

Through August 14, 2004, the terms of the Company's Series B, C, D, and E Convertible Preferred Stock provided for a guaranteed return on unconverted shares of 5% for series B, 6% for series C and D, and 8% for series E.

7. SUBSEQUENT EVENTS

From April 1, 2005 through May 18, 2005, the Company converted 12.5 shares of Series C preferred stock and 540 shares of Series H preferred stock into 11,425,701 shares of common stock.

On April 13, 2005 Carey Naddell, CEO of Eurotech, Ltd., filed suit against the Company for damages based upon an alleged breach of a written service agreement. The Company has responded and feels at this time there is no merit to this action. We will diligently defend this action.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE STATEMENTS INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-QSB MADE BY OUR MANAGEMENT, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS. EXAMPLES OF FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS REGARDING OUR FUTURE FINANCIAL RESULTS, OPERATING RESULTS, BUSINESS STRATEGIES, PROJECTED COSTS, PRODUCTS, COMPETITIVE POSITIONS AND PLANS, CUSTOMER PREFERENCES, CONSUMER TRENDS, ANTICIPATED PRODUCT DEVELOPMENT, AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS. IN SOME CASES, FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "WOULD," "EXPECTS," "PLANS," "ANTICIPATES," "BELIEVES," "ESTIMATES," "PREDICTS," "POTENTIAL," "CONTINUE," OR THE NEGATIVE OF THESE TERMS OR OTHER COMPARABLE TERMINOLOGY. ANY EXPECTATIONS BASED ON THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES AND OTHER IMPORTANT FACTORS, INCLUDING THOSE DISCUSSED IN OUR ANNUAL REPORT ON FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2004 IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" UNDER THE HEADING "FACTORS AFFECTING FUTURE PERFORMANCE." THESE AND MANY OTHER FACTORS COULD AFFECT OUR FUTURE FINANCIAL AND OPERATING RESULTS, AND COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM EXPECTATIONS BASED ON FORWARD-LOOKING STATEMENTS MADE IN THIS DOCUMENT OR ELSEWHERE BY US OR ON OUR BEHALF. THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES APPEARING ELSEWHERE IN THIS REPORT.

In addition to the risks and uncertainties faced generally by participants in our industry, we face the following risks and uncertainties:

· Our business, as currently constituted, has limited operating history. Therefore, we may not be able to accurately forecast future results, and operating losses in future periods could be greater than expected.

· We have a history of operating losses, and there is no assurance that we will achieve profitability in the future.

· We have a going-concern qualification in the report by our registered independent public accounting firm for our financial statements for the year ended December 31, 2004, which may make capital raising more difficult and may require us to scale back or cease operations, putting our investors' funds at risk.

· We may be unable to obtain additional capital required to fund our operations and finance our growth.

· The management of our finances and the quality and timeliness of our financial reporting may be adversely affected if we are unable to increase the size and capabilities of our internal administrative and finance function as our business grows.

- If we fail to realize some or all of the anticipated benefits from our acquisition of True to Form, our business will suffer.

- We face intense competition, which could result in lower revenues and higher research and development expenditures and could adversely affect our results of operations.

- If we cannot effectively manage our growth, our business may suffer.

- We may be unable to hire and retain the skilled personnel we need to expand our operations.

- Our success depends on the services of our executive officers and key employees.

- Our business may suffer if we cannot protect our proprietary technology.

- Claims by others that we infringe their intellectual property rights could harm our business and financial condition.

- New corporate governance requirements are likely to increase our costs and make it more difficult to attract qualified directors.

- We are not subject to the same corporate governance standards as listed companies, including without limitation, the requirement that we have a majority of independent directors.

Because of the foregoing and other factors, we may experience material fluctuations in our future operating results on a quarterly or annual basis which could materially adversely affect our business, financial condition and operating results.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. Those estimates and judgments are based on management's historical experience, the terms of existing agreements, our observance of trends in the industry, information that we obtain from our customers and outside sources, and on various other assumptions that management believes to be reasonable and appropriate under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected.

The significant accounting policy that we believe is most critical in fully understanding and evaluating our reported financial results is our policy regarding revenue recognition which is discussed in detail in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. We have reviewed and determined that our revenue recognition policy remains our critical accounting policy for the three-month period ended March 31, 2005. We did not make any changes to this policy during this period.

BUSINESS OVERVIEW

The Company is currently operating in two major segments. These segments are defined as the Licensed Technologies Sector which consists of the marketing and sales of the technologies licensed from Eurotech and the Specialty Lighting subsidiary which consists of the design, development, manufacture and sales of specialty lighting and architectural products acquired in the merger with True To Form Ltd acquired December 31, 2004. The Company is targeting the pursuit of the Homeland Securities market with both segments.

On May 22, 2003, we completed a transaction with Eurotech pursuant to which we now license EKOR(TM), now called NuCap(TM), HNIPU, EMR/AC, Rad-X, Firesil, LEM and RBHM technologies from Eurotech. Currently, we are licensing the EKOR(TM), HNIPU, EMR/AC, Rad-X, Firesil, LEM and RBHM technologies from Eurotech, Ltd. We intend to use these licenses to derive revenue by partnering with other technology firms to sell raw materials to producers or to sublicense the technologies and collect royalties and/or licensing fees.

On December 31, 2004 we acquired True To Form Ltd, Inc.. As a result of the merger, True To Form is now our wholly owned subsidiary. True To Form designs, develops, manufactures and sells specialty lighting products to targeted segments of the traditional lighting industry and has recently established a division that will focus on the homeland security market. True To Form markets "high-end" lighting and architectural products for both commercial and residential applications, including pendants, surface and ceiling luminaries, table and floor lamps, commercial down-lights, bath fixtures, and custom fixtures.

The Company's Internet related business was sold on May 31, 2004 to Tulix Systems, Inc. As a part of the sales agreement the Company acquired 15% equity ownership of Tulix. The Company is a minority stock holder in Tulix and exercises no management input or control of its operations.

We expanded our offerings when, on December 31, 2004, we acquired our subsidiary True To Form Ltd, Inc. ("True To Form"), a company in the business of True To Form designing, developing, and manufacturing specialty lighting products. We acquired True To Form from its sole shareholder, Mark J. Allen, who is also a member of our board of directors. Mr. Allen will continue as the President of True To Form and was appointed Executive Vice President of the Company. The transaction was the result of arm's length negotiations and was unanimously approved by the disinterested directors of the Company. The consideration was determined on the basis of these negotiations and the advice of our financial advisor, who is not affiliated with us or Mr. Allen.

The consideration paid to Mr. Allen in the transaction consisted of:

- the issuance by True To Form of a secured note in the initial principal amount of $500,000; and
- the issuance to Mr. Allen by Global Matrechs of 10,000,000 shares of our common stock.

The number of shares of common stock issued in the transaction is subject to adjustment based on the price of our common stock and the revenues of the acquired business on December 31, 2006. In general, assuming that True To Form generates gross revenues of at least $3,000,000 for the twelve months ended December 31, 2006, the value of the shares issued in the transaction (based on the average closing price of the shares for the five trading days ended on or prior to December 31, 2006) will be at least $2.5 million but no more than $3.5 million. If the value is less than $2.5 million, we are obligated to issue additional shares or, at our option, make cash payments to make up the difference. If the value of the shares is greater than $3.5 million, any excess shares will be returned to us and retired or held as treasury stock. If True To Form does not meet the revenue target, the share consideration will be a minimum of $2.0 million and a maximum of $3.0 million.

Global Matrechs has provided True To Form with an initial working capital loan of approximately $200,000 and will enter into an employment agreement with Mr. Allen. In connection with the transaction, we have also issued a warrant to our financial advisor in the amount of 2,000,000 shares of common stock at an exercise price of $0.03 per share. The merger agreement provides that until the secured note is paid in full, Mr. Allen has the right to designate a majority of the directors of True To Form. The merger agreement also provides Mr. Allen with limited registration rights related to the share consideration.

PRODUCTS AND SERVICES

Licensed Technologies

NUCAP(TM)

NuCap(TM), formerly called EKOR(TM), was developed jointly by scientists at the I.V. Kurchatov Institute, or Kurchatov, and members of the Euro-Asian Physical Society, or EAPS, both based in Moscow, Russia. EKOR(TM) was the brand name for a family of materials designed for long-term isolation of hazardous and radioactive materials. As a silicon-based elastomer, NuCap(TM)'s adhesive properties allow it to stick to a wide variety of wet or dry surfaces and materials. When applied, NuCap(TM) materials surround and immobilize radioactive or hazardous debris ranging from fine dust to large pieces of equipment and, in combination with their fire-resistant and water-proof properties, prevent such debris from migrating by water or as air-borne particles. NuCap(TM) materials also possess other highly desirable performance characteristics such as chemical resistance, fire resistance, heat resistance, and resistance to environmental aging and degradation from radiation. In addition to its unique combination of performance characteristics, NuCap(TM) comes in multiple product forms and can be applied using specified methods for waste-coating and encapsulation. We believe that this allows NuCap(TM) to be used as a solution for a broad spectrum of nuclear and hazardous waste management problems.

The NuCap(TM) product family's performance characteristics and flexibility of form make it a tool for a broad spectrum of applications. There are currently five basic forms of NuCap(TM)

1. Sealer Plus, which can be sprayed to coat containers or cover contaminated surfaces;
2. Foam, which is pumped in a range of densities to fill crevices, ducts or pipes;
3. Grout, applied in a pour and mix method, which can be used to make shapes for shielding or to macroencapsulate items to form an unleachable monolith for transportation or disposal;
4. Matrix, applied in a pour and mix method, which can be used to microencapsulate radioactive or hazardous wastes to form an elastomeric monolith for transportation or disposal; and

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5. StoneStore, applied in a pour and mix method, which can be used to microencapsulate highly radioactive waste and will form a ceramic monolith for permanent disposal. StoneStore is still in the research and development stage.

In tests conducted at Kurchatov, NuCap(TM) has been shown to be highly resistant to radiation and structural degradation from exposure to radiation. It has also proven to be fire resistant, waterproof, and capable of being formulated in densities that display considerable structural strength and weight-bearing properties of 100 pounds per square inch.

MARKETING OF NUCAP(TM)

Eurotech described its efforts to market NuCap(TM) as it was called prior to our changing the name as well as the other technologies in its public filings. These descriptions are summarized in this report. NuCap(TM)'s acceptance into nuclear waste management has been slower than Eurotech anticipated. Eurotech has stated that it believes that significant technical issues remain, including those dealing with the residue from production of nuclear weapons and the disposal of nuclear fuel being discharged from nuclear power plants. With respect to residue from the production of nuclear weapons, the technical issues relate to the fact that the residue could take a number of forms (liquid, wet slurry, partially dried sludge, calcined salts, etc.) and have a variety of ph factors. The amount of waste that NuCap(TM) can effectively encapsulate differs depending on the form and ph factor of the waste. Thus, each project must be addressed separately, and sometimes we will need to develop the appropriate form of NuCap(TM) on a project-by-project basis. We do not believe, that this issue will be a significant obstacle for us, as we believe that the modification of NuCap(TM) is no longer as resource-intensive as previously expected and can be accomplished relatively efficiently, especially with our new manufacturing partners. For example, a sheet form of NuCap(TM) was recently developed by Global Matrechs for use in a project with INEEL. With respect to the technical issues that Eurotech had perceived with respect to the disposal of nuclear fuel being discharged from nuclear power plants, we do not intend to market NuCap(TM) for this purpose. We believe that NuCap(TM) is a technologically advanced material that has properties that make it a superior cost effective and safer isolation technology even for some non-radioactive hazardous materials and a unique sealant for potential applications in the construction industry.

In 2001, Eurotech successfully replicated the formula for NuCap(TM) to make Nucap(TM) products in the United States. In March 2001, the NuCap(TM) family of products was presented to waste management professionals at the annual Waste Management Symposium in Tucson, Arizona. As a result of the interest generated at the symposium, Eurotech presented EKOR(TM) for use in a variety of applications at Department of Energy ("DOE") sites to various waste management professionals. Specifically, Eurotech had discussions with the Savannah River Site (or SRS, near Aiken, South Carolina), Oak Ridge National Laboratory (or ORNL, in Oak Ridge, Tennessee), Fernald Closure Site (in Fernald, Ohio), Battelle Memorial Institute (or BMI, in Columbus, Ohio), Rocky Flats Environmental Testing Site (or RFETS, near Denver, Colorado), Los Alamos National Laboratory (or LANL, Los Alamos, New Mexico), Lawrence Livermore National Laboratory (or LLNL, Livermore, California), Hanford Reservation (Richland, Washington) and Idaho National Engineering & Environmental Laboratory (or INEEL, Idaho Falls, Idaho). Eurotech also had a number of meetings with DOE staff at their headquarters in Washington, D.C. and Germantown, Maryland. This included the introduction to companies doing project and management work at DOE and commercial sites, and had arranged demonstrations at the above mentioned facilities and at its production facility in California for staff from RFETS and ORNL. Early demonstrations of the Sealer product, as a solution that required mixing of a paste and catalyst and significant monitoring of specialized application equipment, revealed that the Sealer product needed further development to be more user-friendly. The Sealer product is a paste, with the consistency of thick brick mortar. While this thickness enables Sealer to be applied to vertical walls, tanks, drums, and ceilings, a sprayable version of Sealer, or even a thinner paste version that could be more easily applied, would be more user-friendly. To address this issue, Sealer Plus was developed, which Eurotech introduced in November 2001 and initially demonstrated at BMI in January 2002. Sealer Plus is a low viscosity version of NuCap(TM). Sealer that can be sprayed with high-pressure paint spray equipment. We seek to further develop Sealer to make the Sealer more easily applied in a foam consistency, which we believe will make Sealer more user-friendly. The demonstration of NuCap(TM) Grout at INEEL enabled Eurotech to demonstrate its ability to operate in an underwater environment. INEEL has certain components that are being stored underwater because of their behavior when exposed to air. Global Matrechs has prepared specially-requested samples for further testing at INEEL and Hanford Where Global Matrechs had a successful demonstration in April of this year.

During 2002, NuCap(TM) was selected as an approved waste stabilization material at multiple DOE sites. This selection meant that NuCap(TM) had passed the applications testing necessary to be judged usable on specific forms of waste at specific sites. For example, Battelle Memorial Institute, Columbus, Ohio, under a site decommissioning contract from the DOE, applied NuCap(TM) within a series of reactor drain pipes to immobilize residual radioactive contamination, to protect workers, the public and the environment during facility sectioning and disposal. NuCap(TM) is being considered by the Pacific Northwest National Laboratory, a DOE national laboratory, to stabilize Alpha Dust in the H-Basin Fuel Pool, which could provide protection to workers during facility decommissioning. NuCap(TM) has been tested at the DOE Argonne National Laboratory to immobilize surrogate radioactive calcined waste and salts. Initial evaluations of NuCap(TM) is promising for applications in the area of High Level Waste Immobilization.

During 2003 and 2004, the Company manufactured a number of samples for potential customers in the European community. The Company is in the process of completing agreements with a commercial partner to manufacture, market and deliver NuCap(TM) to these potential customers.

We intend to market NuCap(TM) for use in nuclear waste encapsulation and nuclear debris fixation for nuclear cleanup projects, nuclear facility decontamination and decommissionings, and nuclear waste transportation and disposal. As part of this strategy, we intend to seek affiliations and joint ventures with large prime contractors in the nuclear industry on a project by project basis. While we see opportunities for NuCap(TM) and our other technologies, however, we can offer no assurance that our efforts will be more successful, or as successful as Eurotech's efforts.

HNIPU

HNIPU is a hybrid polyurethane that does not involve the toxic isocyanates utilized in the production of conventional polyurethane and that has lower permeability and greater chemical resistance qualities as compared to conventional polyurethane. We believe that these advanced characteristics, in addition to the potential reduced risk from the elimination of isocyanates in its production, make HNIPU superior to conventional polyurethanes in connection with their use in a number of industrial application contexts such as manufacturing automotive components, paints, foams, plastics and truck bed liners; aerospace sealants, industrial adhesives, coatings, flooring, glues; industrial equipment and machinery; and consumer goods such as appliances, footwear, furniture and plastic products. Because of HNIPU's lower permeability and improved chemical resistance, we think that industrial paints and coatings are a potential target market for HNIPU.

MARKETING OF HNIPU

On November 17, 2003, Global Matrechs entered into an agreement with Environmental Friendly Materials, GMBH ("EFM"), a German company, for the manufacture and sale of HNIPU for the European marketplace. EFM has been given non-exclusive license to manufacture and distribute HNIPU and intends to manufacture it at various locations across Europe. We have applied for approval to sell HNIPU in the United States from the EPA and if and when we are on their approved list of products we expect to complete another non-exclusive agreement for the North American territory.

Because HNIPU represents a new class of polymer compounds closely related to polyurethanes, we expect that a variety of products will emerge from the development of variations and improvements to the existing HNIPU binders that have worldwide industrial applications. For this reason, we intend to seek to license HNIPU to large industrial polymer and chemical manufacturers who can sell the various HNIPU binders to international industrial manufacturers. The focus will be to transfer the existing binder product technologies under licensing agreements from the laboratory to the manufacturer. We intend to follow up on existing agreements, current evaluations, and active discussion for HNIPU binder production.

EMR/AC

Eurotech licensed certain rights to Acoustic Core and Electromagnetic Radiography for specific markets, consisting of (i) illicit material detection, (ii) above surface or subsurface nuclear or other hazardous material remediation, (iii) marine dredging sites (inland and ocean) and (iv) oil exploration, from Trylon Metrics, Inc. pursuant to an agreement dated July 2001, as amended in October 2001. Eurotech licenses the illicit materials detection application to another company and licenses the remaining three applications to Global Matrechs.

Both technologies use a non-contact inspection methodology that creates signals that are then interpreted by a digital analyzer that allows identification of elemental or compound materials from their empirically determined properties. Acoustic Core is used in applications that are predominately wet (i.e., riverbeds, wetlands, etc.) and EMR is used in dry environments. Completed research and development studies have verified that Acoustic Core and EMR can identify materials by their acoustic or electromagnetic signatures, but the feature of these technologies that we believe is unique is their ability to map in three dimensions the existence of target materials at extremely low concentrations at depths of up to 300 feet. The capabilities of these technologies complement the NuCap(TM) product line by, for example, allowing tanks of waste to be monitored for leaks and the leaks, when discovered, targeted for repair. Acoustic Core and EMR may have applications in markets that involve subsurface evaluation, from contamination discovery and monitoring to resource discovery.

Both Acoustic Core and EMR have been tested at DOE sites (Oak Ridge and INEEL) on a variety of materials. Sandia National Laboratory conducted an in-depth evaluation of the science behind these technologies in 1999 and concluded that they provide a unique capability to identify and map in three dimensions low levels of material concentration at substantial depths. We believe that these products are more cost effective than other current methods. During the fourth quarter of 2001, Eurotech submitted several proposals to the DOE for evaluation of areas of potential contamination and to commercial entities being pressured by the EPA for potential subsurface contamination, but these technologies have not been selected for inclusion in currently funded programs to date.

MARKETING OF EMR/AC

In conjunction with the marketing of NuCap(TM), we intend to market EMR/AC(TM) to a variety of facilities requiring detection of nuclear waste contaminants and other environmentally hazardous substances in subsurface soil and ground water resulting from leaking storage tanks or toxic chemical spills. We are currently seeking a manufacturing partner for EMR/AC(TM), and we are waiting until we find such a partner to pursue our marketing strategy for EMR/AC(TM).

RAD-X

Rad-X is a technology intended for use as an interior fire-resistant fixative for equipment or facilities with contaminated surfaces. Rad-X differs from NuCap(TM) Sealer Plus in that it is not weather-resistant and does not have the chemical, radiation and aging resistance needed for long-term protection. Rad-X provides a low-cost fixative for surfaces that are scheduled for disassembly or dismantlement and need strong adhesion (glue-down of contaminated particles that could become airborne) and fire-resistance properties. Rad-X was first marketed in 2001.

MARKETING OF RAD-X

According to Eurotech's public filings, Eurotech had invested less than $20,000 in the creation of the Rad-X product line. Rad-X was initially created for feasibility testing at DOE's Rocky Flats Environmental Testing Site, or RFETS, and was delivered in late September 2001. Testing of Rad-X at other laboratories occurred in November 2001. This testing confirmed its fire and smoke resistance properties. We believe that Rad-X can satisfy proposed DOE fire/smoke criteria for certain specialized applications. Eurotech has marketed Rad-X in connection with NuCap(TM) at DOE sites that performed decommissioning or hazardous material management in 2002, and if the opportunity arises, we will continue this strategy. We are currently seeking a manufacturing partner for Rad-X, and we are waiting until we find such a partner to pursue our marketing strategy for Rad-X.

RAPIDLY BIODEGRADABLE HYDROPHOBIC MATERIAL ("RBHM")

RBHM is a new, hydrophobic (water resistant), strong, cheap, and completely biodegradable cellulose-based composite material. RBHM is intended to improve the properties of both paper and plastic packaging materials. The material can be used as a commodity in trade, industry, and agriculture for a wide range of applications. To date, most attempts to produce biodegradable products for consumers have focused on developing plastics that could biodegrade. RBHM takes a different approach - making cellulose-based material with the same physical properties as plastic, except the material biodegrades completely in the same time as regular paper bags. RBHM consists of cellulose (paper) and biodegradable organic additives. Biodegradation of RBHM occurs in wet soil through normal enzymatic action of various microorganisms - fungi and bacteria. We believe that the main advantages of RBHM are:

- Strength. RBHM's strength characteristics, especially combined with low elongation and acquired water resistance of the material, make RBHM unique and desirable for packaging applications.

- Water Resistance. RBHM keeps water resistance for one week. Most of the existing biodegradable packaging products are not hydrophobic at all and will fail if wetted during use.

- Biodegradable Nature. Enzymes begin breaking down RBHM in the presence of moisture in natural environments such as soil. Then microorganisms decompose the material with rapidly occurring metabolic reactions. RBHM is completely converted into carbon dioxide, water, and biomass in two to three months in wet soil.

- Reproducible Natural Raw Materials. RBHM uses cellulose, a widely available and renewable raw material.

- Relatively Low Cost. The main obstacle to widespread use of biodegradable polymers has been cost. Biodegradable polymers are traditionally significantly more expensive than commodity polymers. The high costs involved in the production of biodegradable polymers means that they cannot compete favorably with conventional polymers. This high cost has deterred the widespread adoption of biodegradable plastics in major consumer applications. At an additional cost of less than 10%, and sometimes less depending on the type of material treated, materials treated with RBHM provide plastic-like performance and are biodegradable.

We believe that there is a large number of potential applications for a technology like RBHM. Because RBHM can be applied on sheets, films and fibers, it is suitable for a range of single-use products, including, among others, grocery and waste bags, the top, and back sheets of disposable diapers, and disposable eating utensils.

MARKETING OF RBHM

Eurotech had marketed RBHM through its web site during 2001 and 2002. We are currently seeking a manufacturing partner for RBHM, and we are waiting until we find such a partner to pursue our marketing strategy for RBHM, which will be through our website.

LIQUID EBONITE MATERIAL ("LEM")

LEM is a synthetic liquid rubber with enhanced mechanical, permeability and anti-corrosive qualities as compared to conventional sheet rubber coverings. In laboratory testing, coverings made with LEM, as compared to conventional sheet rubber coverings, have displayed greater resistance to harsh chemicals such as acids, alkalis and benzene, and have been successfully applied to intricate and complex surfaces such as sieve meshing. Based on the physical and chemical properties of LEM, and on the basis of such tests, we believe that LEM coverings are capable of providing superior protection to small-diameter piping and to the intricate parts of pumps, fans, and centrifuge rotors. LEM can be applied to form surface coverings using standard coating techniques, including spraying and dipping.

MARKETING OF LEM

Eurotech had marketed LEM through its web site during 2001 and 2002. We are currently seeking a manufacturing partner for LEM, and we are waiting until we find such a partner to pursue our marketing strategy for LEM, which will be through our website.

FIRESIL(TM) - FIRE PROTECTION ORGANOMINERAL COATING - FIRE-STOP FOR RESIDENTIAL AND COMMERCIAL APPLICATION

Firesil(TM) is an environmentally compatible fire-stop material with good adhesion properties to hydrophilic and hydrophobic surfaces and exhibits strong fire resistance, thermostability, and water resistance characteristics.

MARKETING OF FIRESIL(TM)

We intend to market Firesil(TM) directly to corporations that are prospective candidates for sub-licensing the technology. Eurotech had Firesil(TM) tested by an accredited lab to ASTM protocol and it passed these tests. We are currently seeking a manufacturing partner for Firesil(TM), and will wait until we find such a partner to pursue a marketing strategy for Firesil(TM).

COMPETITION

The licensed technologies are targeted at highly competitive markets. Due to the nature and size of some of the markets and some of the projects for which the licensed technologies may be applicable, there are sometimes other competitors who may have significantly greater name recognition and greater financial and other resources than we do. Many of these competitors also have technologies that are very competitive with the licensed technologies. For example, NuCap(TM) is a composite material based on a silicone polymer that is different from other silicones produced by manufacturers such as GE Silicones and Dow Corning, but the products produced by those manufacturers compete with NuCap(TM). As another example, some of the major producers of polyurethanes used in coatings and finishes, sealants and adhesives, which products may compete with the HNIPU technology, include Akzo Nobel, Dow Chemical and Kansai.

INTELLECTUAL PROPERTY RIGHTS

GENERAL

Many entities, including some developing technologies similar to ours, now have and may in the future obtain patents and other intellectual property rights that cover or affect products or services directly or indirectly related to the technologies that we license from Eurotech. In general, if a court determines that one or more of the licensed technologies infringes on intellectual property held by others, we would be required to cease infringing on intellectual property held by others, we would be required to cease developing or marketing those products or to obtain licenses to develop and market those products from the holders of the intellectual property, or to redesign those products in such a way as to avoid infringing the patent claims. If a competitor holds intellectual property rights, the entity might be predisposed to exercise its right to prohibit our use of its intellectual property in our products and services, thus impacting our competitive position.

We cannot assure you that we are aware of all patents and other intellectual property rights that the licensed technologies may potentially infringe. In addition, patent applications in the United States are confidential until the Patent and Trademark Office issues a patent and, accordingly, we cannot evaluate the extent to which the licensed technologies may infringe claims contained in pending patent applications. Further, it is often not possible to determine definitively whether a claim of infringement is valid, absent protracted litigation, which we may not have the resources to pursue.

We cannot estimate the extent to which we may be required in the future to obtain licenses with respect to patents held by others and the availability and cost of any such licenses. Those costs, and their

impact on our financial position, could be material. Damages in patent infringement cases can also include a tripling of actual damages in certain cases. To the extent that we are required to pay royalties to third parties to whom we are not currently making payments, these increased costs of doing business could negatively affect our liquidity and operating results.

In addition, there may be entities developing and marketing technologies which infringe on patents and intellectual property rights held by us. Patent infringement claims are protracted and costly. We may not have the resources to adequately protect our intellectual property. Any expenditures to pursue intellectual property rights by us could negatively affect us.

NUCAP(TM) INTELLECTUAL PROPERTY RIGHTS

The Euro-Asian Physical Society (EAPS) has patented EKOR(TM) in the U.S., Russia, and other industrialized countries. On March 23, 1999, the U.S. Patent and Trademark Office issued to EAPS Patent No. 5,886,060 on the process for manufacturing one of the EKOR(TM) compound variants. Pursuant to sub-license agreement, Eurotech became the exclusive global licensee of all right, title and interest (inclusive of all patent and other intellectual property rights now or in the future) in EKOR(TM). We are the sole licensee of Eurotech for NuCap(TM) and have renamed the product NuCap(TM). We do not know if additional proprietary technology that we have developed relating to NuCap(TM) will prove patentable. We have applied for trademark protection for the mark "NuCap" with the U.S. Patent and Trademark Office.

HNIPU INTELLECTUAL PROPERTY RIGHTS

U.S. Patent Number 6120905 for HNIPU network polymers and composites formed there from was issued on September 19, 2000. Patents for this technology have also been issued in Europe (EP 1088021, PCT WO 9965969) and Australia (4441099). These patents have been assigned to Eurotech. The method of synthesis of cyclocarbonates and nonisocyanate or hybrid nonisocyanate network polyurethanes is patent applied for in the United States, which application has been assigned to Eurotech. We are a licensee of Eurotech. As a regular part of our business activities, we intend to submit patent applications to protect our developed intellectual property, improvements and extensions, although we do not know whether any technologies that we develop will be patentable.

EMR/AC INTELLECTUAL PROPERTY RIGHTS

U.S. Patent Number 4,922,467 for Acoustic Detection Apparatus (Acoustic Core) was issued to David Caulfield on May 1, 1990 and subsequently assigned to Ocean Data Equipment Corporation. This patent was significantly improved, for which U.S. Patent Number 6,545,945 was issued on April 8, 2003. Electromagnetic Radiography technology has been protected under trade secret laws. The worldwide exclusive licensing rights to these technologies for the detection of nuclear and hazardous materials at nuclear remediation and marine dredging sites, and for oil exploration, were obtained by Eurotech and, except to the extent related to the illicit materials detection application of these technologies, were subsequently licensed to Global Matrechs.

RAD-X INTELLECTUAL PROPERTY RIGHTS

Eurotech had protected its interest in Rad-X by treating the formulation as proprietary property and entering into confidentiality agreements with its partners.

RBHM INTELLECTUAL PROPERTY RIGHTS

Rademate, an entity in which Eurotech is an investor, was issued U.S. Patent #6294265 for "Hydrophobic biodegradable cellulose-containing material" for RBHM on September 25, 2001. Rademate has one application with the Israeli Patent Office (126306), dated September 23, 1998, which is pending. Eurotech has licensed to us the intellectual property rights that it has in RBHM.

LEM INTELLECTUAL PROPERTY RIGHTS

Eurotech has acquired the intellectual property rights associated with U.S. Patent #6303683 (issued October 16, 2001) for Liquid Ebonite mixtures and coatings, and concretes formed therefrom and an application filed under the Patent Cooperation Treaty (PCT/US99/16883) on July 26,1999 by Dr. Igor Figovsky, the inventor of these technologies. We are a licensee of Eurotech.

FIRESIL(TM) INTELLECTUAL PROPERTY RIGHTS

Eurotech acquired the formula for Firesil(TM) from Dr. Figovsky, its inventor, in 2000. Eurotech terminated previously initiated patent applications and has elected to protect this formula as a trade secret. Eurotech owns the federally registered trademark "Firesil". We are a licensee of Eurotech.

GOVERNMENT REGULATION

The use of NuCap(TM) is subject to U.S. environmental safety laws and regulations pertaining to the safe use and containment of hazardous and nuclear waste. Based on the results of tests conducted by Eurotech, we believe that the NuCap(TM) compounds meet current applicable regulations for safe use, containment and storage of hazardous and nuclear materials. It is, however, possible that more stringent or different standards may be adopted or applied in the future that might influence the intended use for NuCap(TM) and it is also possible that the standards, if adopted or applied, may materially increase the cost to us of using NuCap(TM) compounds or prevent their use altogether. We are not aware of any other U.S. or foreign laws or regulations that significantly hinder the marketing, sale, or use of NuCap(TM) based materials.

The manufacture of HNIPU and operation of EMR/AC(TM) equipment is not expected to be impacted adversely by government regulations. HNIPU's MSDS identifies the limited risks associated with the manufacture, handling and application of the non-isocyanate polyurethane. OSHA outlines operational regulations as related to acoustic frequencies and power levels as might be applied to EMR/AC(TM) operations. We have currently applied to the EPA for approval of HNIPU to be sold in the United States.

The manufacture and use of HNIPU is subject to U.S. environmental safety laws and regulations pertaining to the safe use of chemicals and polymeric materials. While HNIPU does not use highly toxic compounds like isocyanates, it is still subject to governmental regulations, but based on preliminary assessments by Eurotech we believe that HNIPU compounds will meet current and future regulations. If we are successful in licensing various HNIPU binders to chemical and polymer manufacturers, we expect that the licensees will bear the costs of applying for governmental approvals required for manufacturing and industrial usage. We are not aware of any other U.S. or foreign laws or regulations that significantly hinder the marketing, sale, or use of HNIPU based materials.

Specialty Lighting

True To Form designs, develops, manufactures and sells specialty lighting products to targeted segments of the traditional lighting industry and has recently established a division that will focus on the homeland security market. True To Form designs, manufactures and markets high-end lighting and architectural products for commercial, hospitality and residential applications, including pendants, surface and ceiling luminaries, table and floor lamps, commercial down-lights, bath fixtures, and custom fixtures.

SALES AND MARKETING

True To Form markets primarily to architects, interior designers, lighting consultants and high-end designer showrooms.

CUSTOMERS

The Company's specialty fixtures subsidiary has recently worked on projects for Wynn Design and Development, The Mandalay Bay Group and the Luxor Hotel.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2005 AND 2004

Net Sales. Net sales from $620 in the quarter ended March 31, 2004 compared to $369,681 in the quarter ended March 31, 2005. Revenues in the quarter ended March 31, 2004 consisted of sales of NuCap(TM) and are recognized at the time that products are shipped or services are provided. Revenues in the quarter ended March 31, 2005 consisted of sales from our True To Form Ltd. division, acquired on December 31, 2004.

Cost Of Sales. Cost of sales includes the cost of materials, handling, shipping, and any associated customs clearance costs. Cost of sales increased by $147,645 from the quarter ended March 31, 2004 as a result of cost of sales from our True to Form Ltd. division.

Gross Profit. Gross profit increased from $62 in the quarter ended March 31, 2004 to $221,478 in the quarter ended March 31, 2005. This reflects the results from our acquisition of True To Form.

General And Administrative. General and administrative expense includes salaries for administrative personnel, insurance and other administrative expenses, as well as expenses associated with maintaining our records and SEC reporting. General and administrative expenses increased from $ 262,566 in the quarter ended March 31, 2004 to $612,611 in the quarter ended March 31, 2005. This increase is primarily due to increased fees being paid to consultants and attorneys to put the Company's long term financing in place, along with the general and administrative expenses incurred at our True To Form Ltd. division, which was acquired on December 31, 2004.

Depreciation And Amortization. Amortization expense of $49,311, which represents three months of amortization of the intangible licensed technologies, was recognized in the quarter ended March 31, 2005 and 2004. Depreciation expense of $1,957 represents depreciation expense on assets in service at our True to Form Ltd. division.

Other Income. Other income in the quarter ended March 31, 2005 consisted of $1,225 in interest charged to Tulix for interest on their notes.

Interest Expense. Interest expense for the quarter ended March 31, 2005 was $1,810,560. It consisted of $1,795,989 of interest in connection with the beneficial conversion features and amortization of warrant features related to convertible notes, and $14,571 in accrued interest expense on other borrowings.

Interest expense for the quarter ended March 31, 2004 consisted of $74,412 in interest charges on the Series B, C, D and E preferred stock and $7,800 in interest expense on the notes related to the Licensed Technologies Division.

Other Expenses. Other expenses for the quarter ending March 31, 2005 consisted of $64,918 due to the change in fair value of our warrants. Other expenses for the year ending March 31, 2004 consisted of $13,460 due to the change in fair value of the derivative conversion feature.

LIQUIDITY AND CAPITAL RESOURCES

Our sources of capital are extremely limited. We have incurred operating losses since inception and as of March 31, 2005, we had an accumulated deficit of $32,678,402 and a working capital deficit of $3,791,936.

On September 30, 2003, we entered into a private equity credit agreement with Brittany Capital Management LLC under which we had an option to issue and sell to Brittany up to $10,000,000 of our common stock over three years. In connection with this agreement, we filed a registration statement on Form SB-2 with the Securities Exchange Commission to register 25,651,000 shares of our common stock for resale by Brittany and Econ Investor Relations. However, the registration statement was not declared effective by the Securities and Exchange Commission. In December 2004, the private equity credit agreement terminated in accordance with its terms, and we withdrew the registration statement.

In June 2004 we entered into a second exchange agreement with Brittany to acquire certain of their shares of our common stock at a price of $0.10 per share. On September 22, 2004, we issued 490.5 shares of our Series I convertible preferred stock to Brittany in exchange for Brittany's surrender of 4,905,000 shares of our common stock. In addition Brittany agreed to loan us $100,000 under a convertible note. As of March 31, 2005 we had borrowed $75,000 under this agreement.

On October 19, 2004, the Company entered into a Securities Purchase Agreement with Southridge Partners LP. Under the Securities Purchase Agreement Southridge shall purchase a nonnegotiable 2% secured convertible promissory note with a maturity date of October 19, 2006 in the amount of $250,000. Southridge may, at its option, convert the note into Common Stock at a conversion price of $0.02. Conversion rights are restricted in that Southridge may not at any time have beneficial ownership of more than 4.999% of the total number of issued and outstanding shares of Common Stock. Should the Company's Common Stock fall below $0.03 cents for ten consecutive trading days Southridge may force prepayment at 140% of the principle amount. Also as a part of the Securities Purchase Agreement the Company issued a Common Stock Purchase Warrant entitling Southridge to purchase 10,000,000 shares of Common Stock at an exercise price of $0.025 per share. Conversion rights are restricted in that Southridge may not at any time have beneficial ownership of more than 4.999% of the total number of issued and outstanding shares of Common Stock. The Warrant may be exercised on a "cashless" basis at the election of the holder.

On October 21, 2004, the Company entered into a Securities Purchase Agreement with Dean M. DeNuccio. Under the Securities Purchase Agreement Mr. DeNuccio shall purchase a nonnegotiable 2% secured convertible promissory note with a maturity date of October 21, 2006 in the amount of $25,000. Mr. DeNuccio may, at his option, convert the note into Common Stock at a conversion price of $0.02. Conversion rights are restricted in that Mr. DeNuccio may not at any time have beneficial ownership of more than 4.999% of the total number of issued and outstanding shares of Common Stock. Should the Company's Common Stock fall below $0.03 cents for ten consecutive trading days Mr. DeNuccio may force prepayment at 140% of the principle amount. Also as a part of the Securities Purchase Agreement the Company issued a Common Stock Purchase Warrant entitling Mr. DeNuccio to purchase 1,000,000 shares of Common Stock at an exercise price of $0.025 per share. Conversion rights are restricted in that Mr. DeNuccio may not at any time have beneficial ownership of more than 4.999% of the total number of issued and outstanding shares of Common Stock. The Warrant may be exercised on a "cashless" basis at the election of the holder.

On November 5, 2004, the Company entered into a Securities Purchase Agreement with Colonial Fund, LLC ("Colonial"). Under the Securities Purchase Agreement Colonial shall purchase a nonnegotiable 2% secured convertible promissory note with a maturity date of November 5, 2006 in the amount of $50,000. Colonial may, at their option, convert the note into Common Stock at a conversion price of $0.02. Conversion rights are restricted in that Colonial may not at any time have beneficial ownership of more than 4.999% of the total number of issued and outstanding shares of Common Stock. Should the Company's Common Stock fall below $0.03 cents for ten consecutive trading days Colonial may force prepayment at 140% of the principle amount. Also as a part of the Securities Purchase Agreement the Company issued a Common Stock Purchase Warrant entitling Colonial to purchase 2,000,000 shares of Common Stock at an exercise price of $0.025 per share. Conversion rights are restricted in that Southridge may not at any time have beneficial ownership of more than 4.999% of the total number of issued and outstanding shares of Common Stock. The Warrant may be exercised on a "cashless" basis at the election of the holder.

On November 10, 2004, the Company entered into a Securities Purchase Agreement with Deer Creek. Under the Securities Purchase Agreement Deer Creek shall purchase a nonnegotiable 2% secured convertible promissory note with a maturity date of November 10, 2006 in the amount of $50,000. Deer Creek may, at their option, convert the note into Common Stock at a conversion price of $0.02. Conversion rights are restricted in that Deer Creek may not at any time have beneficial ownership of more than 4.999% of the total number of issued and outstanding shares of Common Stock. Should the Company's Common Stock fall below $0.03 cents for ten consecutive trading days Deer Creek may force prepayment at 140% of the principle amount. Also as a part of the Securities Purchase Agreement the Company issued a Common Stock Purchase Warrant entitling Deer Creek to purchase 2,000,000 shares of Common Stock at an exercise price of $0.025 per share. Conversion rights are restricted in that Southridge may not at any time have beneficial ownership of more than 4.999% of the total number of issued and outstanding shares of Common Stock. The Warrant may be exercised on a "cashless" basis at the election of the holder.

SECOND PURCHASE AGREEMENT WITH SOUTHRIDGE PARTNERS

On January 31, 2005, we entered into a Second Securities Purchase Agreement with Southridge Partners LP, one of our existing investors, whereby we agreed to sell a convertible promissory note in the principal amount of $250,000 and warrant to purchase up to 10,000,000 shares of our common stock to Southridge in exchange for its $250,000 investment. Under the terms of this purchase agreement, Southridge may, at its option, and at any time prior to July 1, 2005, purchase an additional note in the principal amount of up to $1,500,000, and otherwise on substantially the same terms as the note issued on January 31, 2005.

The note is convertible, at the option of the holder, into shares of our common stock at a conversion price of $0.02 per share. Southridge may require us to repurchase some or all of its note if the market price of our common stock falls below $0.03 per share for ten (10) consecutive trading days, at a repurchase price equal to 140% of the principal amount of the note. In the event we default under the terms of the note, the entire outstanding principal (and any outstanding interest accrued thereon) shall become immediately due and payable, and the interest rate will rise to 18% per annum.

We have secured the payment of the notes with a subordinated security interest in our accounts, general intangibles, inventories, and other collateral. In addition, in the event we propose to register securities under the Securities Act of 1933, as amended, we are required to notify Southridge in advance of such registration and, at its request (subject to limited exceptions), include the shares of our common stock underlying the note and warrant on the registration statement filed in connection with such registration (and assume any expenses associated therewith).

The warrant has an expiration date of January 31, 2010. It contains a cashless exercise provision whereby the holder may pay the exercise price associated with any exercise by having us withhold a number of shares otherwise issuable upon such exercise having a fair market value equal to the applicable aggregate exercise price. In the event such provision is used with respect to an exercise, we would receive no proceeds upon such exercise.

ENTRANCE INTO EXCHANGE AGREEMENT WITH WOODWARD LLC

On January 31, 2005, we entered into an Exchange Agreement with Woodward LLC pursuant to which we acquired promissory notes, and have accordingly assumed all rights pertaining thereto, issued by Eurotech Ltd. The notes are currently in default and have an aggregate outstanding principal amount of $290,000. The notes carry a default annual interest rate of 18% and are past due in their entirety. In exchange for these notes, we issued to Woodward a promissory note in the principal amount of $250,000.

Under the terms of the Exchange Agreement, in the event we propose to register securities under the Securities Act of 1933, as amended, we are required to notify Woodward in advance of such registration and, at its request (subject to limited exceptions), include the shares of our common stock underlying the note on the registration statement filed in connection with such registration, and assume any expenses associated therewith.

SOUTHRIDGE EXERCISES OPTION TO PURCHASE ADDITIONAL NOTES AND WARRANTS

On March 2, 2005, Southridge Partners LP exercised its option to purchase an additional note and warrant under its Second Securities Purchase Agreement. In connection with such exercise, we issued to Southridge a convertible promissory note in the principal amount of $175,000 and a warrant to purchase up to 7,000,000 shares of our common stock in exchange for its $175,000 investment. The note is convertible, at the option of the holder, into shares of our common stock at a conversion price of $0.02 per share. Southridge may require us to repurchase some or all of its note if the market price of our common stock falls below $0.03 per share for ten (10) consecutive trading days, at a repurchase price equal to 140% of the principal amount of the note. In the event we default under the terms of the note, the entire outstanding principal (and any outstanding interest accrued thereon) shall become immediately due and payable, and the interest rate will rise to 18% per annum. The note matures on March 2, 2007.

SOUTHRIDGE EXERCISES OPTION TO PURCHASE ADDITIONAL NOTES AND WARRANTS

On April 11, 2005, Southridge Partners LP exercised its option to purchase an additional note and warrant pursuant to the Second Securities Purchase Agreement. In connection with such exercise, we issued to Southridge a convertible promissory note in the principal amount of $125,000 and a warrant to purchase up to 5,000,000 shares of our common stock to Southridge in exchange for its $125,000 investment. The note is convertible, at the option of the holder, into shares of our common stock at a conversion price of $0.02 per share. Southridge may require us to repurchase some, or all, of its note if the market price of our common stock falls below $0.03 per share for ten (10) consecutive trading days, at a repurchase price equal to 140% of the principal amount of the note. In the event we default under the terms of the note, the entire outstanding principal (and any outstanding interest accrued thereon) shall become immediately due and payable, and the interest rate will rise to 18% per annum. The note matures on April 11, 2007.

We can provide no assurance that the financing sources described above, or any other financing that we may obtain in the future (if we are able to obtain financing from any other sources, and we can provide no assurances that we will be able to obtain any such financing), will enable us to sustain our operations. The aforementioned factors raise substantial doubt about our ability to continue as a going concern. The financial statements included herein have been prepared assuming we are a going concern and do not include any adjustments that might result should we be unable to continue as a going concern.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our principal executive officer, who is also our principal financial officer, has concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) were not effective as of March 31, 2005 based an evaluation of our disclosure controls and procedures, as further described below:

- Our historical financial information related to fiscal 2001 through fiscal 2003 and for the first three fiscal quarters of 2004 accounted incorrectly for certain convertible preferred stock instruments. As such, management has concluded that our historical financial statements should no longer be relied upon.

- We have restated historical financial information for the periods required to be presented in this annual report on Form 10-KSB for the year ended December 31, 2004, as amended, to reflect the correct accounting treatment. We have also included in this report four years of restated financial information highlighting the differences resulting from the application of the change in accounting treatment to its historical financial statements.

- Finally, we have restated certain financial information contained in this quarterly report on Form 10-QSB.

Late Reports

Due to the significant commitment of Company time and resources required in connection with the review of our financial statements and the auditing of our 2004 financial statements, we did not timely file our annual report on Form 10-KSB for the fiscal year ended December 31, 2004 or this quarterly report on Form 10-QSB.

Other Issues

The review also observed other issues that may have contributed to the misstatement. These issues relate to staffing, competence and segregation of duties in our accounting and financial reporting functions and insufficient analysis, documentation and review of the selection and application of generally accepted accounting principles to significant non-routine transactions. We plan to address these issues by hiring additional personnel promptly after we raise additional financing.

Remedial measures

Management believes that at this time, in light of the recent addition of an outside consultant to assist with some of the highly technical issues relating to its capital structure, the risks associated with a lack of segregation of duties and limited staff have been largely mitigated. Management believes that additional progress in strengthening its controls and procedures will continue through the end of fiscal year 2005. Furthermore, management intends to hire an accounting professional to increase the our capabilities related to interpretive research into complex accounting issues promptly after we raise sufficient financing to permit it to do so. Finally, management will periodically reevaluate the situation, and as necessary, will put in place additional internal staff and controls to prevent a lack of discipline around policies and procedures in our administrative and financial matters.

Changes in Internal Control over Financial Reporting

As described above, management believes that our recent addition of an outside consultant to assist with some of the highly technical issues relating to our capital structure, we have significantly mitigated the risks associated with a lack of segregation of duties that had existed previously.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

LEGAL PROCEEDINGS:

On February 9, 2005 Global Matrechs, Inc, filed suit in the Supreme Court of the State of New York, County of New York against Eurotech, Ltd. for its failure to fulfill its obligations under the license agreement between the parties dated May 22, 2003. The suit also seeks the enforcement of the notes issued by Eurotech to Woodward, LLC which were assumed by Global Matrechs in the exchange agreement between Global Matrechs and Woodward on January 31, 2005. The complaint seeks damages totaling $672,677 plus interest and attorney's fees which are yet to be determined.

On April 13, 2005 Carey Naddell, CEO of Eurotech, Ltd., filed suit against the Company for damages based upon an alleged breach of a written service agreement. The Company has responded and feels at this time there is no merit to this action. We will diligently defend this action.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

GLOBAL MATRECHS, INC.

Date: October 7, 2005	By:	/s/ Michael Sheppard
		Name: Michael Sheppard Title: President, Chief Executive Officer, and Acting Chief Financial Officer

EXHIBIT INDEX

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