

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

COMMODORE APPLIED TECHNOLOGIES INC
Form 10-Q
August 19, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002

OR

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

Commission File Number 1-11871

COMMODORE APPLIED TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-3312952

(I.R.S. Employer
Identification No.)

2121 Jamieson Avenue, Suite 1406
Alexandria, Virginia

(Address of principal executive office)

22314

(Zip Code)

Registrant's telephone number, including area code: (703) 567-1284

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 X No .

The number of shares the common stock outstanding at August 19, 2002
was 57,645,290.

COMMODORE APPLIED TECHNOLOGIES, INC.

FORM 10-Q

INDEX

Page No.

PART I FINANCIAL INFORMATION.....1

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheet - June 30, 2002 and December 31, 2001.....	2
	Condensed Consolidated Statement of Operations - Three and Six months ended June 30, 2002 and June 30, 2001.....	3
	Condensed Consolidated Statement of Cash Flows - Six months ended June 30, 2002 and June 30, 2001.....	4
	Notes to Condensed Consolidated Financial Statements.....	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	12
PART II	OTHER INFORMATION.....	17
SIGNATURES.....		18

PART I - FINANCIAL INFORMATION

ITEM 1: Financial Statements -----

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET (Dollars in Thousands, except per share data)

	June 30, 2002 ----- (unaudited)	December 31, 2001 -----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 122	\$ 170
Accounts receivable, net	556	599
Prepaid assets and other current receivables	167	327
Total Current Assets	845	1,096
Property and equipment, net	484	597
Patents and completed technology, net of accumulated amortization of \$1,395 and \$1,375, respectively	80	100
Assets held for sale - component DRM	--	29,407
Total Assets	\$ 1,409	\$ 31,200

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

See notes to condensed consolidated financial statements.

1

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEET
 (Dollars in Thousands, except per share data)

	June 30, 2002 ----- (unaudited)	December 31, 2001 -----
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,072	\$ 3,916
Related party payable	128	160
Current portion of long term debt	33	90
Line of credit	144	108
Notes payable	1,111	1,155
Other accrued liabilities	2,233	2,035
	-----	-----
Total Current Liabilities	5,721	7,464
Liabilities held for sale - component DRM	--	22,165
	-----	-----
Total Liabilities	5,721	29,629
Commitments and contingencies	--	--
Stockholders' (Deficit) Equity		
Convertible Preferred Stock, Series E & F par value \$0.001 per share, 5% to 12% cumulative dividends, 601,700 shares authorized, 390,200 and 410,200 shares issued and outstanding as of June 30, 2002 and December 31, 2001 respectively. The shares had an aggregate liquidation and \$5,403 at value of \$5,140 June 30, 2002 and December 31, 2001 respectively.	--	--
Common Stock, par value \$0.001 per share, 125,000,000 shares authorized, 57,645,290 and 55,417,354 issued and outstanding, at June 30, 2002 and December 31, 2001, respectively.	58	55
Additional paid-in capital	66,654	66,759
Shareholder receivable	(83)	
Accumulated deficit	(70,561)	(65,243)
	-----	-----
Treasury Stock, 4,750,000 shares at June 30, 2002	(3,932)	(1,571)
	-----	-----
	(380)	--
	-----	-----

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

Total Stockholder's (Deficit) Equity	(4,312)	1,571
	-----	-----
Total Liabilities and Stockholders' (Deficit) Equity	\$ 1,409	\$ 31,200
	=====	=====

See notes to condensed consolidated financial statements.

2

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited - Dollars in Thousands, except per share data)

	Three months ended	
	June 30,	June 30,
	2002	2001
	----	----
Contract revenues	\$ 1,190	\$ 1,159
Costs and expenses:		
Cost of sales	688	1,122
Research and development	36	76
General and administrative	330	324
Depreciation and amortization	50	174
	-----	-----
Total costs and expenses	1,104	1,696
	-----	-----
Income (loss) from operations	86	(537)
	-----	-----
Other income (expense):		
Interest income	--	--
Interest expense	(26)	(51)
	-----	-----
Net other income (expense)	(26)	(51)
	-----	-----
Income (loss) before income taxes	60	(588)
Income taxes	--	--
	-----	-----
Income (loss) from continuing operations	60	(588)
Loss from discontinued operations of component DRM (including loss on disposal of \$4,134 during the three months and six months ended June 30, 2002)	(4,752)	(224)
	-----	-----
Net loss	\$ (4,692)	\$ (812)
	=====	=====
Loss per share - basic and diluted	\$ (0.08)	\$ (0.02)

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

Number of weighted average shares outstanding (000's)	=====	=====
	57,645	52,807
	=====	=====

See notes to condensed consolidated financial statements.

3

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited - Dollars in Thousands, except per share data)

	June 30, 2002	Six months ended June 30, 2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (5,318)	\$
Add: net loss from discontinued operations	4,802	
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	133	
Amortization of debt discount	18	
Other non-cash charges	-	
Changes in assets and liabilities:		
Accounts receivable, net	43	
Prepaid assets	160	
Accounts payable	(47)	
Other liabilities	96	
	-----	-----
Net cash (used in) provided by continuing operations	(113)	
Net cash provided by discontinued operations	184	
	-----	-----
Net cash provided by operating activities	71	
Cash flows from investing activities:		
Purchase of equipment	--	
Advances to related parties	(32)	
	-----	-----
Net cash used in continuing operations	(32)	
Net cash used in discontinued operations	(4)	
	-----	-----
Net cash used in investing activities	(36)	
Cash flows from financing activities:		
Increase in (repayment of) line of credit	36	
Increase in notes and loans payable	--	
Payments on notes payable and long-term debt	(119)	
Proceeds from sale of common stock	--	
	-----	-----

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

Net cash used in financing activities	(83)	
Increase (decrease) in cash	(48)	
Cash, beginning of period	170	
	-----	-----
Cash, end of period	\$ 122	\$
	=====	=====

See notes to condensed consolidated financial statements.

4

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2002

Note A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for Commodore Applied Technologies, Inc. and subsidiaries (the "Company" or "Applied") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial statement information was derived from unaudited financial statements unless indicated otherwise. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

Certain prior-year amounts have been reclassified to conform to the current year presentation.

The accompanying financial statements have been prepared under the assumption that Applied will continue as a going concern. Such assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the six month period ended June 30, 2002, and the years ended December 31, 2001, 2000 and 1999, Applied incurred losses of \$5,318,000, \$6,554,000, \$11,441,000 and \$3,985,000, respectively. For the six month period ended June 30, 2002, and for the years ended December 31, 2001, 2000 and 1999, Applied has also experienced net cash inflows (outflows) from operating activities of \$71,000, \$1,907,000, \$(2,002,000) and \$(2,905,000). The financial statements do not include any adjustments that might be necessary should Applied be unable to continue as a going concern. Applied's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitability. The Company has a

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

working capital deficit \$4,876,000. Potential sources of cash include new contracts, external debt and the sale of new shares of company stock or alternative methods such as mergers or sale transactions. No assurances can be given, however, that Applied will be able to obtain any of these potential sources of cash.

Anticipated losses on contracts are provided for by a charge to income during the period such losses are identified. Changes in job performance, job conditions, estimated profitability (including those arising from contract penalty provisions) and final contract settlements may result in revisions to cost and income and are recognized in the period in which the revisions are determined. Allowances for anticipated losses totaled \$200,000 at June 30, 2002 and December 31, 2001.

On May 16, 2002, a Notice of Default and Right to Pursue Remedies (the "Notice") was issued to the Company by William J. Russell and Tamie B. Speciale (the "Pledges") claiming that the Company is in default under the Stock

5

Purchase Agreement (the "Agreement"), between the Company and Dispute Resolution Management, Inc. ("DRM") and the related Stock Pledge Agreement (the "Stock Pledge").

Pursuant to the Agreement, the Company agreed to repurchase from the Pledges, originally by September 29, 2001, and subsequently extended to January 16, 2002 and May 16, 2002, that number of the 9.5 million shares of the Company's common stock issued in connection with the acquisition as necessary to provide the Pledges with cash of \$14.5 million. As partial security for payment of this repurchase obligation, the Company pledged to the Pledges all shares of DRM stock owned by the Company.

The Notice asserts that the Company is in default for its failure to pay a repurchase of stock obligation, failure to perform certain covenants and its insolvency. The Pledges, as CEO and President of DRM, have transferred the DRM Stock owned by the Company to and into the name of the Pledges and has tendered 4,750,000 shares of the Company's pledged common stock back to the Company. As of May 16, 2002, the Company no longer owns an 81% interest in DRM.

In addition, the Notice made a demand for the immediate payment of (1) \$1,073,570, for advances to the Company for operating expenses during 2000-2001, (2) \$1,417,833, for advances to the Company for installment payments due to the Pledges under the Agreement, and (3) \$1,500,000, for the Company's obligations under the Agreement. The Pledges intend to make demands for the immediate payment of (4) all deficiency amounts, plus interest and expenses, due for the Company's repurchase obligation under the Agreement, and (5) \$8,582,167, plus interest and expenses, for the accelerated make whole payment due by the Company upon a sale of control. The Pledges also reserved the right to vote the DRM Stock in all DRM matters and to apply any funds or other property received on the Company's pledged common stock to the Company's obligations.

The Company believes that it is not in default and has meritorious defenses under the Agreement and Stock Pledge to the claims asserted by the Pledges. The Company plans and desires to reach an amicable resolution of this matter. However, the Company's inability to resolve this matter and pay its repurchase obligation would have a significant material adverse effect on the financial condition of the Company, and the Company may not be able to continue to operate as a going concern.

The Company's estimated loss of the DRM subsidiary may have a material adverse effect on the financial condition of the Company and its cash flow

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

problems. The Company currently requires additional cash to sustain existing operations and to meet current obligations and ongoing capital requirements. Excluding DRM, the Company's current monthly operating expenses exceed cash revenues by approximately \$100,000.

On August 19, 2002, the Company entered into a settlement agreement with DRM. Under terms of the agreement, the Company acknowledged that it had previously received back 4,750,000 shares of its common stock from DRM and its shareholders. The Company is to receive an additional 1,187,500 shares of its common stock and the Company is to issue to DRM 800,000 shares of Series H Preferred stock for satisfaction of the remaining liabilities relating to the purchase and working capital of DRM. The financial information included in the accompanying form 10Q for the periods ending June 30, 2002 reflect the terms of the settlement agreement. As of June 30, 2002 the Company recorded an estimated loss on the disposal of DRM in the amount of \$4,134,000.

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. Actual results could differ from those estimates.

6

Note B - Segment Information

Using the guidelines set forth in SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", the Company has identified two continuing reportable segments in which it operates, based on the services it provides. The reportable segments are as follows: (i) Commodore Advanced Sciences, Inc., which primarily provides various engineering, legal, sampling, and public relations services to Government agencies on a cost plus basis; and (ii) Commodore Solutions, Inc., which is commercializing technologies to treat mixed and hazardous waste.

Applied evaluates segment performance based on the segment's net income (loss). Applied's foreign and export sales and assets located outside of the United States are not significant. Summarized financial information concerning Applied's reportable segments is shown in the following table.

7

Three Months Ended June 30, 2002
(Dollars in Thousands)

Total	ASI	Solution	D
-------	-----	----------	---

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

Contract revenues	\$ 1,190	\$ 1,157	\$ 33	\$
Costs and expenses				
Cost of sales	688	606	82	
Research and development	36	--	36	
General and administrative	330	185	12	
Depreciation and amortization	50	9	41	
	-----	-----	-----	-----
Total costs and expenses	1,104	800	171	
	-----	-----	-----	-----
Income (loss) from operations	86	357	(138)	
Interest income	--	--	--	
Interest expense	(26)	(26)	--	
Income taxes	--	--	--	
	-----	-----	-----	-----
Income (loss) from continuing operations	60	331	(138)	
Loss from discontinued operations	(4,752)	--	--	
	-----	-----	-----	-----
Net income (loss)	\$ (4,692)	\$ 331	\$ (138)	\$
	=====	=====	=====	=====
Total assets	\$ 1,409	\$ 845	\$ 484	\$
Expenditures for long-lived assets	\$ --	\$ --	\$ --	\$

8

Six Months Ended June 30, 2002
(Dollars in Thousands)

	Total	ASI	Solution	D
Contract revenues	\$ 2,277	\$ 2,244	\$ 33	\$
Costs and expenses				
Cost of sales	1,631	1,451	180	
Research and development	113	--	113	
General and administrative	868	395	52	
Depreciation and amortization	113	22	91	
	-----	-----	-----	-----
Total costs and expenses	2,725	1,868	436	
	-----	-----	-----	-----
Income (loss) from operations	(448)	376	(403)	
Interest income	--	--	--	
Interest expense	(68)	(52)	--	
Income taxes	--	--	--	

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

	-----	-----	-----	-----
Income (loss) from continuing operations	(516)	324	(403)	
Loss from discontinued operations	(4,802)	--	--	
	-----	-----	-----	-----
Net Income (loss)	\$ (5,318)	\$ 324	\$ (403)	
	=====	=====	=====	=====
Total assets	\$ 1,409	\$ 845	\$ 484	
Expenditures for long-lived assets	\$ 4	\$ --	\$ --	\$

9

Three Months Ended June 30, 2001
(Dollars in Thousands)

	-----	-----	-----	-----
	Total	ASI	Solution	D
Contract revenues	\$ 1,159	\$ 1,076	\$ 83	\$
Costs and expenses				
Cost of sales	1,122	1,026	96	
Research and development	76	--	76	
General and administrative	324	59	71	
Depreciation and amortization	174	19	114	
	-----	-----	-----	-----
Total costs and expenses	1,696	1,104	357	
	-----	-----	-----	-----
Income (loss) from operations	(537)	(28)	(274)	
Interest income	--	--	--	
Interest expense	(51)	(10)	--	
Income taxes	--	--	--	
	-----	-----	-----	-----
Loss from continuing operations	(588)	(38)	(274)	
Loss from discontinued operations	(224)	--	--	
	-----	-----	-----	-----
Net income (loss)	\$ (812)	\$ (38)	\$ (274)	\$
	=====	=====	=====	=====
Total assets	\$ 30,548	\$ 2,478	\$ 1,604	\$

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

Expenditures for long-lived assets \$ -- \$ -- \$ -- \$

10

Six Months Ended June 30, 2001
(Dollars in Thousands)

	Total	ASI	Solution	D
Contract revenues	\$ 2,484	\$ 2,299	\$ 185	\$
Costs and expenses				
Cost of sales	1,934	1,735	199	
Research and development	196	--	196	
General and administrative	1,033	439	240	
Depreciation and amortization	347	39	231	
	-----	-----	-----	-----
Total costs and expenses	3,510	2,213	866	
	-----	-----	-----	-----
Income (loss) from operations	(1,026)	86	(681)	
Interest income	3	--	--	
Interest expense	(313)	(36)	--	
Income taxes	--	--	--	
	-----	-----	-----	-----
Income (loss) from continuing operations	(1,336)	50	(681)	
Loss from discontinued operations	(125)	--	--	
	-----	-----	-----	-----
Net Income (loss)	\$ (1,461)	\$ 50	\$ (681)	\$
	=====	=====	=====	=====
Total assets	\$ 30,548	\$ 2,478	\$ 1,604	\$
Expenditures for long-lived assets	\$ --	\$ --	\$ --	\$

11

Note C - Contingencies

Applied has matters of litigation arising in the ordinary course of business, which in the opinion of management, will not have a material adverse

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

effect on its financial condition or results of operations.

Note D - Subsequent Event

On August 19, 2002, the Company entered into a settlement agreement with DRM. Under terms of the agreement, the Company acknowledged that it had previously received back 4,750,000 shares of its common stock from DRM and its shareholders. The Company is to receive an additional 1,187,500 shares of its common stock and the Company is to issue to DRM 800,000 shares of Series H Preferred stock for satisfaction of the remaining liabilities relating to the purchase and working capital of DRM. The financial information included in the accompanying form 10Q for the periods ending June 30, 2002 reflect the terms of the settlement agreement. As of June 30, 2002 the Company recorded an estimated loss on the disposal of DRM in the amount of \$4,134,000.

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

Overview

Commodore Applied Technologies, Inc. and subsidiaries (the "Company" or "Applied"), is engaged in providing a range of engineering, technical, and financial services to the public and private sectors related to (i) remediating contamination in soils, liquids and other materials and disposing of or reusing certain waste by-products by utilizing SET; and (ii) providing services related to, environmental management for on-site and off-site identification, investigation remediation and management of hazardous, mixed and radioactive waste. Applied discontinued the operations of its previously 81% owned subsidiary DRM, on May 16, 2002 as a result of Applied's inability to meet the terms and conditions of the Stock Purchase Agreement with DRM. The loss from the disposition of DRM is estimated at \$4,134,000 to Applied.

The Company is currently working on the commercialization of these technologies through development efforts, licensing arrangements and joint ventures. Through Commodore Advanced Sciences, Inc. ("ASI") formerly Advanced Sciences, Inc., a subsidiary acquired on October 1, 1996, the Company has contracts with various government agencies and private companies in the U.S. As some government contracts are funded in one-year increments, there is a possibility for cutbacks as these contracts constitute a major portion of ASI's revenues, and such a reduction would materially affect the operations. However, management believes its existing client relationships will allow the Company to obtain new contracts in the future.

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2002 Compared to Three and Six Months Ended June 30, 2001

Revenues from continuing operations were \$1,190,000 and \$2,277,000 for the three and six months ended June 30, 2002, compared to \$1,159,000 and \$2,484,000 for the three and six months ended June 30, 2001. Such revenues were primarily from the Company's subsidiary ASI.

In the case of ASI, revenues were \$1,157,000 and \$2,244,000 respectively for the three and six months ended June 30, 2002 as compared with \$1,076,000 and \$2,299,000 for the three and six months ended June 30, 2001. There are no material differences in sales. The revenues from ASI consisted of engineering and scientific services performed for the United States government

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

under a variety of contracts. Revenue under cost-reimbursement contracts is recorded under the percentage of completion method as costs are incurred and include estimated fees in the proportion that costs to date bear to total estimated costs. Currently, ASI has two major customers, each of which represent more than 10% of total revenue. The combined revenue for these two customers was \$1,157,000 and \$2,244,000 respectively (100% of total revenues) for the three and six months ended June 30, 2002. Cost of sales was \$606,000 and \$1,451,000 respectively for the three and six months ended June 30, 2002 compared to \$1,026,000 and \$1,735,000 respectively for the three and six months ended June 30, 2001. The decrease in cost of sales is due to greater efficiencies in staffing and further reduction of sales associated expenses in the three and six months ended June 30, 2002.

12

In the case of Commodore Solution, Inc. ("Solution"), revenues were \$33,000 and \$33,000 respectively for the three and six months ended June 30, 2002 as compared with \$83,000 and \$185,000 respectively for three and six months ended June 30, 2001. The decrease is primarily due to the decrease in feasibility studies and commercial processing during this period. Revenues were primarily from remediation services performed for engineering and waste treatment companies in the U.S. under a variety of contracts. Solution has two major customers, each of whom represents more than 10% of the revenue for the three and six months ended June 30, 2002. The combined revenue for these two customers was \$33,000 and \$33,000 respectively (100% of the Solution's total revenue) for the three and six months ended June 30, 2002. Cost of sales was \$82,000 and \$180,000 respectively for the three and six months ended June 30, 2002 as compared to \$96,000 and \$199,000 respectively for the three and six months ended June 30, 2001. The decrease in cost of sales is attributable to slightly reduced sales and marketing expenses for the SET technology, which the Company anticipates will result in greater revenues from Solution in the remainder of 2002. Anticipated losses on engagements, if any, will be provided for by a charge to income during the period such losses are first identified.

For the three and six months ended June 30, 2002, the Company incurred research and development costs of \$36,000 and \$113,000 respectively as compared to \$76,000 and \$196,000 respectively for the three and six months ended June 30, 2001. Research and development costs include salaries, wages, and other related costs of personnel engaged in research and development activities, contract services and materials, test equipment and rent for facilities involved in research and development activities. Research and development costs are expensed when incurred, except those costs related to the design or construction of an asset having an economic useful life are capitalized, and then depreciated over the estimated useful life of the asset. The decrease in research and development expense is due to the continued commercialization focus of the Company.

General and administrative expenses for continuing operations for the three and six months ended June 30, 2002 were \$330,000 and \$868,000 respectively as compared to \$324,000 and \$1,033,000 respectively for the three and six months ended June 30, 2001. This difference is due to the reduction in staffing and other expenses.

Interest expense for continuing operations for the three and six months ended June 30, 2002 was \$26,000 and \$68,000, respectively as compared to \$51,000 and \$313,000, respectively for the three and six months ended June 30, 2001. The decrease in interest expense is primarily related to amortization of non-cash interest costs associated with the Brewer Promissory Note, the amortization of non-cash interest costs associated with the Bridge Loan Notes, and the amortization of non-cash interest costs associated with the Milford/Shaar Bridge Loan Notes.

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

The estimated loss from discontinued operations is approximately \$4,752,000 and \$4,802,000, respectively for the three and six months ended June 30, 2002 as compared to \$224,000 and \$125,000, respectively for the three and six months ended June 30, 2001. The difference results primarily from the estimated loss on disposal of DRM of approximately \$4,134,000. The remaining difference is the result of the reduced retainers paid by DRM's current customers and the lack of material settlements on their existing client agreements.

13

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002 and December 31, 2001 ASI had a \$144,000 and \$108,000 outstanding balance, respectively, on its revolving lines of credit.

For the three and six months ended June 30, 2002, the Company incurred a net income (loss) from continuing operations of \$60,000 and (\$516,000), respectively as compared to a net loss of (\$588,000) and (\$1,336,000), respectively for the three and six months ended June 30, 2001. For the period ended June 30, 2002, and for the years ended December 31, 2001, 2000, and 1999, Applied has also experienced net cash inflows (outflows) from operating activities of \$71,000, \$1,907,000, (\$2,002,000), and (\$2,905,000). At June 30, 2002 the Company had working capital deficit of \$4,876,000 and shareholders' deficit of \$4,312,000.

During the six-month period ended June 30, 2002, the Company converted 20,000 shares of Series F Convertible Preferred Stock for 1,360,544 shares of the Company's common stock. Additionally, the Company issued 867,392 shares of the Company's common stock in satisfaction of all accrued dividends pertaining to the Series E and Series F Convertible Preferred Stock conversions to date.

In March 2000, the Company completed \$2.0 million in financing through private placement. The Company issued 226,000 shares of a new Series F Convertible Preferred Stock, convertible into Common Stock at the market price, after September 30, 2000 and up through April 30, 2003 at which time it automatically converts to Common Stock. The Series F Convertible Preferred Stock has a variable rate dividend averaging 8.15% over the term of the security. The Company reserved the right to redeem all the Series F Convertible Preferred Stock on or before September 30, 2000 by payment of \$2.3 million plus any accrued dividends.

In September 2000, the Company completed \$500,000 in financing in the form of a loan (the "Brewer Note") from S. Brewer Enterprises, Inc. ("SB Enterprises"), which is owned by one of its officers and directors, Shelby T. Brewer. The Brewer Note bears a 9.75% interest rate, payable monthly, with a balloon principal payment at the end of the term. The note was due and payable on March 15, 2001 and was extended under the same terms and conditions until December 31, 2001. The Brewer Note is convertible into Common Stock at the market price up through December 31, 2001.

On March 15, 2001, SB Enterprises executed an Amended and Restated Promissory Note (the "Restated Brewer Note"), which extended the maturity date of the note until December 31, 2001. Additionally, the conversion feature of the Restated Brewer Note was changed to the 5-day average closing price of the Company's common stock prior to a conversion notice. On April 9, 2001, SB Enterprises issued a conversion notice for \$250,000 of the outstanding principal of the Brewer Restated Note. The conversion price was calculated by the previous

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

5-day average of the closing price of the Company's common stock and was converted into 1,041,667 shares. The remaining principal balance of \$250,000 is outstanding as of August 19, 2002. The Company has not been notified of the holder's intent to declare a default on the Brewer Note.

In November 2000, the Company completed \$500,000 in financing in the form of a loan (the "Weiss Group Note") from a group of four investors; \$75,000 of which was borrowed from the son of Paul E. Hannesson, our former President and Chief Executive Officer, and \$25,000 of which was borrowed from Stephen A. Weiss, a shareholder of Greenberg Traurig, LLP, our former corporate and securities counsel. The Weiss Group Note bears interest at 12% per annum, was due and payable on February 12, 2001, and is secured by the first \$500,000 of loans or dividends that the Company may receive from DRM. As consideration for such loan, Environmental, one of the Company's principal stockholders owning approximately 15% of the Common Stock, transferred to the investors a total of 1,000,000 shares of common stock. All holders of the Weiss Group Note have granted payment extensions until May 31, 2002. The Company has not been notified of the holders' intent to declare a default on the Weiss Group Note.

14

Effective April 5, 2001, the Company issued warrants to purchase 500,000 shares of its common stock at an exercise price of \$0.22 per share (the closing price of our common stock on the American Stock Exchange on such date) to all holders of the Weiss Group Note in consideration of such persons extension of the due date of such loans from February 12, 2001 to June 30, 2001.

Effective January 24, 2002, the Company issued warrants to purchase 500,000 shares of its common stock at an exercise price of \$0.15 per share (the closing price of our common stock on the American Stock Exchange on such date) to all holders of the Weiss Group Note in consideration of such persons extension of the due date of such loans from June 30, 2001 to May 31, 2002.

On May 23, 2001, a private investor purchased \$250,000 of the Company's common stock at the market price. The Company issued the private investor 1,923,077 shares of common stock of the Company as a result of the equity purchase. In connection with the purchase of the shares of the Company's common stock, the Company issued the private investor a 2-year warrant for 500,000 shares of the Company's common stock at an exercise price of \$0.22 per share.

On June 13, 2001, the Company issued and sold to Milford Capital Management, Inc. and the Shaar Fund, Ltd. (hereinafter known as "Milford/Shaar") one-year, 15% Senior Secured Promissory Notes (the "Milford/Shaar Bridge Loan Notes") in the aggregate principal amount of \$1,000,000. In connection with the Milford/Shaar Bridge Loan Notes, the Company issued to Milford/Shaar a five-year warrant for 333,333 shares of the Company's common stock at an exercise price of \$0.22 per share. The Company pledged its equipment and SET related intellectual property as collateral for the Milford/Shaar Bridge Loan Notes. The Company shall pay Milford/Shaar principal and interest on a monthly basis in arrears. The Milford/Shaar Bridge Loan Notes may be prepaid at any time without penalty.

The Company made all payments on the Milford/Shaar Bridge Loan Notes until November 13, 2001. The Company asked for and received a forbearance of payments on the Milford/Shaar Bridge Loan Notes from November 13, 2001 until August 13, 2002. The Company has not been notified of the holders' intent to declare a default on the Milford/Shaar Bridge Loan Notes.

The Company had an irrevocable obligation to repurchase from the former shareholders of DRM, by May 16, 2002, that number of 9.5 million shares of the Company's common stock (at a per share price equal to the greater of \$1.50 or

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

the closing price of our common stock 30 days prior to purchase) as shall be necessary to provide the holders of such shares with a total of \$14.5 million. The original repurchase obligation deadline of August 30, 2001, subsequently extended through May 16, 2002 by a series of extensions (initially extended to September 29, 2001, further extended to October 29, 2001, further extended to January 16, 2002 and was subsequently extended until May 16, 2002). As partial security for the payment of such obligation, all of the shares of DRM common stock owned by the Company have been pledged to Messrs. William J. Russell and Tamie P. Speciale, the former sole stockholders of DRM. The Company was unable to make such \$14.5 million payment. The pledgees foreclosed on the DRM stock; which resulted in the Company losing its entire equity ownership in the DRM subsidiary. The Company recorded an estimated loss on its disposal of DRM of \$4,134,000.

The Company currently requires additional cash to sustain existing operations and meet current obligations (including those described above) and the Company's ongoing capital requirements. The Company's current monthly operating expenses exceed its cash revenues by approximately \$100,000. The continuation of the Company's operations is dependent in the short term upon its ability to obtain additional financing and, in the long term, to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitability.

15

The Company's auditor's opinion on our fiscal 2001 financial statements contains a "going concern" qualification in which they express doubt about the Company's ability to continue in business, absent additional financing.

The Company currently is negotiating with a lender to obtain debt financing, to supplement funds generated from operations, to meet the Company's cash needs over the next 12 months. The Company intends to meet its long term capital needs through obtaining additional contracts that will generate funds from operations and obtaining additional debt or equity financing as necessary or engaging in merger or sale transactions. There can be no assurance that such sources of funds will be available to the Company or that it will be able to meet its short or long term capital requirements.

NET OPERATING LOSS CARRYFORWARDS

The Company has net operating loss carryforwards of approximately \$39,000,000. The amount of net operating loss carryforward that can be used in any one year will be limited by the applicable tax laws which are in effect at the time such carryforward can be utilized. A full valuation allowance has been established to offset any benefit from the net operating loss carryforwards. It cannot be determined when or if the Company will be able to utilize the net operating losses.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this Quarterly Report are "forward-looking statements" intended to qualify for the safe harbors from liability established by Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements can generally be identified as such because the context of the statement will include words such as the Company "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe the Company's future plans, objectives or goals are also forward-looking statements. Such statements may address future events and conditions concerning, among other things, the

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

Company's results of operations and financial condition; the consummation of acquisition and financing transactions and the effect thereof on the Company's business; capital expenditures; litigation; regulatory matters; and the Company's plans and objectives for future operations and expansion. Any such forward-looking statements would be subject to the risks and uncertainties that could cause actual results of operations, financial condition, acquisitions, financing transactions, operations, expenditures, expansion and other events to differ materially from those expressed or implied in such forward-looking statements. Any such forward-looking statements would be subject to a number of assumptions regarding, among other things, future economic, competitive and market conditions generally. Such assumptions would be based on facts and conditions as they exist at the time such statements are made as well as predictions as to future facts and conditions, the accurate prediction of which may be difficult and involve the assessment of events beyond the Company's control. Further, the Company's business is subject to a number of risks that would affect any such forward-looking statements. These risks and uncertainties include, but are not limited to, the ability of the Company to commercialize its technology; product demand and industry pricing; the ability of the Company to obtain patent protection for its technology; developments in environmental legislation and regulation; the ability of the company to obtain future financing on favorable terms; and other circumstances affecting anticipated revenues and costs. These risks and uncertainties could cause actual results of the Company to differ materially from those projected or implied by such forward-looking statements.

16

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

There have been no material legal proceedings to which the Company is a party which have not been disclosed in previous filings with the Securities and Exchange Commission. There are no material developments to be reported in any previously reported legal proceedings.

ITEM 2. Change in Securities

Not applicable.

ITEM 3. Defaults among Senior Securities

Not applicable.

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

Not applicable.

ITEM 5. Other Events

Not applicable.

ITEM 6. Exhibits and Reports on Form 8 - K

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

(a) Exhibits - none

(b) Reports on Form 8-K.

1. The Company filed a Current Report on Form 8-K, dated January 12, 2002, regarding a 120-day extension to its Stock Purchase Agreement with Dispute Resolution Management, Inc., until May 16, 2002.
2. The Company filed a Current Report on Form 8-K, dated May 21, 2002, regarding the termination of its Stock Purchase Agreement and Notice of Default with Dispute Resolution Management, Inc.

17

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.

Date: August 19, 2002

COMMODORE APPLIED TECHNOLOGIES, INC.
(Registrant)

By /s/ James M. DeAngelis

James M. DeAngelis - Senior Vice President
and Chief Financial Officer (as both a
duly authorized officer of the registrant
and the principal financial officer of
the registrant)

18

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Commodore Applied Technologies, Inc (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shelby T. Brewer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or

Edgar Filing: COMMODORE APPLIED TECHNOLOGIES INC - Form 10-Q

15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Shelby T. Brewer

Shelby T. Brewer
Chief Executive Officer
August 19, 2002

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Commodore Applied Technologies, Inc (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. DeAngelis, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ James M. DeAngelis

James M. DeAngelis
Chief Financial Officer
August 19, 2002