

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

COMMODORE APPLIED TECHNOLOGIES INC  
Form 10-Q  
May 20, 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 March 31, 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 of common stock outstanding at May 20, 2002 was  
57,645,290.

i

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 -<br>March 31, 2002 and December 31, 2001.....                              | 1  |
|         | Condensed Consolidated Statement of Operations -<br>Three months ended March 31, 2002 and<br>March 31, 2001..... | 3  |
|         | Condensed Consolidated Statement of Cash Flows -<br>Three months ended March 31, 2002 and<br>March 31, 2001..... | 4  |
|         | Notes to Condensed Consolidated Financial Statements.....  | 5  |
| Item 2. | Management's Discussion and Analysis of Financial<br>Condition and Results of Operations.....                    | 9  |
| PART II | OTHER INFORMATION.....   | 14 |
|         | SIGNATURES.....  | 15 |

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)

| ASSETS  | March 31,<br>2002<br>-----<br>(unaudited) |
|---|---|
| Current Assets:   |   |
| Cash and cash equivalents   | \$ 730                                    |
| Accounts receivable, net  | 1,051                                     |
| Prepaid assets and other current receivables  | 350                                       |
|   | -----                                     |
| Total Current Assets  | 2,131                                     |
| Property and Equipment, net   | 654                                       |
| Intangible Assets   |   |
| Patents and completed technology, net of<br>accumulated amortization of \$1,385 and<br>\$1,375, respectively. | 90  |
| Covenants not to compete, net of<br>accumulated amortization of \$831<br>and \$700.                           | 1,794                                     |
| Goodwill, net of accumulated amortization<br>of \$1,686.  | 23,409                                    |
|   | -----                                     |
| Total Intangible Assets   | 25,293                                    |

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

|              |           |
|--------------|-----------|
| Other Assets | 36        |
|              | -----     |
| Total Assets | \$ 28,114 |
|              | =====     |

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)

|   | March 31,<br>2002 |
|---|-------------------|
|   | -----             |
|   | (unaudited)       |
| LIABILITIES AND<br>STOCKHOLDERS' EQUITY   |                   |
| Current Liabilities:  |                   |
| Accounts payable  | \$ 1,477          |
| Related party payable   | 141               |
| Current portion of long term debt   | 2,650             |
| Line of credit  | 360               |
| Notes payable   | 15,672            |
| Other accrued liabilities   | 1,957             |
|   | -----             |
| Total Current Liabilities   | 22,257            |
| Long Term Debt  | 4,619             |
|   | -----             |
| Total Liabilities   | 26,876            |
| Minority Interest   | 572               |
| Commitments and Contingencies   | --                |
| Stockholders' Equity  |                   |
| Convertible Preferred Stock, Series E & F<br>par value \$0.001 per share,<br>5% to 12% cumulative dividends, 601,700<br>shares authorized,<br>390,200 and 410,200 shares authorized,<br>issued and outstanding as of March 31,<br>2002 and December 31, 2001, respectively.<br>The shares had an aggregate liquidation<br>value of \$5,140 and \$5,403 at<br>March 31, 2002 and December 31, 2001,<br>respectively. | --                |
| Common Stock, par value \$0.001 per share,  |                   |

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

|  |               |
|--|---------------|
| 125,000,000 shares authorized, 57,645,290<br>and 55,417,354 issued and outstanding,<br>at March 31, 2002 and December 31, 2001,<br>respectively. | 58            |
| Additional Paid-in Capital   | 66,825        |
| Accumulated Deficit  | (66,217)      |
|  | -----         |
| Total Stockholders' Equity   | 666           |
|  | -----         |
| <br>Total Liabilities and Stockholders' Equity   | <br>\$ 28,114 |
|  | =====         |

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<br>March 31,<br>2002 |
|--|-----------------------------------|
|  | -----                             |
| Contract revenues  | \$ 1,647                          |
| Costs and expenses:  |                                   |
| Cost of sales  | 814                               |
| Research and development                                     | 77                                |
| General and administrative                                   | 1,338                             |
| Depreciation and amortization                                | 214                               |
| Minority interest  | (50)                              |
|  | -----                             |
| Total costs and expenses                                     | 2,393                             |
|  | -----                             |
| Income (loss) from operations                                | (746)                             |
|  | -----                             |
| Other income (expense):                                      |                                   |
| Interest income  | 3                                 |
| Interest expense   | (231)                             |
|  | -----                             |
| Net other income (expense)                                   | (228)                             |
|  | -----                             |
| Loss before income taxes                                     | (974)                             |
| Income taxes   | --                                |
|  | -----                             |
| Net loss   | \$ (974)                          |
|  | =====                             |
| Loss per share   | \$ (.02)                          |
|  | =====                             |
| Number of weighted average shares outstanding (in thousands) | 57,356                            |
|  | =====                             |

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)

|   | Three m<br>March 31,<br>2002<br>----- |
|---|---------------------------------------|
| Cash flows from operating activities:                                       |                                       |
| Net loss  | \$ (974)                              |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                       |
| Depreciation and amortization   | 214                                   |
| Amortization of debt discount   | 216                                   |
| Minority interest   | (50)                                  |
| Changes in assets and liabilities:  |                                       |
| Accounts receivable   | (234)                                 |
| Prepaid assets  | 23                                    |
| Other assets  | -                                     |
| Accounts payable  | 55                                    |
| Other liabilities   | (11)                                  |
|   | -----                                 |
| Net cash provided/ (used) in operating activities                           | (761)                                 |
| Cash flows from investing activities:                                       |                                       |
| Purchase of equipment   | (3)                                   |
| Advances to related parties   | (19)                                  |
|   | -----                                 |
| Net cash used in investing activities                                       | (22)                                  |
| Cash flows from financing activities:                                       |                                       |
| Increase in (repayment of) line of credit                                   | 252                                   |
| Increase (decrease) in notes and loans payable                              | (10)                                  |
|   | -----                                 |
| Net cash provided/(used) in financing activities                            | 242                                   |
| Increase (decrease) in cash   | (541)                                 |
| Cash, beginning of period   | 1,271                                 |
|   | -----                                 |
| Cash, end of period   | \$ 730<br>=====                       |

See notes to condensed consolidated financial statements.

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

4

## COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 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 U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles 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-month period ended March 31, 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 period ended March 31, 2002, and for the years ended December 31, 2001, 2000, and 1999, Applied incurred losses of \$974,000, \$6,554,000, \$11,441,000, and \$3,985,000, respectively. For the period ended March 31, 2002, and for the years ended December 31, 2001, 2000, and 1999, Applied has also experienced net cash inflows (outflows) from operating activities of (\$761,000), \$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 working capital deficit \$20,126,000. 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 March 31, 2002 and December 31, 2001. In addition, on May 16, 2002, the Company received a

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

notice of default on the debt related to the purchase of Dispute Resolution Management, Inc. (See Subsequent Events section)

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany

5

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.

### Note B - Segment Information

The Company has identified three reportable segments in which it operates, based on the guidelines set forth in the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 131. These three segments are as follows: (i) Commodore Advanced Sciences, Inc., which primarily provides various engineering, legal, sampling, and public relations services to U.S. government agencies on a cost plus basis; (ii) Commodore Solutions, Inc., which is commercializing technologies to treat mixed and hazardous waste; and (iii) Dispute Resolution Management, Inc., which was acquired (81%) on August 30, 2000, provides a package of services to help companies recover financial settlements from insurance policies to defray costs associated with environmental liabilities.

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.

Three Months Ended March 31, 2002

|                               | Total    | CASI     | Solution |
|-------------------------------|----------|----------|----------|
| Contract Revenues             | \$ 1,647 | \$ 1,087 | \$ --    |
| Costs and expenses            |          |          |          |
| Cost of Sales                 | 814      | 814      | --       |
| Research and Development      | 77       | --       | 77       |
| General and Administrative    | 1,338    | 210      | 40       |
| Depreciation and Amortization | 214      | 11       | 50       |
| Minority Interest             | (50)     | --       | --       |
|                               | -----    | -----    | -----    |
| Total costs and expenses      | 2,393    | 1,035    | 167      |
|                               | -----    | -----    | -----    |
| Income (Loss) from Operations | (746)    | 52       | (167)    |
| Interest Income               | 3        | --       | --       |
| Interest Expense              | (231)    | --       | --       |
|                               | -----    | -----    | -----    |
| Net Income (Loss)             | \$ (974) | \$ 52    | \$ (167) |

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

|                                    | =====    | =====    | =====  |
|------------------------------------|----------|----------|--------|
| Total Assets                       | \$28,114 | \$ 1,986 | \$ 500 |
| Expenditures for long-lived assets | \$ 3     | \$ --    | \$ --  |

6

Three Months Ended March 31, 2001

|                                    | Total    | CASI     | Solution |
|------------------------------------|----------|----------|----------|
| Contract Revenues                  | \$ 4,021 | \$ 1,223 | \$ 102   |
| Costs and expenses                 |          |          |          |
| Cost of Sales                      | 912      | 809      | 103      |
| Research and Development           | 120      | --       | 120      |
| General and Administrative         | 1,977    | 280      | 169      |
| Depreciation and Amortization      | 628      | 20       | 482      |
| Minority Interest                  | 252      | --       | --       |
|                                    | -----    | -----    | -----    |
| Total costs and expenses           | 3,889    | 1,109    | 874      |
|                                    | -----    | -----    | -----    |
| Income (Loss) from Operations      | 132      | 114      | (772)    |
| Interest Income                    | 13       | --       | 2        |
| Interest Expense                   | (794)    | (26)     | --       |
|                                    | -----    | -----    | -----    |
| Net Income (Loss)                  | \$ (649) | \$ 88    | \$ (770) |
|                                    | =====    | =====    | =====    |
| Total Assets                       | \$35,739 | \$ 2,361 | \$ 1,721 |
| Expenditures for long-lived assets | \$ 38    | \$ --    | \$ --    |

7

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 effect on its financial condition or results of operations.

Note D - Subsequent Events

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 "Pledgees") claiming that the Company is in default under the Stock 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 Pledgees, 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 Pledgees with cash of \$14.5 million. As partial security for payment of this repurchase obligation, the Company pledged to the Pledgees 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 Pledgees, as CEO and President of DRM, have transferred the DRM Stock owned by the Company to and into the name of the Pledgees and is in the process of tendering 4,750,000 shares of the Company's pledged common stock back to the Company. If such actions are not invalidated, 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 Pledgees under the Agreement, and (3) \$1,500,000, for the Company's obligations under the Agreement. The Pledgees 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 Pledgees 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 Pledgees. 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.

Unless the Company reaches a satisfactory resolution of this matter, the Company's loss of the DRM subsidiary will have a material adverse effect on the financial condition of the Company and its cash flow 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 \$200,000.

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

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

certain waste by-products by utilizing SET, (ii) the settlement of complex, long-tail and latent insurance claims by utilizing a series of tools including an internally developed risk modeling program, FOCUS, and (iii) providing services related to, environmental management for on-site and off-site identification, waste, investigation remediation and management of hazardous, mixed and radioactive waste.

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. Through Dispute Resolution Management, inc. ("DRM"), an 81% owned subsidiary acquired August 30, 2000, the Company has several engagements with various industrial, manufacturing and mining companies in the U.S. and in Europe for the recovery of insurance claims.

### RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Revenues were \$1,647,000 for the three months ended March 31, 2002, compared to \$4,021,000 for the three months ended March 31, 2001. Such revenues were primarily from the Company's two subsidiaries, ASI and DRM.

In the case of DRM, revenues were \$560,000 for the three-month period ended March 31, 2002 compared to \$2,696,000 for the three-month period ended March 31, 2001. The Company purchased its 81% interest in DRM on August 30, 2000 and was able to consolidate DRM's revenues and earnings as of that date. Revenues in DRM were primarily from completed settlement agreements between their clients and major insurers. DRM has several client engagements, of which three represented more than 10% of DRM's annual revenue. The combined revenue for these three customers was \$343,000 or 61.25% of the DRM's total revenue for the period ending March 31, 2002. Settlements are the result of 18 to 24 months of effort by various employees of DRM, of which the expenses are captured in the general and administrative costs section. Anticipated losses on engagements, if any, will be provided for by a charge to income during the period such losses are first identified. The decrease in sales is due to the reduction in number and dollar amount of client retainers and the absence of material lump-sum settlements.

In the case of ASI, revenues were \$1,087,000 for the three-month period ended March 31, 2002 as compared with \$1,223,000 for the three-month period ended March 31, 2001. The revenues from ASI consisted of engineering and scientific services performed for the United States government under a variety of contracts, most of which provide for reimbursement of cost plus fixed fees. 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. ASI has two major customers, each of which represent more than 10% of total revenue. The combined

revenue for these two customers was \$1,087,000 or 100% of total revenues for the period ending March 31, 2002. Cost of sales were \$814,000 for the period ending March 31, 2002 compared to \$809,000 for the period ending March 31, 2001.

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

In the case of Commodore Solution, Inc. ("Solution"), revenues were \$0 for the period ended March 31, 2002 as compared with \$102,000 for the period ended March 31, 2001. The decrease is primarily due to the lack of feasibility studies and commercial processing. Cost of sales was \$0 for the period ended March 31, 2002 compared to \$103,000 for the period ended March 31, 2001. The cost of sales is attributable to 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-month period ended March 31, 2002, the Company incurred research and development costs of \$77,000 as compared to \$120,000 for the three-month period ended March 31, 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 the three months ended March 31, 2002 were \$1,338,000 as compared to \$1,977,000 for the three months ended March 31, 2001. This difference is primarily due to DRM's salaries and other expenses.

Interest income was \$3,000 for the three months ended March 31, 2002, as compared to \$13,000 for the three months ended March 31, 2001.

Interest expense for the three months ended March 31, 2002 was \$231,000 as compared to \$794,000 for the three months ended March 31, 2001. The decrease in interest expense of \$563,000 is primarily related to ceasing of amortization of non-cash interest costs associated with the Company's purchase of 81% of DRM on August 30, 2000 (\$333,000), the amortization of non-cash interest costs associated with the Brewer Promissory Note (\$29,000), and the amortization of non-cash interest costs associated with the Bridge Loan (\$167,000).

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002 and December 31, 2001 ASI had a \$360,000 and \$108,000 outstanding balance, respectively, on its revolving lines of credit.

For the three months ended March 31, 2002, the Company incurred a net loss of \$974,000 as compared to a net loss of \$649,000 for the three months ended March 31, 2001. For the period ended March 31, 2002, and for the years ended December 31, 2001, 2000, and 1999, Applied has also experienced net cash inflows (outflows) from operating activities of (\$761,000), \$1,907,000, (\$2,002,000), and (\$2,905,000). At March 31, 2002 the Company had working capital deficit of \$20,126,000 and shareholders' equity of \$666,000.

During the three-month period ended March 31, 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

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

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 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 May 20, 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.

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

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

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.

11

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 June 13, 2002.

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 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. In the event the Company is unable to make such \$14.5 million payment, when due, the pledgees may foreclose on the DRM stock; in which event the Company would lose its entire equity ownership in the DRM subsidiary.

The Company originally intended to meet its repurchase obligation to the former shareholders of DRM by reacquiring their shares and selling those shares to generate the cash necessary to meet the obligation; however, the Company's ability to effect the repurchase obligation in this manner is heavily dependent on the stock price of the Company's common stock at the time of the repurchase. The Company was unable to meet its repurchase obligation by May 16, 2002. (See Subsequent Events section) At May 20, 2002, the closing price of the Company's common stock on the American Stock Exchange, Inc. was \$0.08 per share.

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. Excluding the Company's DRM subsidiary, the Company's current monthly operating expenses exceed its cash revenues by approximately \$200,000. 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.

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.

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

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.

12

### NET OPERATING LOSS CARRYFORWARDS

The Company has net operating loss carryforwards (the "NOLs") of approximately \$31,000,000, which expire in the years 2010 through 2021. The applicable tax laws that are in effect at the time such NOLs can be utilized will limit the amount of NOLs that can be used in any one year. The Company has determined a maximum of approximately \$2.4 million of NOLs is available to be used annually. Unused NOLs balances may be accumulated and used in subsequent years. 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 NOLs.

### 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 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.

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk  
-----

Not applicable.

13

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

(a) Exhibits - none.

(b) Reports on Form 8-K - none.

14

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: May 20, 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)