

COMMODORE APPLIED TECHNOLOGIES INC  
Form 10-Q  
November 15, 2004

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 September 30, 2004  
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.)

150 East 58th Street, Suite 3238  
New York, New York  
(Address of principal executive office)

10155  
(Zip Code)

Registrant's telephone number, including area code: (212) 308-5800  
-----

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  
-----

Indicate by check mark whether the registrant is an accelerated filer  
(as defined by Exchange Act Rule 12b-2). Yes No X  
-----

The number of shares the common stock outstanding at November 14, 2004 was  
134,346,053.

COMMODORE APPLIED TECHNOLOGIES, INC.

FORM 10-Q

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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  | September 30,<br>2004 | December 31,<br>2003 |
|---|-----------------------|----------------------|
|   | -----                 | -----                |
|   | (unaudited)           |                      |
| Current Assets:   |                       |                      |
| Cash and cash equivalents   | \$ 61                 | \$ -                 |
| Accounts receivable, net  | 104                   | 71                   |
| Prepaid assets and other current receivables                            | 17                    | 13                   |
|   | -----                 | -----                |
| Total Current Assets  | 182                   | 84                   |
| Property and equipment, net   | 14                    | 142                  |
| Patents and completed technology, net of<br>accumulated amortization of |                       |                      |

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|                              |        |        |
|------------------------------|--------|--------|
| \$100 and \$80, respectively | -      | 20     |
|                              | -----  | -----  |
| Total Assets                 | \$ 196 | \$ 246 |
|                              | =====  | =====  |

See notes to condensed consolidated financial statements.

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

| LIABILITIES AND<br>STOCKHOLDERS' DEFICIT   | September 30,<br>2004 | December 31,<br>2003 |
|--|-----------------------|----------------------|
|  | -----                 | -----                |
|  | (unaudited)           |                      |
| Current Liabilities:   |                       |                      |
| Checks written in excess of cash   | \$ -                  | \$ 13                |
| Accounts payable   | 1,006                 | 1,031                |
| Related party payable  | 320                   | 278                  |
| Current portion of long term debt  | 246                   | -                    |
| Line of credit   | 7                     | 64                   |
| Other accrued liabilities  | 4,915                 | 3,937                |
|  | -----                 | -----                |
| Total Current Liabilities  | 6,494                 | 5,323                |
| Long Term Debt   | 2,645                 | 1,575                |
|  | -----                 | -----                |
| Total Liabilities  | 9,139                 | 6,898                |
| Commitments and Contingencies  | --                    | --                   |
| Stockholders' Deficit  |                       |                      |
| Convertible Preferred Stock, Series E, F & H<br>Par value \$0.001 per share, 5% to 12%<br>cumulative dividends, Series E and F, 3%<br>dividends for Series H<br>1,561,700 authorized, 1,013,700 shares and<br>1,033,700 shares issued and outstanding as<br>of September 30, 2004 and December 31,<br>2003, respectively.<br>The shares had an aggregate liquidation<br>Value of \$3,856 and \$4,142 at<br>September 30, 2004 and December 31,<br>2003 respectively. | 1                     | 1                    |
| Common Stock, par value \$0.001 per share,<br>300,000,000 shares authorized, 127,273,071<br>and 117,702,133 issued and outstanding, at<br>September 30, 2004 and December 31, 2003,<br>respectively.   | 127                   | 118                  |
| Additional Paid-in Capital   | 67,446                | 67,664               |
| Accumulated Deficit  | (76,254)              | (74,172)             |
|  | -----                 | -----                |
|  | (8,680)               | (6,389)              |

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|   |         |         |
|---|---------|---------|
| Treasury Stock, 3,437,500 shares            | (263)   | (263)   |
|   | -----   | -----   |
| Total Stockholders' Deficit                 | (8,943) | (6,652) |
|   | -----   | -----   |
| Total Liabilities and Stockholders' Deficit | \$ 196  | \$ 246  |
|   | =====   | =====   |

See notes to condensed consolidated financial statements.

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COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

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

|   | Three months ended |                  | Nine months ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | Sept 30,<br>2004   | Sept 30,<br>2003 | Sept 30,<br>2004  | Sept 30,<br>2003 |
|   | -----              | -----            | -----             | -----            |
| Contract revenues                                     | \$ 155             | \$ 166           | \$ 449            | \$ 449           |
| Costs and expenses:                                   |                    |                  |                   |                  |
| Cost of sales   | 180                | 212              | 687               | 687              |
| Research and development                              | -                  | 4                | 7                 | 7                |
| General and administrative                            | 466                | 383              | 1,393             | 1,393            |
| Depreciation and amortization                         | 20                 | 65               | 149               | 149              |
|   | -----              | -----            | -----             | -----            |
| Total costs and expenses                              | 666                | 664              | 2,236             | 2,236            |
|   | -----              | -----            | -----             | -----            |
| Loss from operations                                  | (511)              | (498)            | (1,787)           | (1,787)          |
|   | -----              | -----            | -----             | -----            |
| Other income (expense):                               |                    |                  |                   |                  |
| Interest expense                                      | (115)              | (221)            | (295)             | (295)            |
|   | -----              | -----            | -----             | -----            |
| Net other income (expense)                            | (115)              | (221)            | (295)             | (295)            |
|   | -----              | -----            | -----             | -----            |
| Loss before income taxes                              | (626)              | (719)            | (2,082)           | (2,082)          |
|   | -----              | -----            | -----             | -----            |
| Income taxes  | --                 | --               | --                | --               |
|   | -----              | -----            | -----             | -----            |
| Net loss  | \$ (626)           | \$ (719)         | \$ (2,082)        | \$ (2,082)       |
|   | =====              | =====            | =====             | =====            |
|   |                    |                  |                   |                  |
| Loss per share - basic and diluted                    | \$ (0.01)          | \$ (0.01)        | \$ (0.02)         | \$ (0.02)        |
|   | =====              | =====            | =====             | =====            |
|   |                    |                  |                   |                  |
| Number of weighted average shares outstanding (000's) |                    |                  |                   |                  |
| basic and diluted                                     | 127,273            | 94,834           | 125,046           | 125,046          |
|   | =====              | =====            | =====             | =====            |

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See notes to condensed consolidated financial statements.

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## COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

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

|  | Nine months ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2004 | September 30,<br>2003 |
|  | -----                 | -----                 |
| Cash flows from operating activities:  |                       |                       |
| Net loss   | \$ (2,082)            | \$ (1,867)            |
| Adjustments to reconcile net loss to<br>net cash used in operating activities: |                       |                       |
| Depreciation and amortization  | 149                   | 203                   |
| Amortization of debt discount  | 22                    | 35                    |
| Changes in assets and liabilities:   |                       |                       |
| Accounts receivable, net   | (33)                  | 10                    |
| Prepaid assets   | (4)                   | 81                    |
| Checks written in excess of cash   | (13)                  |                       |
| Accounts payable   | (25)                  | 7                     |
| Other liabilities  | 755                   | 614                   |
|  | -----                 | -----                 |
| Net cash used in operating activities  | (1,231)               | (917)                 |
| Cash flows from investing activities:  |                       |                       |
| Purchase of equipment  | (1)                   | (11)                  |
| Advances from (to) related parties   | 42                    | (80)                  |
|  | -----                 | -----                 |
| Net cash used in investing activities  | 41                    | (91)                  |
| Cash flows from financing activities:  |                       |                       |
| Increase in (repayment of) line of credit                                      | (57)                  | --                    |
| Increase in notes and loans payable  | 1,294                 | 991                   |
| Payments on notes and loans payable  | --                    | (40)                  |
| Proceeds from exercised warrants   | 14                    | --                    |
|  | -----                 | -----                 |
| Net cash provided by financing activities                                      | 1,251                 | 951                   |
| Increase (decrease) in cash  | 61                    | (57)                  |
| Cash, beginning of period  | --                    | 59                    |
|  | -----                 | -----                 |
| Cash, end of period  | \$ 61                 | \$ 2                  |
|  | =====                 | =====                 |

See notes to condensed consolidated financial statements.

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## COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2004

## 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 and nine month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

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, 2003.

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 nine months ended September 30, 2004, and for the years ended December 31, 2003, 2002, and 2001, Applied incurred losses of \$2,082,000, \$2,957,000, \$5,972,000, and \$6,554,000, respectively. Applied has also experienced net cash (outflows) inflows from operating activities of \$(955,000), \$(121,000), and \$965,000 for the years ended December 31, 2003, 2002, and 2001, respectively. 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. Potential sources of cash include new contracts, external debt, 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 \$376,000 and \$313,000 at September 30, 2004 and December 31, 2003, respectively. These allowances are included in other accrued liabilities in the accompanying financial statements.

In as much as Applied rescinded certain options during 2002 and reissued new options to the option holders, the options are considered variable options and will be revalued each quarter to determine the effect on operations,

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if any. During the quarter ended September 30, 2004, no expense has been recognized for the variable options as the fair market value of Applied's common stock at September 30, 2004 was lower than the exercise price of the variable options.

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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.

The Company accounts for stock-based compensation under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income (loss), as all options vested had an exercise price equal to the market value of the underlying common stock on the date of grant or the date of repricing. No options were issued or vested during the quarters ended September 30, 2004 and 2003, therefore, there would be no effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

### Note B - Supplemental Cash Flow Information

During the three and nine month periods ended September 30, 2004, 0 and 20,000 shares of Series E Preferred Stock were converted into 0 and 9,071,937 shares of the Company's common stock, respectively. During the three and nine month periods ended September 30, 2004, the Company paid no dividends on the Series E Preferred Stock conversions. The Company accrued dividends on Preferred Stock Series E for the three and nine month periods ended September 30, 2004, of \$30,089 and \$94,074, respectively, which is included in Other Accrued Liabilities.

During the three and nine month periods ended September 30, 2004, no shares of Preferred Stock Series F were converted into shares of the Company's common stock. The Company accrued dividends on Preferred Stock Series F for the three and nine month periods ended September 30, 2004, of \$37,241 and \$110,914, respectively, which is included in Other Accrued Liabilities.

During the three and nine month periods ended September 30, 2004, no shares of Preferred Stock Series H were converted into shares of common stock. The company paid no accrued dividends on Preferred Stock Series H. The Company accrued dividends on Preferred Stock Series H for the three and nine month periods ended September 30, 2004, of \$6,049 and \$18,016, respectively, which is included in Other Accrued Liabilities.

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### Note C - Other Accrued Liabilities

Other accrued liabilities consist of the following:

September 30,                      December 31,

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|  | 2004        | 2003     |
|--|-------------|----------|
|  | -----       | -----    |
|  | (unaudited) |          |
| Compensation and employee benefits         | \$ 1,791    | \$ 1,373 |
| Dividend payable                           | 1,628       | 1,405    |
| Accrued interest                           | 624         | 351      |
| Loss reserve                               | 376         | 313      |
| Exit and forbearance fees on notes payable | 219         | 219      |
| Related parties                            | 185         | 185      |
| Other                                      | 92          | 91       |
|  | -----       | -----    |
|  | \$ 4,915    | \$ 3,937 |
|  | =====       | =====    |

Note D - 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 Government agencies on a cost plus basis; (ii) Commodore Solutions, Inc., which is commercializing technologies to treat mixed and hazardous waste; and (iii) Corporate overhead and other miscellaneous activities.

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 tables.

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Three Months Ended September 30, 2004  
(Dollars in Thousands)

|                               | Total  | Advanced<br>Sciences | Solution | Corp<br>Ove<br>and |
|-------------------------------|--------|----------------------|----------|--------------------|
| Contract revenues             | \$ 155 | \$ 155               | \$ --    | \$                 |
| Costs and expenses            |        |                      |          |                    |
| Cost of sales                 | 180    | 122                  | 58       |                    |
| Research and development      | --     | --                   | --       |                    |
| General and administrative    | 466    | 156                  | 19       |                    |
| Depreciation and amortization | 20     | --                   | 20       |                    |
|                               | -----  | -----                | -----    | -----              |
| Total costs and expenses      | 666    | 278                  | 97       |                    |
|                               | -----  | -----                | -----    | -----              |
| Income (loss) from operations | (511)  | (123)                | (97)     |                    |
| Interest income               | --     | --                   | --       |                    |
| Interest expense              | (115)  | --                   | --       |                    |



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|                                    |          |          |         |       |
|------------------------------------|----------|----------|---------|-------|
|                                    | -----    | -----    | -----   | ----- |
| Loss before income taxes           | (626)    | (123)    | (97)    |       |
| Income taxes                       | --       | --       | --      |       |
|                                    | -----    | -----    | -----   | ----- |
| Net income (loss)                  | \$ (626) | \$ (123) | \$ (97) | \$    |
|                                    | =====    | =====    | =====   | ===== |
| Total assets                       | \$ 196   | \$ 196   | \$ --   | \$    |
| Expenditures for long-lived assets | \$ 1     | \$ 1     | \$ --   | \$    |

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Nine Months Ended September 30, 2004  
(Dollars in Thousands)

|                               |            |                      |          |                    |       |
|-------------------------------|------------|----------------------|----------|--------------------|-------|
|                               | -----      | -----                | -----    | -----              | ----- |
|                               | Total      | Advanced<br>Sciences | Solution | Corp<br>Ove<br>and |       |
| Contract revenues             | \$ 449     | \$ 409               | \$ 40    | \$                 |       |
| Costs and expenses            |            |                      |          |                    |       |
| Cost of sales                 | 687        | 366                  | 321      |                    |       |
| Research and development      | 7          | --                   | 7        |                    |       |
| General and administrative    | 1,393      | 279                  | 168      |                    |       |
| Depreciation and amortization | 149        | 20                   | 129      |                    |       |
|                               | -----      | -----                | -----    | -----              | ----- |
| Total costs and expenses      | 2,236      | 665                  | 625      |                    |       |
|                               | -----      | -----                | -----    | -----              | ----- |
| Income (loss) from operations | (1,787)    | (256)                | (585)    |                    |       |
| Interest income               | --         | --                   | --       |                    |       |
| Interest expense              | (295)      | --                   | --       |                    |       |
|                               | -----      | -----                | -----    | -----              | ----- |
| Loss before income taxes      | (2,082)    | (256)                | (585)    |                    |       |
| Income taxes                  | --         | --                   | --       |                    |       |
|                               | -----      | -----                | -----    | -----              | ----- |
| Net Income (loss)             | \$ (2,082) | \$ (256)             | \$ (585) | \$                 |       |
|                               | =====      | =====                | =====    | =====              | ===== |

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|                                    |    |     |    |     |    |    |    |
|------------------------------------|----|-----|----|-----|----|----|----|
| Total assets                       | \$ | 196 | \$ | 196 | \$ | -- | \$ |
| Expenditures for long-lived assets | \$ | 1   | \$ | 1   | \$ | -- | \$ |

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Three Months Ended September 30, 2003  
(Dollars in Thousands)

|  | Total    | Advanced Sciences | Solution | Corp<br>Ove<br>and |
|--|----------|-------------------|----------|--------------------|
| Contract revenues                        | \$ 166   | \$ 149            | \$ 17    | \$                 |
| Costs and expenses                       |          |                   |          |                    |
| Cost of sales                            | 212      | 195               | 17       |                    |
| Research and development                 | 4        | --                | 4        |                    |
| General and administrative               | 383      | 119               | 30       |                    |
| Depreciation and amortization            | 65       | 9                 | 56       |                    |
|  | -----    | -----             | -----    | -----              |
| Total costs and expenses                 | 664      | 323               | 107      |                    |
|  | -----    | -----             | -----    | -----              |
| Income (loss) from operations            | (498)    | (174)             | (90)     |                    |
| Interest income                          | --       | --                | --       |                    |
| Interest expense                         | (221)    | --                | --       |                    |
|  | -----    | -----             | -----    | -----              |
| Loss before income taxes                 | (719)    | (174)             | (90)     |                    |
| Income taxes                             | --       | --                | --       |                    |
|  | -----    | -----             | -----    | -----              |
| Income (loss) from continuing operations | (719)    | (174)             | (90)     |                    |
| Loss from discontinued Operations        | --       | --                | --       |                    |
|  | -----    | -----             | -----    | -----              |
| Net income (loss)                        | \$ (719) | \$ (174)          | \$ (90)  | \$                 |
|  | =====    | =====             | =====    | =====              |
| Total assets                             | \$ 396   | \$ 168            | \$ 200   | \$                 |
| Expenditures for long-lived assets       | \$ 5     | \$ 5              | \$ --    | \$                 |

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Nine Months Ended September 30, 2003  
(Dollars in Thousands)

|                                    | Total      | Advanced Sciences | Solution | Corp<br>Ove<br>and |
|------------------------------------|------------|-------------------|----------|--------------------|
| Contract revenues                  | \$ 462     | \$ 445            | \$ 17    | \$                 |
| Costs and expenses                 |            |                   |          |                    |
| Cost of sales                      | 615        | 598               | 17       |                    |
| Research and development           | 63         | --                | 63       |                    |
| General and administrative         | 1,069      | 344               | 127      |                    |
| Depreciation and amortization      | 203        | 35                | 168      |                    |
|                                    | -----      | -----             | -----    | -----              |
| Total costs and expenses           | 1,950      | 977               | 375      |                    |
|                                    | -----      | -----             | -----    | -----              |
| Income (loss) from operations      | (1,488)    | (532)             | (358)    |                    |
| Interest income                    | --         | --                | --       |                    |
| Interest expense                   | (379)      | (3)               | --       |                    |
|                                    | -----      | -----             | -----    | -----              |
| Loss before income taxes           | (1,867)    | (535)             | (358)    |                    |
| Income taxes                       | --         | --                | --       |                    |
|                                    | -----      | -----             | -----    | -----              |
| Net Income (loss)                  | \$ (1,867) | \$ (535)          | \$ (358) | \$                 |
|                                    | =====      | =====             | =====    | =====              |
| Total assets                       | \$ 396     | \$ 168            | \$ 200   | \$                 |
| Expenditures for long-lived assets | \$ 11      | \$ 11             | \$ --    | \$                 |

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Note E - Net Loss per Common Share

Basic net loss per common share ("Basic EPS") excludes dilution and is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share ("Diluted EPS") reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net loss per common share.

Options and warrants to purchase 120,721,815 and 34,274,905 shares of common stock as of September 30, 2004 and 2003, respectively, were not included in the computation of Diluted EPS. The inclusion of the options would have been

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anti-dilutive, thereby decreasing net loss per common share.

### Note F - 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 G - Subsequent Events

Issuance of Common Stock subsequent to September 30, 2004

The Company issued a total of 7,072,982 shares of its common stock during the period from September 30, 2004 to November 14, 2004, in connection with various conversion notices from the holders of the Company's Series E Convertible Preferred Stock, par value (\$0.001) per share (the "Series E Preferred") and the holders of the Company's Series F Convertible Preferred Stock, par value (\$0.001) per share (the "Series F Preferred").

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## 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, remediation and management of hazardous, mixed and radioactive waste.

The Company owns technologies related to the separation and destruction of mixed waste, polychlorinated biphenyls (PCBs) and chlorofluorocarbons (CFCs). The Company is currently working on the commercialization of these technologies through development efforts, licensing arrangements and joint ventures. Through Commodore Advanced Sciences, Inc. ("Advanced Sciences") 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 Advanced Sciences' 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.

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

The Company's auditor's opinion on our fiscal 2002 and 2003 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 requires additional cash to sustain existing operations and to meet current obligations and ongoing capital requirements.

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The Company will hold its 2003 Annual Meeting at The Fitzpatrick Hotel located at 687 Lexington Avenue, New York, NY 10015 on December 21, 2004 - 11:00 a.m. EST. The record date for the shareholders of the Company for the Company's 2003 Annual Meeting is November 10, 2004.

### RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2004 Compared to Three and Nine Months Ended September 30, 2003

Revenues from continuing operations were \$155,000 and \$449,000 for the three and nine months ended September 30, 2004 compared to \$166,000 and \$462,000 for the three and nine months ended September 30, 2003. Such revenues were primarily from the Company's subsidiary Advanced Sciences.

In the case of Advanced Sciences, revenues were \$155,000 and \$409,000 respectively for the three and nine months ended September 30, 2004 as compared with \$149,000 and \$445,000 for the three and nine months ended September 30, 2003. Advanced Sciences has experienced a significant decrease in revenue caused by fewer contracts and overall, less work being performed by Advanced Sciences. The revenues from Advanced Sciences 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. Advanced Sciences has two major customers, each of which represents more than 10% of total

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revenue. The combined revenue for these two customers was \$155,000 and \$409,000 respectively (100% of total revenues) for the three and nine months ended September 30, 2004. Cost of sales was \$122,000 and \$366,000 respectively for the three and nine months ended September 30, 2004 compared to \$195,000 and \$598,000 respectively for the three and nine months ended September 30, 2003. The decrease in cost of sales is due to greater efficiencies in staffing and further reduction of sales associated expenses in the three and nine months ended September 30, 2004.

In the case of Solution, revenues were \$0 and \$40,000 respectively for the three and nine months ended September 30, 2004 as compared with \$17,000 and \$17,000 respectively for three and nine months ended September 30, 2003. There were marginal revenues recorded for the three and nine month period ended September 30, 2004 due to (i) SET processing contracts being negotiated but not yet initiated, (ii) United States Environmental Protection Agency (the "USEPA") demonstration of the SL-2 system at a client location in Oak Ridge, Tennessee for inclusion to the Company's nationwide permit for PCB destruction; and (iii) the relocations of the SET equipment to Hanford, Washington. Revenues, when recognized, are primarily from remediation services performed for engineering and waste treatment companies in the U.S. under a variety of contracts. Cost of sales was \$58,000 and \$321,000 respectively for the three and nine months ended September 30, 2004 as compared to \$17,000 and \$17,000 respectively for the three and nine months ended September 30, 2003. The cost of sales, when incurred, is attributable to installation, set-up, supplies and salary expenses for the SET technology. The cost of sales also includes other direct sales and marketing expenses when incurred. 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 nine months ended September 30, 2004, the Company incurred research and development costs of \$0 and \$7,000 respectively as

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compared to \$4,000 and \$63,000 respectively for the three and nine months ended September 30, 2003. 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 nine months ended September 30, 2004 were \$466,000 and \$1,393,000 respectively as compared to \$383,000 and \$1,069,000 respectively for the three and nine months ended September 30, 2003. This difference is primarily due to the increased salaries, the majority of which is deferred, for the executives of the Company for the periods ended September 30, 2004.

Interest expense for continuing operations for the three and nine months ended September 30, 2004 was \$115,000 and \$295,000, respectively as compared to \$221,000 and \$379,000, respectively for the three and nine months ended September 30, 2003. The decrease in interest expense is primarily related to the forbearance fees and exit fees of \$219,000 associated with the Milford/Shaar Bridge Loan Note recorded in the three and nine months ended September 30, 2003.

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### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2004 and December 31, 2003 Advanced Sciences had a \$7 and \$64 outstanding balance, respectively, on its revolving line of credit.

The Company currently requires additional cash to sustain existing operations and to meet current obligations and ongoing capital requirements. The Company's current monthly operating expenses exceed cash revenues by approximately \$100,000 at September 30, 2004.

The Company's auditor's opinion on our fiscal 2002 and 2003 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 requires additional cash to sustain existing operations and to meet current obligations and ongoing capital requirements.

For the three and nine month periods ended September 30, 2004, the Company incurred a net loss of (\$626,000) and (\$2,082,000), respectively as compared to a net loss of (\$719,000) and (\$1,867,000), respectively for the three and nine months ended September 30, 2003. For the nine-month period ended September 30, 2004, and for the years ended December 31, 2003, 2002, and 2001, Applied incurred losses of (\$2,082,000), (\$2,957,000), (\$5,972,000) and (\$6,554,000), respectively. Applied has also experienced net cash (outflows) inflows from operating activities of \$(955,000), \$(121,000), and \$965,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

During the three and nine month periods ended September 30, 2004, the Company converted 0 and 20,000 respectively, shares of Series E Preferred and 0 shares of Series F Preferred for 0 and 9,071,937, respectively, shares of the Company's common stock. For the three and nine month periods ended September 30, 2004, the Company converted no shares of Series H Preferred and issued no stock with respect to accrued dividends pertaining to the Series H Preferred.

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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. The Weiss Group Note bears interest at 12% per annum and was due and payable on February 12, 2001. All holders of the Weiss Group Note have granted payment extensions to the Company until January 15, 2005 in exchange for warrants for 2,500,000 shares of the Company's common stock at an exercise price of \$0.0285. The current principal balance of the Weiss Group Note is \$252,363 as of September 30, 2004 and remains unpaid as of November 14, 2004. The warrant discount remaining on the Weiss Group note at September 30, 2004 is \$7,326.

Effective February 14, 2004, the members of the Weiss Group Note voluntarily cancelled all issued warrants to purchase 1,500,000 shares at an exercise price of \$0.05 per share of the Company's common stock in connection with the Weiss Group Note.

Effective February 15, 2004, the Company issued warrants to purchase 2,500,000 shares of its common stock at an exercise price of \$0.0285 per share to all holders of the Weiss Group Note in consideration of the extension of the due date of such loans by such persons from May 31, 2002 to January 15, 2005. The value of the warrants of approximately \$29,344 was recorded as a discount on the associated notes payable and will be amortized through January 15, 2005. The Company believes that this transaction is exempt from the registration requirements of the Securities Act under Section 4(2) thereof as a transaction not involving any public offering of securities.

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 1,973,077 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. The Company re-priced this warrant in November 2003 to \$0.0285 and extended the

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expiration date of this warrant to November 19, 2005. The Company believes that this transaction is exempt from the registration requirements of the Securities Act under Section 4(2) thereof as a transaction not involving any public offering of securities.

The private investor exercised this warrant on April 7, 2004 and received 500,000 shares of the Company's common stock.

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 333,334 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 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 December 31, 2005. In connection with the Milford/Shaar Bridge Loan Notes, the Company issued to Milford/Shaar in February 2004, a five-year warrant for 250,000 shares of the Company's common stock at an exercise price of \$0.03 per share. The Shaar Fund, Ltd., through the Shaar Bridge Loan, continues to provide cash installments on a periodic basis in the form of additional principal. The

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current principal balance of the Milford/Shaar Bridge Loan Notes is \$2,648,741 as of September 30, 2004 and remains unpaid as of November 14, 2004. Additionally, as of November 14, 2004, there is \$119,073 in accumulated forbearance fees and \$100,000 due in exit fees on the Milford/Shaar Bridge Loan Notes.

On October 2, 2002, Mr. Bentley Blum, a Director of the Company, had previously loaned the Company with \$125,000 of cash installments over the period of one year (the "Blum Loan"). The Company elected to convert the Blum Loan to the Company's common stock using the conversion feature of the 5-day average closing price of the Company's common stock prior to October 2, 2002. On October 2, 2002, Blum issued a conversion notice for \$125,000 of the outstanding principal of the Blum Loan into 2,500,000 shares. Mr. Blum continued to provide cash installments in the form of a loan to the Company through February 2004 (the "Blum Demand Note"). The Blum Demand Note bears interest at 9% per annum and has no due date at this time. The current principal balance of the Blum Demand Note is \$312,032 as of September 30, 2004 and remains unpaid as of November 14, 2004, and is included in related party payable.

On November 19, 2003, the Company issued a warrant to purchase 27,355,800 shares of its common stock at an exercise price of \$0.0285 per share (the closing price of our common stock on the OTCBB on such date) to the Blum Asset Trust, a company controlled by Bentley Blum, a Director of the Company, in consideration for the loans made to the Company and the usage of office space and personnel of the Blum Asset Trust over the last five years. The Company believes that this transaction is exempt from the registration requirements of the Securities Act under Section 4(2) thereof as a transaction not involving any public offering of securities.

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.

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### NET OPERATING LOSS CARRYFORWARDS

The Company has net operating loss carryforwards (the "NOLs") of approximately \$34,000,000, which expire in the years 2010 through 2023. The amount of NOLs that can be used in any one year will be limited by the applicable tax laws that are in effect at the time such NOLs can be utilized. The 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. There can be no assurance that the Company will be able to generate sufficient taxable income in the future to utilize any of 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



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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 and uncertainties that would affect any such forward-looking statements. These risks and uncertainties include, but are not limited to:

- o the Company's critical need for additional cash to sustain existing operations and meet existing obligations and capital requirements (the Company's auditor's opinion on our fiscal 2002 and 2003 financial statements contains a "going concern" qualification in which they express doubt about the Company's ability to continue in business, absent additional financing);
  - o the ability to generate profitable operations from a large scale remediation project;
  - o the ability of the Company to renew its nationwide permit to treat PCBs;
  - o the ability of the Company to implement its waste processing operations, including obtaining commercial waste processing contracts and processing waste under such contracts in a timely and cost effective manner.;
  - o the timing and award of contracts by the U.S. Department of Energy for the cleanup of waste sites administered by it;
  - o the Company's ability to integrate acquired companies;
  - o the acceptance and implementation of the Company's waste treatment technologies in the government and commercial sectors;
  - o the Company's ability to obtain and perform under other large technical support services projects; developments in environmental legislation and regulation;
  - o the ability of the Company to obtain future financing on favorable terms;
  - o other circumstances affecting anticipated revenues and costs;
  - o the expiration of the Company's nationwide EPA permit expired in September 2001. (the permit may be renewed subject to providing additional information. The Company has not resubmitted information for a new permit); and
- 
- o the ability of the Company to replicate on a large scale, economically viable basis, the results of its technology test results.

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These risks and uncertainties could cause actual results of the Company to differ materially from those projected or implied by such forward-looking statements.

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

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Not applicable.

### ITEM 4. Controls and Procedures

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- a) Evaluation of disclosure controls and procedures. As required by Rule 13a-15e under the Exchange Act, as of September 30, 2004, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer, and the Company's Chief Financial Officer and Chief Accounting Officer. Based upon that evaluation, the Company's President and Chief Executive Officer, and Chief Financial Officer and Chief Accounting Officer have concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, include the Company's Chief Executive Officer, and Chief Financial Officer and Chief Accounting Officer as appropriate, to allow timely decisions regarding required disclosures.
- b) Changes in internal controls. There have been no changes in internal controls or in other factors during our most recent fiscal quarter that has significantly affected or is reasonably likely to significantly affect our internal controls over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

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## 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. Unregistered Sales of Equity Securities and Use of Proceeds

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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 Information

Not applicable.

### ITEM 6. Exhibits and Reports on Form 8 - K

#### (a) Exhibits.

1. 31.1 - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
2. 31.2 - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
3. 32.1 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
4. 32.2 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### (b) Reports on Form 8-K.

1. The Company filed a Current Report on Form 8-K, dated August 16, 2004, announcing its June 30, 2004 Quarterly earnings.
2. The Company filed a Current Report on Form 8-K, dated September 2, 2004, announcing that its wholly owned engineering services subsidiary, Commodore Advanced Sciences, Inc. (CASI), has been awarded an environmental sampling and data integration contract by Bechtel Jacobs Company, LLC of Oak Ridge, TN.
3. The Company filed a Current Report on Form 8-K, dated November 12, 2004, announcing that has initiated correspondence to its shareholders concerning the 2003 Annual Meeting of shareholders to be held on December 21, 2004. Additionally, the Company announced that a protest of a provisional contract award to a team led by its wholly owned subsidiary, Commodore Advanced Sciences, Inc. has been resolved in the Company's favor. Additionally, the Company announced that a protest of the Fast Flux Test Facility (FFTF) contract award by DOE has been filed by the two losing teams, one of which the Company was a member. The FFTF contract award was protested to the Department of Energy, General Accounting Office and the Small Business Association.

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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: November 14, 2004

COMMODORE APPLIED TECHNOLOGIES, INC.  
(Registrant)

By /s/ James M. DeAngelis

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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)

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