

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

COMMODORE APPLIED TECHNOLOGIES INC
Form 10-Q
May 15, 2001

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, 2001
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) 566-1284

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

The number of shares the common stock outstanding at May 14, 2001 was 52,060,445.

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 - March 31, 2001 and December 31, 2000.....	1
	Condensed Consolidated Statement of Operations - Three months ended March 31, 2001 and March 31, 2000.....	3
	Condensed Consolidated Statement of Cash Flows - Three months ended March 31, 2001 and March 31, 2000.....	4
	Notes to Condensed Consolidated Financial Statements.....	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	8
PART II	OTHER INFORMATION.....	13
	SIGNATURES.....	14

i

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)

	March 31, 2001	December 31, 2000
ASSETS	-----	-----
	(unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 982	\$ 1,980
Accounts receivable, net	4,642	4,536
Prepaid assets and other current receivables	449	625
	-----	-----
Total Current Assets	6,073	7,141
Property and Equipment, net	1,874	1,983
Intangible Assets		
Patents and completed technology, net of accumulated amortization of \$648 and \$613 respectively	827	862
Covenants not to compete, net of accumulated amortization of \$306 and \$175, respectively	2,319	2,450
Goodwill, net of accumulated amortization of \$734 and \$419, respectively	24,361	24,676
	-----	-----
Total Intangible Assets	27,507	27,988
Other Assets	285	361
	-----	-----

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

Total Assets	\$35,739	\$37,473
	=====	=====

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)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2001	December 31, 2000
	----- (unaudited)	-----
Current Liabilities:		
Accounts payable	\$ 2,024	\$ 2,490
Related party payable	247	247
Current portion of long term debt	2,650	2,650
Line of credit	472	1,459
Notes payable	14,926	14,682
Other accrued liabilities	2,244	2,489
	-----	-----
Total Current Liabilities	22,563	24,017
Long Term Debt	5,470	5,182
	-----	-----
Total Liabilities	28,033	29,199
Minority Interest	671	419
Commitments and Contingencies	-	-
Stockholders' Equity		
Convertible Preferred Stock, Series E & F Par value \$0.001 per share, 5% to 12% cumulative dividends, 511,700 and 556,700 shares authorized, issued and outstanding as of March 31, 2001 and December 31, 2000, respectively The shares had an aggregate liquidation value of \$6,740 and \$7,332 at March 31, 2001 and December 31, 2000 respectively	1	1
Common Stock, par value \$0.001 per share, 125,000,000 shares authorized, 51,018,778 and 48,330,385 issued and outstanding, at March 31, 2001 and December 31, 2000, respectively	51	48
Additional Paid-in Capital	66,321	66,495
Accumulated Deficit	(59,338)	(58,689)
	-----	-----
Total Stockholders' Equity	7,035	7,855
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 35,739	\$ 37,473
	=====	=====

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

See notes to condensed consolidated financial statements.

2

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	Three months ended	
	March 31, 2001 ----	March 31, 2000 ----
Contract revenues	\$ 4,021	\$ 4,332
Costs and expenses:		
Cost of sales	812	3,931
Research and development	120	245
General and administrative	2,077	780
Depreciation and amortization	628	162
Minority interest	252	-
	-----	-----
Total costs and expenses	3,889	5,118
	-----	-----
Income (loss) from operations	132	(786)
	-----	-----
Other income (expense):		
Interest income	13	17
Interest expense	(794)	(48)
	-----	-----
Net other income (expense)	(781)	(31)
	-----	-----
Loss before income taxes	(649)	(817)
Income taxes	-	-
	-----	-----
Net loss	\$ (649)	\$ (817)
	=====	=====
Loss per share	\$ (.01)	\$ (.03)
	=====	=====
Number of weighted average shares outstanding (in thousands)	49,847	31,041
	=====	=====

See notes to condensed consolidated financial statements.

3

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

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

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

	Three months ended	
	March 31, 2001	March 31, 2000
Cash flows from operating activities:		
Net loss	\$ (649)	\$ (817)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	628	162
Amortization of debt discount	532	--
Minority interest	252	--
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(106)	249
Prepaid assets	176	(378)
Other assets	76	--
Accounts payable	(466)	(133)
Other liabilities	(416)	(226)
	-----	-----
Net cash provided/ (used) in operating activities	27	(1,143)
Cash flows from investing activities:		
Purchase of equipment	(38)	(69)
Advances to related parties	--	4
Other Investments	--	(325)
	-----	-----
Net cash used in investing activities	(38)	(390)
Cash flows from financing activities:		
Increase in (repayment of) line of credit	(987)	16
Increase (decrease) in notes and loans payable	--	285
Preferred stock dividends	--	(112)
Proceeds from sale of preferred stock and warrants	--	1,770
Proceeds from sale of common stock	--	75
	-----	-----
Net cash provided/(used) in financing activities	(987)	2,034
Increase (decrease) in cash	(998)	501
Cash, beginning of period	1,980	1,797
	-----	-----
Cash, end of period	\$ 982	\$ 2,298
	=====	=====

See notes to condensed consolidated financial statements.

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

March 31, 2001

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 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 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, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

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/A for the year ended December 31, 2000.

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, 2001, and for the years ended December 31, 2000, 1999, and 1998, Applied incurred losses of \$649,000, \$11,441,000, \$3,985,000, and \$13,353,000, respectively. Applied has also experienced net cash outflows from operating activities of \$2,002,000, \$2,905,000, and \$9,176,000 for the years ended December 31, 2000, 1999, and 1998, 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 \$118,000 at March 31, 2001 and December 31, 2000.

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 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

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

from those estimates.

5

Note B - Segment Information

The Company has identified four 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 four 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; (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; and (iv) 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 table.

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	\$ --	\$ --

Three Months Ended March 31, 2000

	Total	CASI	Sol
Contract Revenues	\$ 4,332	\$ 4,287	\$
Costs and expenses			
Cost of Sales	3,931	3,896	
Research and Development	245	--	
General and Administrative	780	280	
Depreciation and Amortization	162	20	
	-----	-----	-----
Total costs and expenses	5,118	4,196	
	-----	-----	-----
Income (Loss) from Operations	(786)	91	
Interest Income	17	--	
Interest Expense	(48)	(33)	
Equity in losses of Unconsolidated subsidiary	--	--	
	-----	-----	-----
Net Income (Loss)	\$ (817)	\$ 58	\$
	=====	=====	=====
Total Assets	\$ 16,906	\$ 3,170	\$
Expenditures for long-lived assets	\$ 69	\$ 2	\$

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 April 9, 2001, SB Enterprises issued a conversion notice for \$250,000 of the outstanding principal of the Brewer Restated Note. The Company issued SB Enterprises 1,041,667 shares of common stock of the Company as a result of the conversion notice. (See Liquidity and Capital Resources)

On April 16, 2001, the Investors executed a Memorandum of Understanding to extend the payment date of the \$500,000 of Bridge Loan Notes. Three of the holders of the Bridge Loan Notes have granted payment extensions until June 30 and July 31, 2001, while the fourth holder of the Bridge Loan Notes has extended only until May 1, 2001. If the fourth holder of the Bridge Loan Notes declares a default on or after May 1, 2001, the other three holders of the Bridge Loan Notes also are permitted to declare a default. As of May 15, 2001 the Company

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

has not been notified of the holder's intent to declare a default on the Bridge Loan Note. In connection with the Bridge Loan Extension, the Company issued to the Investors 500,000 warrants for 500,000 shares of the Company's common stock at an exercise price of \$0.22 per share. (See Liquidity and Capital Resources)

7

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, (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, 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, 2001 Compared to Three Months Ended March 31, 2000

Revenues were \$4,021,000 for the three months ended March 31, 2001, compared to \$4,332,000 for the three months ended March 31, 2000. Such revenues were primarily from the Company's two subsidiaries, ASI and DRM.

In the case of DRM, revenues were \$2,696,000 for the three months 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 \$2,466,000 or 91% of the DRM's total revenue for the period ending March 31, 2001. 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

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

are first identified.

In the case of ASI, revenues were \$1,223,000 for the period ended March 31, 2001 as compared with \$4,287,000 for the period ended March 31, 2000. The

8

decrease in revenues is primarily due to the completion of a five-year contract to provide technical management support services to the Department of Energy for the opening and operation of the Waste Isolation Pilot Plant near Carlsbad, New Mexico, which ended on December 31, 2000. ASI has been unsuccessful with replacing this contract volume to date. 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 \$1,223,000 or 100% of total revenues for the period ending March 31, 2001. Cost of sales were \$809,000 for the period ending March 31, 2001 compared to \$3,896,000 for the period ending March 31, 2000. The decrease in cost of sales is due to a decrease sales volume in the period ended March 31, 2001.

In the case of Commodore Solution, Inc. ("Solution"), revenues were \$102,000 for the period ended March 31, 2001 as compared with \$20,000 for the period ended March 31, 2000. The increase is primarily due to the increase in feasibility studies and commercial processing. Revenues were primarily from remediation services performed for engineering and waste treatment companies in the U.S. under a variety of contracts. Solution has two major customers, each of which represents more than 10% of the revenue for the period ended March 31, 2001. The combined revenue for these two customers was \$102,000 or 100% of the Solution's total revenue for the period ended March 31, 2001. Cost of sales was \$103,000 for the period ended March 31, 2001 as compared to \$35,000 for the period ended March 31, 2000. The increase in cost of sales is attributable to greater sales and marketing expenses for the SET technology, which the Company anticipates will result in greater revenues from Solution in the remainder of 2001. 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 months ended March 31, 2001, the Company incurred research and development costs of \$120,000 as compared to \$245,000 for the three months ended March 31, 2000. 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, 2001 were \$1,977,000 as compared to \$780,000 for the three months ended March 31, 2000. This difference is due to DRM's salaries and other expenses.

Interest income was \$13,000 for the three months ended March 31, 2001, as compared to \$17,000 for the three months ended March 31, 2000.

Interest expense for the three months ended March 31, 2001 was \$794,000

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

as compared to \$48,000 for the three months ended March 31, 2000. The increase in interest expense of \$746,000 is primarily related to amortization of non-cash interest costs associated with the Company's purchase of 81% of DRM on August 30, 2000 (\$532,000), 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).

9

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001 and December 31, 2000, ASI had a \$472,000 and \$1,459,000 outstanding balance, respectively, on its revolving lines of credit.

In October 2000, ASI refinanced their line of credit with KBK Financial, Inc. (the "KBK Credit Line"). The KBK Credit Line is not to exceed 85% of eligible receivables or \$2,500,000 and is due October 2002 with interest payable monthly at prime plus 2 percent (10 percent as of March 31, 2001). The KBK Credit Line is collateralized by the assets of Advanced Sciences and is guaranteed by the Company. The KBK Credit Line contains certain financial covenants and restrictions including minimum ratios that Advanced Sciences must satisfy. ASI was in compliance with the covenants of the KBK Credit Line at March 31, 2001.

In addition, the KBK Credit Line agreement stipulates that no payments shall be made by ASI to the Company other than monthly scheduled payments of principal with respect to the \$7,700,000 subordinated indebtedness owed by ASI to the Company (which is eliminated in consolidation) and intercompany indebtedness not to exceed \$20,000 in any month. In addition, ASI shall not incur indebtedness in excess of \$25,000, other than trade payables, the above subordinated indebtedness and other contractual obligations to suppliers and customers incurred in the ordinary course of business.

For the three months ended March 31, 2001, the Company incurred a net loss of \$649,000 as compared to a net loss of \$817,000 for the three months ended March 31, 2000. For the years ended December 31, 2000, 1999, and 1998, the Company incurred losses and also experienced net cash outflows from operating activities. At March 31, 2001 the Company had working capital deficit of \$16,490,000 and shareholders' equity of \$7,035,000.

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.

On September 15, 2000, the Company issued and sold to S. Brewer Enterprises, Inc. (the "SB Enterprises") a 9.75% Secured Promissory Note (the "Brewer Promissory Note") in the aggregate principal amount of \$500,000. In connection with the Notes, Commodore Environmental Services, Inc., pledged to the SB Enterprises 500,000 shares of our common stock owned by Commodore Environmental Services, Inc. at a purchase price of \$.01 per share, as security for the Brewer Promissory Note. The Company shall pay SB Brewer Enterprises the interest on a monthly basis in arrears and pay the outstanding principal amount on the earliest to occur (the "Maturity Date") of (i) the sale of the Company's

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

interest in the Teledyne-Commodore, LLC; or (iii) on March 15, 2001. The Brewer Promissory Note may be prepaid at any time without penalty.

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 Company issued SB Enterprises 1,041,667 shares of common stock of the Company as a result of the conversion notice.

10

On November 13, 2000, the Company issued and sold to certain investors (the "Investors") 12% Senior Secured Promissory Notes (the "Bridge Loan Notes") in the aggregate principal amount of \$500,000. In connection with the Notes, Commodore Environmental Services, Inc. issued and sold to the Investors 1,000,000 shares of our common stock owned by Commodore Environmental Services, Inc, at a purchase price of \$.01 per share. We shall pay each Investor the outstanding principal amount, together with all accrued and unpaid interest on the earliest to occur (the "Maturity Date") of (i) the prepayment of the Notes out of one hundred percent (100%) of the first proceeds received by us as a cash distribution (whether in the form of an intercompany dividend, bonus, loan or otherwise) from DRM, or (ii) the consummation of a contemplated \$2,000,000 debt financing with BHC Funding, Inc. or (iii) on February 12, 2001. The Notes may be prepaid at any time, on five-(5) business days prior notice, without penalty. We did not pay the Notes as of the February 12, 2001 Maturity Date.

On April 16, 2001, the Investors executed a Memorandum of Understanding to extend the payment date of the \$500,000 of Bridge Loan Notes. Three of the holders of the Bridge Loan Notes have granted payment extensions until June 30 and July 31, 2001, while the fourth holder of the Bridge Loan Notes has extended only until May 1, 2001. If the fourth holder of the Bridge Loan Notes declares a default on May 1, 2001, the other three holders of the Bridge Loan Notes also are permitted to declare a default. As of May 15, 2001 the Company has not been notified of the holder's intent to declare a default on the Bridge Loan Note. In connection with the Bridge Loan Extension, the Company issued to the Investors 500,000 warrants for 500,000 shares of the Company's common stock at an exercise price of \$0.22 per share.

The Company has an irrevocable obligation to repurchase from the former shareholders of DRM, by August 30, 2001, 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. 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 currently intends 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. At May 8, 2001, the closing price of the Company's common stock on the American

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

Stock Exchange, Inc. was \$0.23 per share.

The Company currently requires additional cash to sustain existing operations and meet 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 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.

11

NET OPERATING LOSS CARRYFORWARDS

The Company has net operating loss carryforwards (the "NOLs") of approximately \$38,000,000, which expire in the years 2001 through 2020. 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 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

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

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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

12

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

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 15, 2001

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)