

COMMODORE APPLIED TECHNOLOGIES INC
Form 10-K
April 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _____ to _____

Commodore Applied Technologies, Inc.

(Exact Name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	001-11871 (Commission File Number)	11-3312952 (IRS Employer Identification No.)
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517 Knight Street, Suite B, Richland, Washington (Address of principal executive offices)	99352 (Zip Code)
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Registrant's telephone number, including area code: **(509) 943-2565**

Securities Registered pursuant to 12(b) of the Act: **None**

Securities Registered pursuant to Section 12 (g) of the Act: **Common stock, Par Value \$0.001**

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.

Yes No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: **\$224,204 as of June 30, 2008**, based on the last sales price of \$0.03 per share of the Company's common stock on the National

Association of Securities Dealers OTCBB.

State the number of shares outstanding of each of the issuer's classes of common equity: 8,288,217 shares of common stock **as of March 31, 2009.**

DOCUMENTS INCORPORATED BY REFERENCE:

Not Applicable.

COMMODORE APPLIED TECHNOLOGIES, INC.

FORM 10-K

DECEMBER 31, 2008

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PART I

This Annual Report on Form 10-K contains "forward-looking statements." 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 projected future results, future plans, objectives, goals, future conditions or events are also forward-looking statements. Actual results are inherently difficult to predict. Any such forward-looking statements are subject to the risks and uncertainties that could cause actual results of operations, financial condition, acquisitions, financing transactions, 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. 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:

·
the Company's critical need for additional cash to sustain existing operations and meet existing obligations and capital requirements (the Company's auditor's opinions on our fiscal 2002 through 2008 financial statements contain a going concern qualification in which they express doubt about the Company's ability to continue in business);

·
the ability to contract for and generate profitable operations from large scale remediation projects;

·
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;

·
the timing and award of contracts by the U.S. Department of Energy for the cleanup of waste sites administered by it;

·
the acceptance and implementation of the Company's waste treatment technologies in the government and commercial sectors;

the Company's ability to obtain and perform under other large technical support services projects;

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developments in environmental legislation and regulation;

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the ability of the Company to obtain future financing on favorable terms;

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other circumstances affecting anticipated revenues and costs;

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the expiration of the Company's nationwide EPA permit in September 2001 (The Company believes that the permit may be renewed subject to providing additional information. The Company has not resubmitted information for a new permit); and

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the ability of the Company to replicate on a large scale, economically viable basis, the results of its technology test results.

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 1. DESCRIPTION OF BUSINESS

GENERAL

Commodore Applied Technologies, Inc. (the "Company") is an environmental solutions company offering a range of environmental and technical services to the public and private sectors related to (i) providing services related to environmental management for on-site and off-site identification, investigation remediation and management of hazardous, mixed and radioactive waste and (ii) remediating contamination in soils, liquids and other materials and disposing of or reusing certain waste by-products by utilizing our Solvated Electron Technology (SET™).

The Company's corporate mission is to serve the *environmental remediation market* from its primary operating center to profitably provide government and industry with environmental and remediation solutions to legacy waste environmental problems. Our strategy focuses the Company on the unique and high profit niches of hazardous

materials conversion and waste remediation.

The Company was incorporated in Delaware in March 1996. As used in this report, and except as the context otherwise requires, the "Company" means Commodore Applied Technologies, Inc. and its subsidiaries, including Commodore Solutions, Inc., Government Environmental Technologies, Inc. (inactive), and Commodore Advanced Sciences, Inc. The Company's

principal executive offices are located at 507 Knight Street, Suite B, Richland, Washington 99352, and its telephone number at that address is (509) 943-2565.

SEGMENT INFORMATION

The Company currently has identified two operating segments. These two segments are as follows:

Commodore Advanced Sciences, Inc., which primarily provides various environmental and regulatory compliance services to Government agencies on a fixed rate and lump sum basis.

Commodore Solutions, Inc., which is commercializing technologies to treat mixed and hazardous wastes, principally the Company's SET technology.

Additional information regarding the business of each segment is set forth below, and the information in Note 17 to the Company's Consolidated Financial Statements included in this Annual Report on Form 10-K is incorporated into this Part I by reference.

COMMODORE ADVANCED SCIENCES, INC. - ENVIRONMENTAL MANAGEMENT

The Company, through Commodore Advanced Sciences, Inc. (Advanced Sciences), provides specialized technical and project management products and services primarily to government-sector customers, including the Department of Energy (DOE) and the Department of Defense (DOD), and also to private-sector domestic industrial customers. Advanced Sciences engages in all aspects of environmental regulation and compliance, as well as access to leading technologies and innovative skills related to the identification, investigation, remediation and management of hazardous, mixed and radiological waste sites. Advanced Sciences also sells safety, protective and technical equipment used by its customers and hazardous material handlers. Advanced Sciences currently operates from an office located in Oak Ridge, Tennessee, with its principal executive officers and administrative activities being performed at the offices of its parent company, Commodore Applied Technologies, located in Richland, Washington.

Services

Environmental Services: Advanced Sciences is a nationwide firm specializing in environmental characterization, regulatory compliance technical support and waste management services. Advanced Sciences qualifies as a small

business under seven NAICS codes. This subsidiary employs approximately 30 professionals who are expert in providing environmental sample collection, transportation, and analyses, meeting rigorous quality assurance requirements while performing in accord with equally rigorous personnel health and safety requirements.

Advanced Sciences' history of program management and technical services include:

- Environmental Site Restoration Planning
- D & D Planning & Implementation Support
- Preliminary Assessments/Site Investigations
- Waste Minimization
- Environmental Audits & Assessments
- Health & Safety Oversight & Planning
- Underground-Storage-Tank Site Investigation
- Biological Sampling and Characterization
- Environmental Impact Assessments & Statements & Remediation
- Structural Engineering Analysis
- Remedial Investigations/Feasibility Studies
- Deconstruction Planning
- Environmental Pollution Control
- Regulatory Compliance
- Hazardous, Radioactive, Toxic & Mixed-Waste
- Federal & State Agency Coordination Management Including Treatment
- Public Involvement Support
- Hazardous Waste Site Remediation

The two most significant clients Advanced Sciences has had over the past 10 years have been the DOD and the DOE, while also providing services to private industry. Advanced Sciences' largest office provides environmental characterization and management, building decontamination and decommissioning (D&D), environmental protection, remediation, restoration, safety & health, and environmental regulatory compliance for the Department of Energy's Oak Ridge Complex.

In addition to the Oak Ridge Complex in Tennessee, the Company has performed environmental monitoring and remediation services at Rocky Flats in Colorado, Los Alamos in New Mexico, Chatfield Basin in Colorado and other significant sites, predominantly nuclear energy sites run by the DOD or DOE.

Remediation Services: Having already established a market position in the consulting and front-end analysis phase, Advanced Sciences plans to follow market demand into remediation services. After an environmental problem is identified, Advanced Sciences offers alternative remediation approaches that may involve providing on-site waste containment or management of on-site/off-site remediation and waste removal. Advanced Sciences can also redesign its customers' ongoing production processes and develop technical specifications to minimize or eliminate the generation of hazardous waste. The Company believes that Advanced Sciences' integration of environmental skills, plus its access to innovative technologies, provide Advanced Sciences with a competitive advantage in redesigning production processes.

Technical Services: New technologies play a critical role in both the remediation of existing waste sites and in the reduction of waste generated by ongoing production processes. Advanced Sciences has access to the SET technology and all its derivatives. Advanced Sciences has at its disposal, on a per project basis, what it believes are some among the most qualified professionals in the environmental consulting business. Advanced Sciences' scientists have participated on national boards for risk assessment and quality assurance, were instrumental in the development of environmental regulations for the DOE and the DOD, and have served as expert witnesses before the U.S. Congress and the Nuclear Regulatory Commission. To maintain its competitive position, Advanced Sciences intends to continue to develop viable remediation technologies and attract and retain qualified personnel.

Contracts

Environmental Data Acquisition and Management (EDAM) Contract: Advanced Sciences was awarded an Environmental Data Acquisition and Management contract (EDAM) by Bechtel Jacobs Company LLC of Oak Ridge, TN (BJC) in September 2004. This sampling program is continuously monitored and audited for safety, quality, productivity, efficiency, and value to BJC and Department of Energy-Oak Ridge (DOE-OR) and has received high marks and awards in all phases of the contract.

Sampling activities under the EDAM contract include collection of multiple sample types from hundreds of monitoring locations and packaging and shipping of samples to appropriate analytical laboratories for analysis. Locations and environments include abandoned burial grounds and hazardous waste sites, fields and forests, streams, lakes, and ponds. Sampling tasks support a variety of ongoing monitoring programs, including the Water Resource Restoration Program (WRRP) to determine the effectiveness of remedial actions conducted under Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and the ETTP Environmental Monitoring Program. Regulatory compliance data acquisition and management projects include Resource Conservation and Recovery Act (RCRA) and National Pollution Discharge Elimination System (NPDES) permit compliance, the Biological Monitoring and Abatement Program, and Stormwater Pollution Prevention Program (SWPPP) activities. All of these compliance sampling programs are closely monitored by regulators, stakeholders, BJC, and DOE-OR.

The Company believes the EDAM contract may attract more DOE client groups than are contemplated in the base scope of the contract. The Company is seeking to extend its environmental monitoring service capabilities to other DOE sites, such as Los Alamos, NM, Portsmouth, OH and Paducah, KY. The EDAM contract is for approximately \$2.5 million per year and is reflected in the Company's backlog.

Energy Solutions: Advanced Sciences was awarded a one-year, annually renewed contract from Duratek Federal Services, Inc. (now Energy Solutions) beginning in January 2005, which has been renewed annually in January since 2006 for additional one-year periods, to perform environmental monitoring services at two engineered landfills on the Oak Ridge Reservation. Environmental monitoring services include sample collection, packaging and shipping to offsite analytical laboratories. Samples are collected from surface water, groundwater, and landfill leachate collection locations on storm event, weekly, monthly, and quarterly bases.

American Aquatics: Advanced Sciences was contracted by American Aquatics under the terms of an asset purchase and sale agreement executed in January 2007 to provide fish and aquatic insect sampling collection, taxonomy, and enumeration. As a result of the asset purchase agreement, Advanced Sciences acquired an outstanding staff of aquatic biologists who have extensive experience in evaluation of aquatic ecosystems and collection and identification of benthic macro-invertebrates. Advanced Sciences has the only benthic laboratory in the eastern United States that is licensed and capable of handling aquatic samples that are potentially contaminated with radioactivity, while simultaneously processing uncontaminated samples. The financial commitments to the Company under the asset purchase contract with American Aquatics were completed in the first quarter of 2008, and the Company continues to perform the sampling under that agreement. The largest contract acquired from American Aquatics, benthic laboratory services for Oak Ridge National Laboratory, managed by the University of Tennessee-

Battelle, was opened for competitive bids in December 2008. Advanced Sciences was awarded the new contract in February 2009, for a one-year base period with four one-year option periods including annual price escalators.

Chatfield Watershed Authority: Advanced Sciences was contracted annually since 1986 to implement the Chatfield Water Quality Monitoring Program that involves sample and data collection, laboratory subcontract management, and data management for the entire Chatfield Basin watershed located southwest of Denver. The contract was terminated in December 2008 when the client obtained similar monitoring services at no charge from Denver Water.

Legacy Management: In 2007, a team lead by the Stoller Corporation was awarded the DOE's Legacy Management Program contract, an approximately \$200 Million effort over the following four years. Commodore is on that team, and while specific scope assignments are being pursued with Stoller, we expect that Commodore's presence on the team may further enhance the Company's position as an industry leader in environmental services. The Legacy Management Program embraces the DOE sites that have been decommissioned and decontaminated (over 94 sites so far).

Commodore Sales Solutions

A division of Applied Sciences, Commodore Sales Solution (CSS), sold finished goods used in environmental remediation services, hazardous materials disposal and construction materials during portions of the years ended December 31, 2008 and 2007. CSS delivered protective coverings and clothing, breathing systems, filtration systems, safety products, construction materials and other items to customers in and around the Company's Oak Ridge, TN office. CSS was started in the second quarter of 2007 when the Company acquired all of the inventory on hand of one of the Company's main suppliers. CSS was unable to achieve a sufficient level of sales and gross profit margin to justify continued operation by management. In the third quarter CSS ceased operations and the remaining inventory was liquidated in the fourth quarter of 2008.

COMMODORE SOLUTION TECHNOLOGIES, INC. - DECONTAMINATION

The Company, through Commodore Solutions, Inc. (Solutions), has developed and has commercialized its patented process known as SET. Based on the results of its extensive testing and commercial processing activities, the Company believes that SET is capable of effectively treating and decontaminating soils and other materials, including sludges, sediments, oils and other hydrocarbon liquids, metals, clothing and porous and non-porous structures and surfaces by destroying PCBs, pesticides, dioxins, chlorinated substances and other toxic contaminants to an extent sufficient to satisfy current federal environmental guidelines. The Company also believes that, based on the results of additional tests, SET is capable of neutralizing substantially all known chemical weapons materials and warfare agents, explosives and concentrating certain radioactive wastes for more effective disposal.

The Company believes that SET is the only patented, non-thermal, portable and scalable process that is currently available for treating and decontaminating soils, liquids and other materials containing PCBs, pesticides, dioxins, chemical weapons and warfare agents and other toxic contaminants.

SET Contracts

The Company was awarded an Advanced Remediation Demonstration contract by the Department of Energy's Office of Environmental Management (DOE-EM) for the Company's technology for the separation of radioactive (surrogate) and RCRA heavy metals from sludges and other waste matrices.

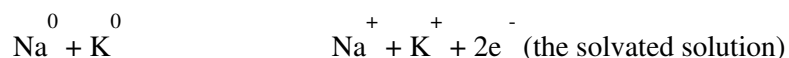
The DOE-EM awarded 12 contracts totaling \$3.3 million, of which the Company's demonstration was a part, to support the development of technologies that have the potential to reduce cleanup costs and increase the safety and efficiency of treating and disposing of various waste streams, including radioactive waste at such sites as Hanford, Idaho, Savannah River, and others.

The Company's Phase I contract was performed over a six month period, concluding in January 2007. Phase I activities included: laboratory/pilot-scale test results, developing a technical approach for demonstration, scale-up and implementation schedule, detailed system design, and a detailed cost estimate for implementation in Phase II. We reported successful results upon which a \$300,000 Phase II of the contract has been proposed, and is awaiting approval and funding. We do not know when or if this Phase will be awarded. The Company has submitted a bid with Environmental Solutions for treatment of certain materials at the Idaho National Laboratory, and is awaiting an imminent Request for Proposal for mixed waste treatment services across all DOE sites.

The SET Technology

The Company, its subsidiaries and predecessors have researched, developed, acquired, tested and proven the SET technology, including its processes and equipment, over several years.

The process is based upon a chemical phenomenon discovered by Sir Humphrey Davy in 1865, shown below for the liquid phase of a sodium and potassium solution:



The solution has been called solvated electrons since the dissolved metal releases electrons to the solution in huge numbers. These electrons, also known as free radicals, are the most powerful reducing agents known, quickly reacting with many compounds. Most of the alkali metals readily dissolve in anhydrous ammonia releasing their valence electrons into the ammonia in a relatively rare but stable state unassociated with any atom. In this state, both the electrons and the metal atoms are available to react with other elements and compounds.

The SET technology, which is based upon solvated electron chemistry, mixes anhydrous liquid ammonia and/or other similar solvents with reactive metals and contaminated elements to effect the selective destruction or neutralization of organic compounds (such as PCBs, pesticides and dioxins). The Company has demonstrated that SET can achieve consistently high levels of contaminant destruction when working with PCBs, dioxins and pesticides. SET has treated soils containing up to 10,000 parts per million (ppm) of contaminants, and oils containing up to 250,000 ppm, leaving residual soils and oils with contamination levels of less than one ppm. In addition, SET has been successfully applied to other PCB-contaminated surfaces such as concrete. The SET process can be used in conjunction with selected post-treatment processes such that no hazardous or toxic residues will result from the use of SET, nor will there be any toxic emissions into the air, water, soils or other surfaces. For example, most contaminated soils treated with SET can (subject, in some instances, to re-blending the soil with organic matter) be used subsequently for planting or for any other use for which non-contaminated soils are appropriate.

Equipment utilized in the SET process consists of tanks, pumps and piping to handle anhydrous ammonia and other solvents in liquid and vapor forms, and treatment vessels for holding contaminated materials and for the introduction of solvating solutions. The system can be transported to field sites and configured in numerous sizes.

The SET process requires placing the contaminated materials into a treatment vessel where they are mixed with a solvent and charged with a base metal (e.g. sodium). The chemical reaction produces metal salts such as calcium chloride, calcium hydroxide and non-halogenated inert organics. The ammonia within the treatment vessel is then removed to a discharge tank for later reuse. The materials are removed, sampled for residual traces of PCB or other

halogenated organic compounds, and placed in storage for disposal. In many cases, the decontaminated soil and metals can be replaced in their original location, recycled or reused. The solvents do not enter the chemical reaction, but merely serve as dissolving liquids for the solvated electron solution.

Operational Characteristics: Substantially all existing systems in use for the destruction of PCBs and other halogenated compounds involve incineration or other thermal processes, and either the permanent installation of highly complex and expensive incinerators and waste disposal equipment at the affected site, or the removal of contaminated materials to off-site facilities. The Company believes that SET represents an approach to resolving serious environmental remediation issues that does not create or entail the safety risks of air pollution and transportation of hazardous materials. The Company believes that SET is more effective than incineration and other destruction processes for toxic substances in that:

.
SET does not emit toxic fumes into the atmosphere, as is sometimes the case with thermal or incineration methods;

.
SET is portable and can be moved directly to the contaminated site, thereby reducing the risk of off-site contamination;

.
SET equipment can be customized and configured for various treatment applications;

.
SET's reaction time is substantially less than that of alternative processes, such as thermal destruction and other forms of chemical treatment;

.
SET equipment can be installed and operated inside industrial plant facilities to treat hazardous wastes on-line as a continuation of the manufacturing process;

.
SET, when used to treat soils, yields nitrogen-enriched soils that can be reused on-site, avoiding replacement and the post-treatment costs of off-site disposal; and

SET has been shown to neutralize or destroy all chemical weapons material and warfare agents in the United States stockpile, and Lewisite (the primary chemical weapons material and warfare agent of the former Soviet Union), in tests conducted by an independent, federally certified surety laboratory.

The Company believes that SET is the only technology currently available that possesses all of these features and is capable of treating a wide variety of contaminants. The above characteristics (non-thermal, no air emissions, mobile) are particularly applicable when dealing with mixed waste. Wastes that contain radioactive material and hazardous waste regulated by RCRA and TSCA are particularly difficult to treat and have extremely limited disposal options. By applying the SET process to remove the RCRA and TSCA components, leaving only radioactive waste material, disposal options expand. SET not only removes the hazardous components but also does so by an efficient, non-thermal process that can control and contain the radioactive material so that it remains in the treated material and does not enter the environment in an uncontrolled fashion.

EPA Nationwide Permit: The Company has previously qualified for a permit from the EPA to enable it to treat PCBs within the United States on all non-Superfund sites. Most EPA permits granted to date for PCB destruction are solely for single-site incineration treatment centers. Commodore's initial EPA Nationwide Permit was the first (and only) to be issued for nationwide use as a totally enclosed, non-thermal, chemical destruction process for PCB contaminated organic material. The permit authorized treatment of soils at contamination levels greater than 1,000 ppm PCBs, and also authorized treatment of miscellaneous metallic materials. The test results, confirmed by EPA's contract program laboratory, indicated organics contaminated with PCBs exceeding 5,000 ppm, were treated to non-detect levels of PCBs. In addition to soil treatment, the Nationwide Permit allows the Company to treat PCB contaminated metallic surfaces and waste oils, as well as wastewater (the wastewater is treated by a non-SET process). The Company has also successfully demonstrated SET as a treatment process for organic materials contaminated with PCBs and radionuclides and has received a draft revised EPA permit for these matrices. This permit revision covers the destruction of PCBs in soils, waste oils, organic materials, water, and on metallic surfaces.

Prior to securing a significant contract which utilizes the SET technology, the Company will be required to renew this permit, which expired in 2001. The renewal process may require the Company to provide additional information to the EPA at the time of renewal.

Based on currently published lists of EPA national operating permits, the Company believes that it possesses the only mobile non-thermal PCB treatment technology for multiple applications permitted under the EPA's Alternate Destruction Technology Program. The EPA's Alternative Destruction Technology Program is designed to encourage remediation technologies as an alternative to incineration. EPA regulations governing permitting have been in effect for more than 15 years, and according to the latest EPA published list of non-thermal destructive processes, only seven companies have met EPA's stringent requirements for commercial operation. Of these, only the Company has been permitted for the chemical destruction of such a wide range of PCB contaminated materials.

Test Results: The Company has performed treatability studies and actual commercial applications of the SET process that have resulted in successful treatment of over 120 regulated compounds. In more than 1,500 tests using SET, various high levels of contaminants, including PCBs, were reduced to levels approaching non-detectable with the destruction process occurring in a matter of minutes.

The Company has performed various treatability studies and processed commercial quantities of waste utilizing the SET process. Additionally, the Company has conducted several hundred tests of the SET technology on limited quantities of contaminated material, and there can be no assurance that SET will be able to replicate any of these test results on a large-scale commercial basis or on any specific project.

Discussions and selected test results are available at the Company's website at www.commodore.com.

MARKETS AND CUSTOMERS

General

The Company markets its services and technologies to governmental and industrial customers throughout the United States. Additionally, the Company's technologies also have application to similar customers in markets abroad, particularly in Eastern Europe and the Middle East. While the Company currently does not actively market outside the United States, it does receive inquiries from time to time from these markets concerning its technologies. A majority of the Company's sales are technical in nature and involve senior technical and management professionals, supported by the Company's corporate management. During the year ended December 31, 2008, a significant portion of the Company's environmental management

services revenue was derived from contracts with federal, state and municipal government agencies. Contracts with governmental customers generally may be terminated at any time at the option of the customer. In 2008 and 2007, one contract with a single customer, BJC, accounted for approximately 70.9% of Advanced Sciences' service revenues. The loss of Bechtel Jacobs as a customer would have a material adverse effect upon the Company.

Demand for our environmental technologies is anticipated to arise principally from the following sources:

·
Stricter legislation and regulations mandating new or increased levels of air and water pollution control and solid waste management; and

·
the need for alternative environmental treatment and disposal methods for toxic substances (such as the SET technology), which involve limited safety risks with respect to air pollution and transportation of hazardous materials and do not result in large volumes of residual waste that require further treatment prior to disposal.

Our business strategy is to expand our environmental technologies businesses by:

·
establishing additional collaborative joint working and marketing arrangements with established engineering and environmental service organizations to pursue commercial opportunities in the public and private sector;

·
diversifying the types of service and products offered to clients and potential new customers; and

·
implementing the SET technology in selected niche markets within certain strategic environmental market segments, such as government mixed waste remediation and chemical weapons demilitarization.

Decontamination

The Company anticipates that the initial market for commercial applications of SET will be the hazardous and mixed waste and industrial by-products treatment and disposal market. Mixed waste is material that contains both a hazardous and radioactive component. The most common methods of treatment and disposal of hazardous wastes and

industrial by-products include landfilling, chemical and biological treatment and incineration. Most of the current treatment and disposal methods entail air pollution and transportation risks. In a mixed waste, both hazardous and nuclear regulations apply, making disposal difficult, if not impossible. Currently, there exists very limited disposal options and these may not provide a permanent solution. Certain of these treatment and disposal methods result in large volumes of residual waste, which may require further treatment prior to disposal. As a result, a number of these methods are encountering increased public resistance and added regulatory oversight.

During 2007 and 2008, the Company worked closely with the DOE site in Portsmouth, OH to demonstrate SET's effectiveness in removing PCB's from samples of mixed waste at that facility. Currently, that facility is relying on the TSCAI incinerator at Oak Ridge, TN to destroy this waste material. However, that incinerator is currently being evaluated for potential shutdown and decommissioning within the next year. Should that occur, the Company believes its SET technology will represent an economical and effective method of neutralizing the millions of pounds of mixed waste at the Portsmouth facility. The Company has completed bench tests which demonstrate the success of the SET process in removing PCB's from Pyrenol™ samples provided by the Portsmouth facility. Phase II of this testing, the timing and accomplishment of which is contingent upon DOE funding of approximately \$300,000, will be to move a small SET machine to Portsmouth for larger scale on site testing. With the anticipated successful completion of Phase II, the Company would be prepared to move its large SET machine, and possibly build additional units, to the facility for full-scale operation to neutralize the entire volume of waste over a multi-year contract. The funding for Phase II has been delayed, may not be funded at any point, or may be combined into future system-wide requests for proposal for the treatment and disposal of similar waste materials.

As with any new technology or process, there has been initial resistance to the use of SET on a large scale, especially in connection with a strong vested interest on the part of the U.S. Military (based on substantial expenditures and commitments previously made) to use incineration for the destruction of chemical weapons. In addition, other prospective projects for the Company have already been committed to other forms of destruction technology, including incineration, plasma arc, vitrification, molten metal, molten salt, chemical neutralization, biological treatment, catalytic electrochemical oxidation and supercritical wet oxidation. The Company, and its collaborative partners, have been attempting to overcome such competition by introducing SET in smaller clean-up projects and through feasibility studies demonstrating its applicability to larger projects, such as the Initial Harrisburg Contract during 2000 and 2001, and the WCS Fixed Facility Processing Contract during 2001. The SET process provides a significant advantage by allowing the processed material to be disposed of as a non-mixed waste by destroying the hazardous component.

It may also be anticipated that, over an extended period, the market for decontamination of hazardous materials will continue to decline as past environmental degradation is corrected, and as the private and public sectors limit further pollution

through prohibitions on production and use of a broad range of hazardous materials and through the modification and improved efficiency of various manufacturing processes. The mixed waste market is one of the few areas that shows growth and has limited competition when compared to the general hazardous waste market. The Company believes the SET process brings a unique solution to the problem of remediating mixed waste.

Environmental Management

Based on market data compiled by Advanced Sciences, the largest market for environmental services today within the United States is the U.S. Government. Government-wide spending levels for environmental services exceed \$10 billion per year. The DOD and DOE are expected to account for approximately 66% of such expenditures and together expect to spend in excess of \$200 billion for environmental work over the next twenty years. Advanced Sciences has a long-term record for providing environmental services to the U.S. Government with the DOD and DOE being its primary customers.

In March 2009, the DOE Office of Environmental Management (EM) committed an additional \$755M of additional funding for Oak Ridge Reservation cleanup projects under the American Recovery and Reinvestment Act (ARRA). These funds are targeted to accelerate cleanup work previously planned for completion in outyears 2011-2015, and may increase the need for environmental characterization (sampling) work at all three DOE sites in Oak Ridge. These funds are scheduled to be obligated by September 2009 and mostly spent by October 2010. Because of the accelerated schedule, the DOE is expected to use existing contracts to complete the work. Since Advanced Sciences holds current contracts at all three DOE sites in Oak Ridge, the Company may be the beneficiary of significant increases in contract task orders in fiscal 2009 and 2010 of the DOE budget cycle, which ends in October of each year. Commodore is one of four subcontractors identified by the DOE's operating contractor at Oak Ridge, BJC, through which other subcontractors are encouraged to work with in accomplishing this work.

RAW MATERIALS

With the exception of the SET technology, most of the Company's revenue streams do not require raw materials.

The Company has historically experienced no difficulty in obtaining components used in the SET process for which it relies on a broad range of suppliers. Nevertheless, business disruptions or financial difficulties of such suppliers, shortages or other causes beyond the Company's control, could adversely affect the Company by increasing the cost of goods sold or reducing the availability of such components. If the Company was unable to obtain a sufficient supply of required components, it could experience significant delays in the furnishing of components used in the SET process, which could result in the loss of orders and customers and could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, if the cost of finished components were to increase, there can be no assurance that the Company would be able to pass such increase on to its customers. The use of outside suppliers also entails risks of quality control and disclosure of proprietary information.

BACKLOG

At December 31, 2008, total potential backlog for the Company was approximately \$2.3 million as compared with approximately \$2.1 million as of December 31, 2007. The total backlog represents work for which the Company has entered into a signed agreement or purchase order with respect thereto or has received an order to proceed with work up to a specified dollar amount. The Company estimates that all of the total backlog represents work that will be completed in the next 12 months. Backlog amounts have historically resulted in revenues; however, no assurance can be given that all amounts included in backlog will ultimately be realized, even if covered by written contracts or work orders.

RESEARCH AND DEVELOPMENT

The Company is not currently undertaking any research and development projects. Management is continually looking for new technologies or new applications for current Company technology. Research and development expenditures for the Company and its subsidiaries were \$0 for the years ended December 31, 2008 and 2007.

INTELLECTUAL PROPERTY

The Company currently has sixteen (16) issued U.S. and foreign patents. The average life expectancy for the currently issued patents is 8.7 years. As patents are issued, the U.S. Patent and Trademark Office assigns the Company a twenty (20) year patent-life for each patent issued.

The Company believes that its patent portfolio provides the Company with the proprietary intellectual property to market, distribute, and license the full range of the SET technology and all of its derivatives. Additionally, the Company's strength of its patent portfolio may operate as an effective barrier to entry in several of the markets in which the Company is presently conducting business.

To protect its trade secrets and the un-patented proprietary information in its development activities, the Company requires its employees, consultants and contractors to enter into agreements providing for the confidentiality and the Company's ownership of such trade secrets and other un-patented proprietary information originated by such persons while in the employ of the Company. The Company also requires potential collaborative partners to enter into confidentiality and non-disclosure agreements.

There can be no assurance that any patents that may hereafter be obtained, or any of the Company's confidentiality and non-disclosure agreements, will provide meaningful protection of the Company's confidential or proprietary information in the case of unauthorized use or disclosure. In addition, there can be no assurance that the Company will not incur significant costs and expenses, including the costs of any future litigation, to defend its rights in respect of any such intellectual property.

COMPETITION

Environmental Management

In the hazardous waste management market, Advanced Sciences' competitors include such firms as Energy Solutions, Jacobs Engineering, Science Applications International Corp., CH2M Hill and CDM, all of whom have greater financial and other resources than the Company. In providing environmental impact assessment services, Commodore Advanced Sciences' principal competitors in this market sector include RSI, North Wind, Stoller, Weston Solutions, The Earth Technology Corp., Battelle, URS and Woodward-Clyde.

Commodore Advanced Sciences currently occupies a position in the waste management and environmental services arena by virtue of its long-term record for providing environmental services to the United States government. Primary factors affecting Advanced Sciences' competitiveness in this market are its ability to continue to attract and retain qualified technical and professional staff with quality project performance records and to control its costs of doing business.

In an effort to maintain its competitive position, Advanced Sciences believes that it has developed a solid infrastructure, acquired a qualified professional staff, and developed aggressive marketing objectives to provide hazardous waste management and environmental sciences to the United States government and private sector industrial customers. The Company believes its competitive position with the United States government is enhanced by the physical proximity of Advanced Sciences' plants to DOE and DOD sites, its skilled professional staff, prior project experience with the United States government, numerous existing multi-year contracts with the United States government, integrated services and high quality performance.

Decontamination

The Company anticipates that the market for commercial private sector applications of SET will be hazardous and non-hazardous waste and industrial by-products treatment and disposal, in particular the more recalcitrant mixed wastes (wastes containing a radioactive element). Several large domestic and international companies and numerous small companies, many of whom have substantially greater financial and other resources than the Company, compete with the Company in this market. The Company primarily competes in the hazardous waste treatment market in the U.S. The top ten competitors in this market account for over 70 percent of the revenues for this market sector. The dominant companies in this sector include companies with permitted waste treatment and disposal sites, including Energy Solutions, Pacific EcoSolution, and American Ecology, as well as other treatment companies such as PermaFix. The Company's revenues for 2008 account for less than 1 percent of the dollar volume of the hazardous waste market. Any one or more of the Company's competitors or other enterprises not presently known may develop technologies which are superior to the technologies utilized by the Company. To the extent that the Company's competitors are able to offer comparable services at lower prices or of higher quality, or more cost-effective remediation alternatives, the Company's ability to compete effectively could be adversely affected.

The domestic and international governmental public sector of the market is dominated by many large multinational corporations who are presently engaged in providing incineration and other conventional technologies in decontaminating chemical weapons and warfare agents, concentration of nuclear wastes and the decontamination of military vessels and other hardware. These competitors include Raytheon Corporation (the current general contractor for the Johnston Atoll incinerator), EG&G, Inc. (the general contractor for the Tooele Army Depot), Mason and Hanger (the general contractor for the Newport News Naval Facility), Waste Management Corporation (a bidder for domestic "large burial" stockpile weapons decontamination), and others, including Browning-Ferris Industries, Inc., Jacobs Engineering, Inc., Fluor Daniel Corporation and Lockheed Martin Marietta Corporation. All of these corporations have substantially greater financial, personnel and other resources than the Company. In addition, many prospective users of SET have already committed substantial resources to other forms of environmental remediation technology, including incineration, plasma arc, vitrification, bio-remediation, molten salt, chemical neutralization, catalytic electrochemical oxidation and supercritical wet oxidation.

The Company believes that its ability to compete in both the commercial private and governmental public sectors is dependent upon SET being accepted in these sectors as a superior, more cost-effective method to achieve decontamination of a variety of materials.

ENVIRONMENTAL REGULATION

The environmental legislation and policies which the Company believes are applicable to the Company's services in the United States primarily include TSCA, RCRA, and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended by the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), and may include, on a case by case basis, the Clean Air Act of 1970, as amended (the "Clean Air Act"). These laws regulate the management and disposal of toxic and hazardous substances, provide for the protection of land and groundwater resources, and control the discharge of pollutants into the air. Many of these laws have international counterparts, particularly in Europe and elsewhere in North America.

TSCA regulates the manufacture, distribution, and sale of chemical substances, and requires testing of new chemicals and new uses of known chemicals that may present an unreasonable risk of injury to health or the environment. The EPA, through TSCA, has adopted comprehensive regulations for PCB's and other halogenated substances, as part of a vast regulatory program covering thousands of chemicals.

RCRA was enacted in 1976 with the primary objective to protect human health and the environment and to conserve valuable material and energy resources. The most important aspect of RCRA is its establishment of cradle-to-grave management and tracking of hazardous waste, from generator to transporter, to treatment, storage, and disposal.

CERCLA and subsequent amendments under SARA (often referred to collectively as Superfund) impose strict, retroactive liability upon persons who generated, transported, or arranged for the transportation of hazardous substances or owned or operated the vessels or facilities at which such substances were disposed. CERCLA provides

for the investigation and remediation of hazardous substance sites and mandates that any hazardous substances remaining on-site must meet certain regulatory requirements, with a preference for innovative technology. These program regulations may create an incentive to utilize environmental-friendly technologies such as SET, which destroy targeted wastes without creating additional residual waste product. Moreover, to the extent hazardous substances are effectively destroyed, potential liability can be eliminated or significantly reduced.

The Clean Air Act empowered the EPA to establish and enforce ambient air quality standards and limitations on emissions of air pollutants from specific facilities. In 1987, the EPA began to enforce stricter standards for incineration emissions. With more stringent regulations on waste reduction technologies, the Company believes that SET could obtain a desired market share since, in most cases, it produces little or no air emissions.

CERCLA imposes strict joint and several liability upon owners or operators of facilities when a release or threatened release of a hazardous substance has occurred, upon parties who generated hazardous substances that were released at such facilities and upon parties who arranged for the transportation of hazardous substances to and from such facilities. The Company's plans to own and operate SET at on-site installations expose the Company to potential liability under CERCLA for releases of hazardous substances at those sites. In the event that off-site treatment, storage or disposal facilities utilized by the Company for final disposition of residues from SET are targeted for investigation and clean-up under CERCLA, the Company could incur liability as a generator of such materials or by virtue of having arranged for their transportation and disposal.

In light of such potential liability, the Company has designed the SET technology to minimize the potential for release of hazardous substances into the environment. In addition, the Company has developed plans to manage the risk of CERCLA

liability, including training of operators, use of operational controls and structuring of its relationships with the entities responsible for the handling of waste materials and by-products. The Company also maintains insurance with respect to environmental claims, although there can be no assurance that such insurance will be adequate.

The Clean Air Act Amendments of 1990 impose strict requirements upon owners and operators of facilities that discharge pollutants into the environment. These amendments may require that certain air emission control technology be installed on the SET systems in the event that there is any discharge of non-recovered gases into the environment. Such additional air emission controls can be costly and require an air permit to construct and operate.

The Company obtained a Nationwide Permit issued by the EPA under the Alternative Destruction Technology Program that allowed it to use SET on-site to treat PCB-contaminated soils and metallic surfaces, although the permit is currently expired. The Nationwide Permit contains numerous conditions for maintaining the Nationwide Permit and there can be no assurance that the Company will be able to comply with such conditions to maintain and/or secure renewal of the Nationwide Permit. In addition, if environmental legislation or regulations are amended, or are interpreted or enforced differently, the Company may be required to meet stricter standards of operation and/or obtain additional operating permits or approvals. Failure to obtain such permits or otherwise comply with such regulatory requirements could have a material adverse effect on the Company and its operations. Various revisions to the equipment and process parameters are being made to the existing permit. The Company believes that the revised permit will be issued pending the final site selection for the full or part-time operation of any SET system for the treatment of PCB wastes. The revised permit will require the Company to fund closure costs associated with the implementation of any SET system for the treatment of PCB wastes. The closure costs are calculated on a site-by-site basis and are funded accordingly by the Company.

EMPLOYEES

As of December 31, 2008, the Company (including its direct subsidiaries) had a total of 27 full-time and 3 part-time employees, of which approximately 18 are engineers, scientists, environmental technicians and other professionals. None of such employees are covered by collective bargaining agreements and the Company's relations with its employees are believed to be good.

All 26 persons on the technical staff are extensively trained in proper procedures for handling waste materials and environmental media. Advanced Sciences' technical staff has more than 500 years of combined experience performing environmental and waste sampling tasks. Ten of our personnel hold DOE security clearances.

All Advanced Sciences' sampling personnel maintain currency in the following minimum training requirements:

.
OSHA 40-hour Hazardous Waste Operations and Emergency Response (HAZWOPER)

.
OSHA 8-hr Annual HAZWOPER Refresher

.
OSHA HAZWOPER Supervisor

.
Hazard Communication (HAZCOM)/Hazardous Materials Information System (HMIS) training

.
Radiation Worker II

.
First Aid/CPR

.
Annual Medical Monitoring

.
Respirator Fit Testing

.
General Safety

.
Hazardous Energy Control (Lockout/Tagout)

.
Work Control Process

.
Excavation/Penetration Permit

.
Construction Equipment Inspection & Maintenance Program

.
Hotwork (welding safety)

.
Confined Space Program

.
Asbestos and Other Fibrous Materials

.
Chronic Beryllium Disease Prevention

.
IATA Dangerous Good Awareness Certificate

.
Workplace Substance Abuse Prevention Program participation

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not required for smaller reporting companies.

ITEM 2. PROPERTIES

The Company's principal executive offices are located in Richland, Washington. Advanced Science leases approximately 3,750 square feet of space for rental payments in the amount of \$3,500 per month under a yearly lease.

In addition to the Richland, Washington facilities, Advanced Sciences has leased approximately 20,000 square feet of space on five acres in Oak Ridge, TN for its administrative functions, on a three year lease, for a rental payment in the amount of \$6,667 per month.

Advanced Sciences also leases approximately 475 square feet of office and storage space in Broomfield, Colorado with an average rental payment of \$495 per month over the term of the lease.

The Company leases approximately 1000 square feet of exterior uncovered storage space for the Company's industrial and waste processing equipment in Hobbs, New Mexico for rental payments in the amount of \$527 per month, pursuant to a month-to-month lease arrangement.

The Company has established a presence in Los Alamos, NM by opening a one-room office there to pursue business opportunities with Los Alamos National Security (LANS). LANS is the firm responsible for managing Los Alamos National Laboratory and is a joint venture of the University of California and Bechtel- Jacobs.

The Company accruing a liability for a lease of an office from its CEO, Dr. Shelby T. Brewer for \$1,700 per month for an office located in Alexandria, VA. No cash was paid for this office lease during the year ended December 31, 2008.

The Company believes that the foregoing properties will satisfy the business and operational needs of the Company and its subsidiaries in the present and in the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

As of March 15, 2009, no litigation or claim has been filed against the Company, or any of the Company's subsidiaries. The Company and its subsidiaries are involved from time to time in ordinary, routine litigation incidental to the conduct of their business. Management believes that none of this litigation, individually or in the aggregate, is material to the Company's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II**ITEM 5.****MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****MARKET INFORMATION**

Shares of the Company's common stock are quoted on the Over The Counter Bulletin Board of the National Association of Securities Dealers, Inc. (the OTC Bulletin Board or OTCBB) under the symbol CXIA. The following table sets forth, for the fiscal periods shown, the high and low sale prices (rounded to the nearest cent) for the Company's common stock as reported on the OTCBB.

Stock price by quarter	High	Low
Fiscal year ended December 31, 2008		
First Quarter	\$ 0.12	\$ 0.06
Second Quarter	0.07	0.03
Third Quarter	0.06	0.03
Fourth Quarter	0.06	0.02
Fiscal year ended December 31, 2007		
First Quarter	\$ 0.22	\$ 0.12
Second Quarter	0.25	0.13
Third Quarter	0.23	0.15
Fourth Quarter	0.15	0.07

 Holders of Record

As of December 31, 2008 there were 83 shareholders of record of our common stock and approximately 3,100 additional shareholders whose shares are held through brokerage firms or other institutions.

Dividends

The issuance of convertible preferred securities limits the Company's ability to pay dividends to common share holders.

Series H Preferred Stock

The holders of the Company's Series H Convertible Preferred Stock, par value (\$0.001) per share (the Series H Preferred), are entitled to a dividend rate of 3%. Through December 31, 2008, the Company had not paid cash dividends and the Company has accrued approximately \$155 thousand in unpaid dividends. The Company has the option to pay the dividends accrued in all periods in additional shares of Series H Preferred. Series H Preferred is convertible into shares of the Company's common equity.

Series I Preferred Stock

The holders of the Company's Series I Convertible Preferred Stock, par value (\$0.001) per share (the Series I Preferred), are entitled to a dividend of 10%. Through December 31, 2008, the Company has accrued approximately \$184 thousand in unpaid dividends. The Company has the option to pay the dividends accrued in all periods after March 31, 2006 in the Company's common stock rather than cash. During 2008 the Company has not paid any of the accrued dividends on all of the converted Series I Preferred shares to date. The payment of dividends in the form of common stock is subject to limitation, such that no payment in the form of stock can be made that would result in the holder owning 5% or more beneficial ownership of the Company's common stock. There are zero shares of Series I preferred stock and \$184 thousand in accrued dividends outstanding at December 31, 2008. The Company has reserved 5.1 million shares of common stock for the potential conversion of accrued dividends on Series I Preferred into common stock.

Series J Preferred Stock

The holders of the Company's Series J Convertible Preferred Stock, par value (\$0.001) per share (the Series J Preferred), are entitled to a dividend of 10%. Through December 31, 2008, the Company has accrued approximately \$398 thousand in unpaid dividends. The Company has the option to pay the dividends accrued in all periods after March 31, 2006 in the Company's common stock rather than cash. During 2008, no shares of the Company's Series J Preferred Stock were

converted. The conversion of the Series J Preferred shares into common stock and the payment of dividends in the form of common stock are subject to limitation, such that no conversion or payment in the form of stock can be made that would result in the holder owning 5% or more beneficial ownership of the Company's common stock. The Company has reserved approximately 143.3 million shares of common stock for the potential conversion of the Series J Convertible Preferred Stock and accrued dividends there on. The preferred stockholder has 388,302 shares of Series J Preferred at December 31, 2008.

Common Stock

The Company has never paid cash dividends on its common stock. Any future determination by the Board of Directors of the Company with respect to the payment of cash dividends on the common stock of the Company will depend on the ability of the Company to service its outstanding indebtedness, the Company's future earnings, capital requirements, the financial condition of the Company and such other factors as the Company's Board of Directors may consider. The Company currently intends to retain its earnings, if any, to finance the growth and development of its business, to repay outstanding indebtedness and does not anticipate paying cash dividends on its common stock in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

The Company issued 75,000 options to each of three directors in November 2008 under the 1998 Stock Option Plan, with a fair value of less than \$300, which expired in December of 2008, and so were not outstanding at any reporting period end. The Company did not issue any shares or options to purchase shares of the Company's common stock under the 1998 Stock Option Plan during 2007. The 1998 option plan terminated effective December 15, 2008 at which point all options outstanding under the plan expired. There were no options outstanding under the 1998 Stock Option Plan as of December 31, 2008.

Repurchase of Securities

During 2008, neither the Company nor any of its affiliates repurchased common shares of the Company registered under Section R of the Exchange Act.

Recent Sales of Unregistered Securities

On March 5, 2007, the Company issued 120,000 shares of common stock to a consultant as consideration for the second six months of investor relations services to be provided under an agreement. The Company recorded investor relations expense of approximately \$23 thousand in the year ended December 31, 2007, representing the value of the shares issued at the average market price of \$0.19 on the date of issue.

The offering of shares was conducted by the Company in a private placement solely to accredited investors pursuant to an exemption from registration available under Rule 506 of Regulation D of the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

Not required for smaller reporting companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The Company generates all of its revenues through Advanced Sciences. Revenues are derived from the sale of environmental services under 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 operations. However, management believes Advanced Sciences' existing client relationships will allow the Company to obtain new contracts in the future. The Company has access to 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.

In the second quarter of 2007 Applied Sciences acquired approximately \$40 thousand in finished good inventory from a supplier and began selling goods used in the performance of environmental services and hazardous materials handling under the assumed business name Commodore Sales Solution (CSS). In August 2008 management decided to discontinue CSS and completely liquidated the remaining inventory the fourth quarter of 2008.

The Company has identified two 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 two segments are as follows: Commodore Advanced Sciences, Inc., which primarily provides various environmental sampling, analysis and data management services to Government agencies on a lump sum and fixed cost basis; and Commodore Solutions, Inc., which is commercializing technologies to treat mixed and hazardous waste.

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 \$48 thousand. Currently, the Company is addressing this cash shortfall through loans from The Shaar Fund, Ltd., but The Shaar Fund, Ltd. is under no obligation to continue to make such advances to the Company. If this lender decided to discontinue advances, the Company would not be able to meet its current obligations. The loan payable to the Shaar Fund, Ltd at December 31, 2008 totaled \$9.0 million. The fund managers have been very patient in granting extensions to due dates of principal and interest so that the Company has not been in a default position on this loan. The Company does not expect that patience to continue through future months or years unless Company performance improves as demonstrated by revenue growth, profit improvement and cash generation from company operations. In addition, the Company owes approximately \$564 thousand in loans that are currently due or are payable on demand. The Company has been in default on these loans for all of 2008 and 2007 and the lenders have made demand for payment. The Company does not currently have the ability to pay these loans absent additional financing.

The reports of our independent registered public accounting firm on our fiscal 2008 and 2007 consolidated financial statements contain a going concern qualification in which they express substantial doubt about our ability to continue in business. The Company currently requires additional cash to sustain existing operations and to meet current obligations and ongoing capital requirements.

RESULTS OF OPERATIONS

Environmental services provided by Commodore Advanced Sciences:

Environmental service revenues were consistent with the prior year, approximately \$2.5 million for the year ended December 31, 2008, compared to approximately \$2.6 million for the year ended December 31, 2007. Service revenues in 2008 and 2007 were primarily derived from engineering and scientific services performed for the United States government under two contracts similar to those in place in prior years. Advanced Sciences had one major customer in 2008, which represents more than 10% of annual revenue. Revenue from this customer was approximately \$2.2 million or 86.9% of the Company's total 2008 service revenue. In October 2008 BJC awarded

Advanced Sciences with the fiscal year 2009 option on the EDAM contract. In conjunction with the option award Applied Sciences received an increase in billing rates and service fees to be charged under terms of the contract.

Cost of sales for service revenues also remained consistent decreasing from approximately \$2.6 million for 2007 to approximately \$2.5 million for 2008. The Company's backlog at December 31, 2008 totals approximately \$2.3 million, all of which represents work to be completed during calendar year 2009. This compares to a backlog of approximately \$2.0 million at December 31, 2007, all of which was performed during calendar year 2008. Revenues and associated expenses in relation to the EDAM contract are expected to be marginally higher for calendar 2009 when compared to 2008 as a result of the increase in billing rates and service fees charged under the EDAM contract.

Contracts of the Company may be subjected to audit by the DCAA. Anticipated losses on contracts are provided for by a charge to income during the period such losses are first identified. During 2008, the Company completed a DCAA audit of a single contract for the period January 1995 through December 1999. The DCAA had asserted that the Company incorrectly overbilled the Government for services rendered under contracts performed during the period under audit. The Company had previously recorded a liability totaling \$376 thousand as a reserve to settle any claims or expense that may be incurred as a result of the audit process. The amount recorded was estimated based on an assessment of potential liability using an analysis of available information with respect to pending claims, historical experience and, where available, recent and current trends. During the fourth quarter of 2008, the DCAA completed their audit and a settlement was reached. Contrary to earlier expectations and accruals, the Company recognized additional contract revenues of \$86 thousand and subcontractor cost of revenues of \$147 thousand were recognized, resulting in a decrease in loss from operations of \$315 thousand after eliminating the previous accrual.

Supplies sales provided by Commodore Sales Solutions, a division of Commodore Advanced Sciences, Inc.:

In the third quarter of 2008 management decided to cease operation of Commodore Sales Solutions (CSS). The Company had acquired the existing inventory and hired the existing sales staff of one of the Company's existing vendors, in the second quarter of 2007. Management believed CSS could attain incremental annual revenues of \$1 million or greater, which would provide operating income and cash flows from operations to the consolidated company. After reviewing twelve months of operating results, management determined that CSS would be unable to achieve sufficient annualized sales volume, gross profit margin and resulting cash flows quickly enough to justify continued operation of the business. In the third quarter of 2008 management eliminated two positions within the Company associated with CSS and liquidated the remaining inventory in the fourth quarter. Net operating income for CSS for the year ended December 31, 2008, was \$31 thousand, which includes all expenses associated with the liquidation of the remaining inventory in the fourth quarter.

SET services provided by Commodore Solutions, Inc.:

In the case of Solution, there were no revenues for the years ended December 31, 2008 and 2007. Should the Company be successful in securing contract revenues for its SET technology, Solution would reflect revenues once again.

General and Administrative Expense

Consolidated general and administrative expense decreased from \$1.5 million in 2007 to \$1.3 million in 2008. General and administrative expense decreased as a result of reduced salary and wage expense associated with Applied. Applied reduced corporate headcount from five employees in 2007 to three in 2008. In addition to a decrease in salary and wage expense the Company was able to reduce other costs including insurance, marketing and consulting expenses. In the case of Advanced Sciences, general and administrative costs decreased to approximately \$494 thousand for the year ended December 31, 2008 from approximately \$517 thousand for the year ended December 31, 2007. This decrease is attributable to reduced cost for insurance, marketing and consulting labor. Depreciation and amortization expense at Advanced Sciences increased by \$56 thousand. Depreciation and amortization expense for the year ended December 31, 2008 was \$83 thousand compared with \$80 thousand for the year ended December 31, 2007. Advanced Sciences also recognized an impairment charge in the amount of \$26 thousand on the American Aquatics contracts acquired in January 2007. General and administrative expense related to CSS of approximately \$25 thousand included advertising, postage and other expenses associated with the product sales process.

Interest expense

The accompanying financial statements for December 31, 2007 have been restated to correct an error in the balance of accrued interest payable and interest expense. Subsequent to the close of 2008, the Company discovered that both the Company and its principal financier, the Shaar Fund (Shaar) had been inappropriately using the simple interest method of calculating interest on a note payable, when the note document requires monthly compounding of interest (see Note 9). The effect of the computational error resulted in an accumulated understatement of interest expense of \$250 thousand through December 31, 2007, of which \$153 thousand applies to the year ended December 2007 and \$97 thousand applies to years prior to 2007. The Company believes that the accumulated effect of the interest understatement in years prior to 2007 was immaterial to the financial statements.

As a result of the restatement of the 2007 consolidated financial statements, Accrued interest, Interest expense, Net loss and Accumulated deficit increased by \$250 thousand for the year ended December 31, 2007. Correction of the error in 2007 increased the net loss per common share by \$0.03 per share to a net loss of \$0.32 per share.

After giving effect to the correction described above, interest expense increased to approximately \$1.2 million in 2008 from approximately \$1.1 million in 2007, an increase of 12.6%, due to increased borrowings by the Company under the Amended and Restated Shaar Note.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements, such as financing or variable interest entities, that either have, or are reasonably likely to have, a current or future material effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

LIQUIDITY AND CAPITAL RESOURCES

The consolidated financial statements of the Company 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. As shown in the consolidated financial statements, Applied incurred losses and negative cash flows from operating activities for the years ended December 31, 2008 and 2007. Applied also has a working capital deficit of approximately \$17.7 million and an accumulated deficit of approximately \$85.8 million at December 31, 2008 and several of the Company's notes payable are in default. These factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated 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 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.

The reports of our independent registered public accounting firm on our fiscal 2007 and 2008 consolidated financial statements contain a "going concern" qualification in which they express substantial doubt about our ability to continue in business. 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 \$48 thousand at December 31, 2008. Currently, the Company is addressing this cash shortfall through loans from The Shaar Fund, Ltd., but The Shaar Fund, Ltd. is under no obligation to continue to make such advances to the Company. If this lender decided to discontinue advances, the Company would not be able to meet its current obligations. The loan payable to the Shaar Fund, Ltd at December 31, 2008 totaled \$9.0 million. The fund managers have been very patient in granting extensions to due dates of principal and interest so that the Company has not been in a default position on this loan. The Company does not expect that patience to continue through future months or years unless company performance improves as demonstrated by revenue growth, profit improvement and cash generation from company operations. In addition, the Company owes approximately \$564 thousand in loans that are currently due or are payable on demand. The Company has been in default on these loans for all of 2008 and 2007 and the lenders have made demand for payment. The Company does not currently have the ability to pay these loans absent additional financing.

The Company has experienced a decrease in total assets for the year ended December 31, 2008. The decrease in current assets is attributable to i) a reduction in accounts receivable, net, ii) reduction in purchased intangible assets, net and iii) reduction in inventory. Accounts receivable, net, for the period ended December 31, 2008 was approximately \$227 thousand as compared to approximately \$391 thousand for the year ended December 31, 2007. The decrease in accounts receivable, net, is the result of more timely collections of receivables under the ESA contract. Purchased intangible assets, net decreased by \$53 thousand due to amortization of \$27 thousand and an impairment charge \$26 thousand recognized during the year. The inventory balance decreased by \$73 thousand due to the closure of the CSS division of Advanced Sciences.

For the year ended December 31, 2008, the Company incurred a net loss of approximately \$2.9 million compared to a net loss of approximately \$2.7 million for the year ended December 31, 2007. The increase in the net loss was

attributable to an increase in interest expense. The Company has also experienced net cash outflows from operating activities of approximately \$816 thousand and \$1.3 million for the years ended December 31, 2008, and 2007, respectively.

As of December 31, 2008 and 2007, the Company had a stockholders' deficit of approximately \$17.6 million and \$14.7 million, respectively. The net increase in stockholders' deficit for the years ended December 31, 2008 and 2007 is a result of the Company's 2008 net operation loss of \$2.9 million. At December 31, 2008 and 2007 the Company had working capital deficit of approximately \$17.7 million and \$6.9 million, respectively. The increase in the working capital deficit from December 31, 2007 to December 31, 2008 is the result of the Shaar note being classified as current due to its April 2009 maturity date. Current liabilities also include \$1.6 million in accrued dividends to preferred stockholders.

Certain prior-year amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on net loss or total Stockholders' equity as previously reported.

ITEM 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 8.

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Commodore Applied Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of Commodore Applied Technologies, Inc. and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commodore Applied Technologies, Inc. and its subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has negative working capital and an accumulated deficit which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3 to the consolidated financial statements the Company has restated its 2007 consolidated financial statements.

DeCoria, Maichel & Teague P.S.

Spokane, Washington

April 13, 2009

Commodore Applied Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands except shares)

December 31,**2008****2007**

ASSETS

Restated

Current assets:

(See Note 3)

Cash	\$ 212	\$ 200
Accounts receivable, net	227	391
Prepaid assets	60	124
Inventory	-	73
Total current assets	499	788
Property and equipment, net	116	172
Purchased intangible asset, net	-	53
Other assets	-	1
Total assets	\$ 615	\$ 1,014

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

Accounts payable	\$ 807	\$ 915
Accrued interest	3,586	2,291
Deferred wages	2,264	2,039
Preferred dividends payable	1,611	1,189
Other accrued liabilities	354	549
Long-term debt, current	9,576	735
Total current liabilities	18,198	7,718
Long-term debt, net of current portion	3	8,016
Total liabilities	18,201	15,734

Commitments and contingencies, note 15

Stockholders' deficit:

Preferred stock, par value \$.001 per share, 10,000,000 shares authorized

Convertible preferred stock, Series H & J, par value \$.001 per share
 aggregate liquidation value of \$7,306 and \$6,908 at December 31, 2008
 and 2007, respectively, 3% non-cumulative dividends for Series H, 10%
 cumulative dividends for Series J, 1,550,000 shares authorized 1,188,302
 shares issued and outstanding as of December 31, 2008 and 2007. 1 1

Common stock, par value \$.001 per share, 300,000,000 shares
 authorized, 8,288,217 shares issued and outstanding at
 December 31, 2008 and 2007 8 8

Additional paid-in capital	68,479	68,901
Accumulated deficit	(85,811)	(83,367)
Treasury stock, 171,875 shares, at cost	(263)	(263)
Total stockholders' deficit	(17,586)	(14,720)
Total liabilities and stockholders' deficit	\$ 615	\$ 1,014

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

Commodore Applied Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations

For the years ended December 31, 2008 and 2007

(Amounts in thousands except per share data)

	2008	2007 Restated
		(See Note 3)
Revenue:		
Service	\$ 2,510	\$ 2,589
Product	576	607
Total sales	3,086	3,196
Costs and expenses:		
Cost of revenue		
Service	2,459	2,608
Product	545	574
DCAA settlement, net	-	(315)
General and administrative	1,334	1,499
Total costs and expenses	4,338	4,366
Loss from operations	(1,252)	(1,170)
Interest expense	(1,192)	(1,058)
Net loss	(2,444)	(2,228)
Dividends accrued to preferred stockholders	(422)	(418)
Net loss applicable to common stockholders	\$ (2,866)	\$ (2,646)
Net loss per share - basic and diluted	\$ (0.35)	\$ (0.32)
Weighted average shares outstanding - basic and diluted	8,288	8,276

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

Commodore Applied Technologies, Inc. and Subsidiaries**Consolidated Statements of Stockholders' Deficit****For the years ended December 31, 2008 and 2007****(Amounts in thousands, except shares)**

	Convertible		Common Stock		Additional	Accumulated	Treasury	Total
	Preferred stock	Amount	Shares	Amount	Paid-In			
	Shares		Shares	Amount	Capital	Deficit	Stock	
Balances, January 1, 2007	1,188,302	\$ 1	8,168,217	\$ 8	\$ 69,296	\$ (81,139)	\$ (263)	\$ (12,097)
Preferred stock dividends	-	-	-	-	(418)	-	-	(418)
Stock issued for services	-	-	120,000	-	23	-	-	23
Net loss	-	-	-	-	-	(2,228)	-	(2,228)
Balances, December 31, 2007								
Restated (See Note 3)	1,188,302	1	8,288,217	8	68,901	(83,367)	(263)	(14,720)
Preferred stock dividends	-	-	-	-	(422)	-	-	(422)
Net loss	-	-	-	-	-	(2,444)	-	(2,444)
Balances, December 31, 2008	1,188,302	\$ 1	8,288,217	\$ 8	\$ 68,479	\$ (85,811)	\$ (263)	\$ (17,586)

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

Commodore Applied Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(Amounts in thousands)

	2008	2007 Restated
Cash flows from operating activities:		(See Note 3)
Net loss	(\$2,444)	(\$2,228)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	83	80
Gain on settlement of DCAA audit	-	(376)
Impairment of intangible asset	26	-
Issuance of common stock for services	-	23
Changes in assets and liabilities:		
Accounts receivable, net	164	411
Prepaid assets	64	14
Inventory	73	(73)
Other assets	1	-
Accounts payable	(108)	(97)
Accrued interest	1,295	1,042
Deferred wages	225	156
Other accrued liabilities	(195)	(279)
Net cash used - operating activities	(816)	(1,327)
Cash flows from investing activities:		
Equipment purchased	-	(17)
Purchased intangible asset	-	(10)
Net cash used - investing activities	-	(27)
Cash flows from financing activities:		
Borrowings on debt	969	1,615
Payments on long-term debt	(141)	(188)
Net cash provided - financing activities	828	1,427

Net change in cash		12		73
Cash at beginning of year		200		127
Cash at end of year	\$	212	\$	200
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	\$	16	\$	24
Non-cash investing and financing activities				
Accrued dividends on preferred stock	\$	422	\$	416
Purchase of equipment by issuing debt		-	\$	91
Purchase of equipment by capital lease		-	\$	12
Purchase of intangible asset by issuing debt		-	\$	70

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

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Operations

Commodore Applied Technologies, Inc. and subsidiaries ("Applied" or the Company) is engaged in performing environmental monitoring and engineering services and the destruction and neutralization of hazardous waste from other materials. Through its subsidiary Commodore Advanced Sciences, Inc. ("Advanced Sciences"), Applied has contracts with various government agencies and private companies in the United States and abroad performing environmental monitoring and engineering services. During 2008 and 2007, Advanced Sciences also sold and distributed safety products and other materials used in connection with its monitoring and engineering services through a division known as Commodore Sales Solutions. Applied owns technologies related to the separation and destruction of polychlorinated biphenyls (PCBs) and chlorofluorocarbons (CFCs). Applied is currently working on the commercialization of these technologies through customer development efforts, licensing arrangements and/or permitting activities.

Principles of Consolidation

The consolidated financial statements include the accounts of Applied and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Applied considers cash and highly liquid debt instruments with original maturities of three months or less at the date of purchase to be cash equivalents.

Concentration of Credit Risk and Significant Customers

Applied maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Applied has not experienced any losses in such accounts.

With respect to trade receivables, Applied generally does not require collateral as the majority of Applied's services are performed for the U.S. Government and prime contractors that serve the U.S. Government. Applied believes it is not exposed to any significant credit risk on cash, cash equivalents and trade receivables. Sales to major customers which exceeded 10 percent of revenues are limited to one customer as follows, in thousands:

	2008	2007
Customer A	\$2,194	\$1,835

Customer A accounts for approximately 97.3% and 67.6 % of the accounts receivable balance as of December 31, 2008 and 2007, respectively.

Accounts receivable

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days, not counting retainage billed, which is due at the end of the particular phase of the master government contract. At December 31, 2008 and 2007 retainage of approximately \$36 thousand and \$12 thousand were included in trade accounts receivable, respectively, all expected to be collected within one year. Interest is not charged on trade receivables.

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies, continued:

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Improvements which substantially increase the useful lives of assets are capitalized. Maintenance and repairs are expensed as incurred. Upon retirement or disposal, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is recorded in the Consolidated Statements of Operations. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets; machinery and equipment over 3 to 7 years, furniture and fixtures over 3 to 7 years and computer equipment and software over 3 to 5 years.

Purchased Intangible Asset

Applied amortizes the purchased intangible asset on a straight-line basis over its contractual or economic life.

Impairment of Long-Lived Assets

Applied reviews its long-lived assets, including property, equipment and intangibles with useful lives, for impairment annually or whenever circumstances indicate that the carrying amount of the assets may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The carrying value of a long-lived asset is considered impaired when the estimated cumulative undiscounted cash flows of the related asset or asset group is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the estimated fair market value of the long-lived asset. Applied recorded an impairment charge of \$26 thousand and zero on its purchased intangible asset for the years ended December 31, 2008 and 2007, which is included in general and administrative expense in the Consolidated Statements of Operations.

Revenue Recognition

Substantially all of Applied's revenues are generated by its subsidiary, Advanced Sciences. Advanced Sciences revenues consist of engineering and scientific services and sale of scientific and safety products. Engineering and scientific services are performed for the U.S. Government and prime contractors that serve the U.S. Government under a variety of contracts, most of which provide for unit prices. Revenue under unit price contracts is recorded when a contract or arrangement exists, the fees to be charged are fixed or determinable, the services have been provided, and collection of the billed amounts is reasonably assured.

Revenue on product sales is generally recognized when evidence of a customer arrangement exists, prices are fixed and determinable and product title, ownership and risk of loss transfers to the customer. Revenue for product sales also includes freight and handling charges. The Company's standard shipping terms are FOB shipping point.

Income Taxes

Income taxes are determined in accordance with Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes (SFAS 109), which requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income tax liabilities and assets are determined based on the difference between financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. SFAS 109 also provides for the recognition of deferred tax assets if it is more likely than not that the assets will be realized in future years.

Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to market data and other valuation techniques as appropriate. Cash and cash equivalents, accounts receivable, current assets, accounts payable, current liabilities and long term debt are financial instruments that are subject to material market variations from the recorded book value. The fair value of these financial instruments approximates the recorded book value as of December 31, 2008 and 2007.

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies, continued:

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) 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.

Adopted Accounting Pronouncements

On November 15, 2008, the Company adopted SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The adoption of this statement did not have a material effect on the Company s consolidated financial statements.

On January 1, 2008, the Company adopted, SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 157). SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The adoption of this statement did not have a material effect on the Company s consolidated financial statements.

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. The adoption of this statement did not have a material effect on the Company s consolidated financial statements.

SFAS No. 157 expands disclosure requirements to include the following information for each major category of assets and liabilities that are measured at fair value on a recurring basis:

The fair value measurement;

a)

The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3);

b)

For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:

1.

Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of operations;

2.

The amount of these gains or losses attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting period date and a description of where those unrealized gains or losses are reported;

3.

Purchases, sales, issuances, and settlements (net); and

4.

Transfers in and/or out of Level 3.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157, to delay the effective date of FASB Statement 157 for one year for certain nonfinancial assets and nonfinancial liabilities, excluding those that are recognized or disclosed in financial statements at fair value on a recurring basis (that is, at least annually). For purposes of applying the FSP, nonfinancial assets and nonfinancial liabilities include all assets and liabilities other than those meeting the definition of a financial asset or a financial liability in SFAS 159. This FSP defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP.

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies, continued:

Adopted Accounting Pronouncement, continued:

On January 1, 2007, the Company adopted SFAS No. 155 Accounting for Certain Hybrid Financial Instruments (SFAS No. 155), which amends SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1 Application of Statement 133 to Beneficial Interests in Securitized Financial Assets, and:

.

Permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation;

.

Clarifies which interest-only strips are not subject to the requirements of SFAS No. 133;

.

Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation;

.

Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and

.

Amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

The Company adopted SFAS No. 155 using the modified prospective transition method, which required the application of the accounting standard as of January 1, 2007. There was no impact on the financial statements as a result of the adoption of SFAS No. 155. In accordance with the modified prospective transition method, the financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 155.

On January 1, 2007, the Company adopted SFAS No. 156, *Accounting for Servicing of Financial Assets* an Amendment of FASB Statement No. 140. This Statement amended SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. The adoption of this Statement had no material impact on the Company's consolidated financial position or results of operations.

On January 1, 2007, the Company adopted FIN No. 48 using the modified prospective transition method, which requires the application of the accounting standard. There was no impact on the financial statements as a result of the adoption of FIN No. 48. In accordance with the modified prospective transition method, the financial statements for prior periods have not been restated to reflect, and do not include, the impact of FIN No. 48.

New Accounting Pronouncements

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. This FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment to FASB Statement No. 133 (SFAS 161). SFAS 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies, continued:

New Accounting Pronouncements, continued:

In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations* (SFAS 141(R)) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* . SFAS 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has determined that there will be little or no effect on its consolidated financial statements, upon adoption of SFAS 141(R) or SFAS No. 160, due to the absence of noncontrolling interests being held by the Company.

Stock-Based Compensation

At December 31, 2007, the Company had a stock plan for key employees, non-employee directors and management consultants. The plan terminated on December 15, 2008 and all outstanding options expired as described more fully in Note 12 *Share-Based Compensation* .

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation. These reclassifications have no effect on net loss, total assets or stockholders' deficit as previously reported.

2. Going Concern

The accompanying consolidated 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. As shown in the consolidated financial statements, Applied incurred losses and negative cash flows from operating activities for the years ended December 31, 2008 and 2007. Applied also has a working capital deficit of approximately \$17.7 million and an accumulated deficit of approximately \$85.8 million at December 31, 2008 and several of the Company's notes payable are in default. These factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated 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 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. Applied currently requires additional cash funding from outside sources to sustain existing operations and to meet current obligations and ongoing capital requirements.

3. Correction of an Error

The accompanying financial statements for December 31, 2007 have been restated to correct an error in the balance of accrued interest payable and interest expense. Subsequent to the close of 2008, the Company discovered that both the Company and its principal financier, the Shaar Fund Ltd. (Shaar) had been inappropriately using the simple interest method of calculating interest on a note payable, when the note document requires monthly compounding of interest (see Note 9). The effect of the computational error resulted in an accumulated understatement of interest expense of \$250 thousand through December 31, 2007, of which \$153 thousand applies to the year ended December 2007 and \$97 thousand applies to years prior to 2007. The Company believes that the accumulated effect of the interest understatement in years prior to 2007 is immaterial to the financial statements.

Commodore Applied Technologies, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****3. Correction of an Error, continued**

The effects of the restatement of the 2007 consolidated financial statements were as follows:

Year Ended December 31, 2007 (in thousands except per share data)			
Consolidated Statement of Operations:	As Originally Reported	As Restated	Effect of Restatement
Revenue:	\$ 3,196	\$ 3,196	\$ -
Cost and expenses	4,366	4,366	-
Loss from operation	(1,170)	(1,170)	-
Interest expense	(808)	(1,058)	(250)
Net loss	(1,978)	(2,228)	(250)
Dividends accrued to preferred stockholders	(418)	(418)	-
Net loss applicable to stockholders	\$ (2,396)	\$ (2,646)	\$ (250)
Net loss per share - basic and diluted	\$ (0.29)	\$ (0.32)	\$ (0.03)
Weighted average shares outstanding basic and diluted	8,276	8,276	-
Consolidated Balance Sheet:			
Total assets	\$ 1,014	\$ 1,014	\$ -
Accrued interest	\$ 2,041	\$ 2,291	\$ 250
All other current liabilities	5,427	5,427	-
Long-term debt, net of current portion	8,016	8,016	-
Total liabilities	15,484	15,734	250
Accumulated deficit	(83,117)	(83,367)	(250)

Preferred stock, common stock, additional paid-in capital, less treasury stock	68,647	68,647	-
Total stockholders deficit	(14,470)	(14,720)	(250)
Total liabilities and stockholders deficit	\$ 1,014	\$ 1,014	\$ -

As a result of the restatement of the 2007 consolidated financial statements, Accrued interest, Interest expense, Net loss and Accumulated deficit each increased by \$250 thousand for the year ended December 31, 2007, and increased the net loss per common share by \$0.03 per share to a net loss of \$0.32 per share.

4. Accounts Receivable

The components of the Company's trade receivables as of December 31, 2008 and 2007 are as follows, in thousands:

	2008	2007
Account receivables	\$228	\$394
Related party receivables	3	3
Allowance for doubtful accounts	(4)	(6)
Accounts receivable, net	\$ 227	\$391

Commodore Applied Technologies, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****5. Sale of Accounts Receivable**

Until March 2009, Advanced Sciences had the ability, at the Company's option, to sell its accounts receivable under the EDAM contract to Wells Fargo Bank pursuant to the terms of a factoring agreement. The agreement allowed Advanced Sciences to receive 90% of eligible receivables up to \$2 million. According to the terms of the agreement, receivables were sold with full recourse and the Company assumed all risk of collectability. Financing fees were paid monthly at prime plus 2.0 percent of receivables sold, an aggregated rate of 5.25% at December 31, 2008. Financing fees paid for the year ended December 31, 2008 and 2007 were \$6 thousand and \$11 thousand, respectively, under the agreement.

6. Property and Equipment

Property and equipment consist of the following as of December 31, 2008 and 2007, in thousands:

	2008	2007
Machinery and equipment	\$262	\$659
Furniture and fixtures	36	60
Computer equipment	84	96
	382	815
Accumulated depreciation	(266)	(643)
Property and equipment, net	\$116	\$172

During the year ended December 31, 2008, \$433 thousand of fully depreciated machinery and equipment with no future economic use or value was retired, resulting in no recognized gain or loss. Cost and related accumulated depreciation have been removed from the respective accounts.

7. Contract Acquisition

In January 2007, Advance Sciences acquired net assets in the form of equipment and monitoring services contracts from American Aquatics Inc. in exchange for \$170 thousand in cash and short-term notes payable. The acquisition increased environmental monitoring revenues by \$0 and \$156 thousand for the years ended December 31, 2008 and 2007, respectively. Revenues are included in the Consolidated Statements of Operations and Segment Information reported in Note 17 since the date of acquisition. The purchase price resulted in additions to property and equipment of approximately \$90 thousand and intangible assets of approximately \$79 thousand for the monitoring service contracts. The acquired intangibles were amortized on a straight-line basis over the estimated life of the monitoring service contracts. For the year ended December 31, 2007, \$26 thousand in amortization was recorded. For the year ended December 31, 2008, Applied recorded \$27 thousand in amortization expense and an impairment charge of \$26 thousand on the purchased intangible.

8. Other Accrued Liabilities

Other accrued liabilities consist of the following, in thousands:

	2008	2007
Compensation and employee benefits ⁽¹⁾	\$ 143	\$186
Related party payable ⁽²⁾	187	269
Other ⁽³⁾	24	94
Total	\$354	\$549

(1)

Liability accrued for payroll, payroll taxes paid-time off and employee benefits earned by Company employees but paid subsequent to the close of the year.

(2)

Amounts payable to parties related to the Company by past ownership of an acquired company.

(3)

Accruals for other general liabilities of the Company.

Commodore Applied Technologies, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****9. Long-Term Debt**

Long-term debt consists of the following as of December 31, 2008 and 2007, in thousands:

	2008	2007
Convertible note payable, 10% interest ⁽¹⁾	\$8,982	\$8,009
Note payable, 12% interest ⁽²⁾	252	252
Note payable, 9% interest ⁽³⁾	312	312
Note payable, 8.75% interest ⁽⁴⁾	-	58
Note payable, 6.5% interest ⁽⁵⁾	14	80
Note payable, 6.% interest ⁽⁶⁾	12	24
Other ⁽⁷⁾	7	16
	9,579	8,751
Less current portion	(9,576)	(735)
	\$3	\$8,016

(1)

Notes payable to The Shaar Fund, Ltd. bearing 10%, interest, compounded monthly, with payments due in aggregate monthly installments beginning March 26, 2006, and extended by agreement on multiple occasions to be due and payable on June 30, 2007, September 30, 2007, January 2, 2008, June 30, 2008, September 30, 2008, January 2, 2009 and April 2, 2009, respectively. At no time have any of the terms and conditions of the Note, or its payment of accrued and/or quarterly interest, been deemed in default. All other terms and conditions of the Shaar Convertible Secured Note remain the same and in full force and effect. The Note is collateralized by property and equipment and patents. The note is convertible into common stock at any time, and the interest can be paid in cash or stock, at the option of either the Company or the holder. Both the conversion and the payment of interest in the form of common stock are subject to a limitation, such that no conversion or payment in the form of stock can be exercised or made that would result in the holder owning 5% or more beneficial ownership of the Company's common stock. The conversion price is the average closing price of the ten days preceding the conversion date, but shall not be more than \$0.50 per share or less than \$0.05 per share. See Note 11. Also, these notes payable restrict the Company's ability to declare or pay dividends on and repurchase common stock, materially change the Company's business, enter a business combination, or transfer or sell assets.

(2)

Notes payable to individuals bearing 12.0% interest and are in default as of January 15, 2005, collateralized by accounts receivable.

(3)

Note payable to an individual with interest at 9%, no collateral and in default as of December 31, 2006

(4)

Note payable to American Aquatics, Inc. with interest at 8.75%, payable monthly payments through May 2008.

(5)

Note payable to Sterling Lending financing the Company's general liability insurance, with interest at 6.5% payable monthly through April 2009.

(6)

Note payable to Sterling Lending financing the Company's directors and officers insurance, with interest at 6.0% payable monthly payments through April 2009.

(7)

Other long-term debt consists of short-term notes and capital leases for equipment. Interest rates and dates of maturity vary through April 2011.

Commodore Applied Technologies, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****9. Long-Term Debt, continued:**

Future maturities of debt as follows, in thousands:

2009	\$9,576
2010	2
2011	1
Thereafter	-
	\$9,579

10. Income Taxes

Applied has no income tax provision at December 31, 2008 and 2007. The components of the net deferred tax assets as of December 31, 2008 and 2007 are as follows, in thousands:

	2008	2007
Reserves and accruals	\$ 33	\$ 29
Net operating loss carryforward	16,717	15,834
Depreciation, amortization and impairment charges	-	-
	16,750	15,863
Valuation allowance	(16,750)	(15,863)
Net deferred tax assets	\$ -	\$ -

Management estimates that the Company's combined federal and state tax rates would be 36.3%. Applied conducts a periodic examination of its valuation allowance. Factors considered in the evaluation include recent and expected future earnings and Applied's liquidity and equity positions. As of December 31, 2008 and 2007, Applied has established a valuation allowance for the entire amount of net deferred tax assets, due to the Company's belief that it is more likely than not that the deferred tax asset will not be realized.

Applied has net operating loss ("NOL") carryforwards at December 31, 2008 of approximately \$46 million which expire in years 2010 through 2028. The provision for income taxes for the years ended December 31, 2008 and 2007 results in an effective tax rate which differs from federal income tax rates as follows, in thousands:

	2008	2007
Expected tax benefit at federal statutory rate of 34%	\$ (831)	\$ (758)
State income tax benefit at a blended rate of 2.3%	(56)	(51)
Change in valuation allowance	887	809
Income tax benefit	\$ -	\$ -

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48 (FIN No. 48) Accounting for Uncertainty in Income Taxes. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109 Accounting for Income Taxes, prescribing a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. In the course of our assessment, we have determined that we are subject to examination of our income tax filings in the United States and state jurisdictions for the 2006 through 2008 tax years. In the event that the Company is assessed penalties and or interest, penalties will be charged to other operating expense and interest will be charged to interest expense. There was no impact on the financial statements as a result of the adoption of FIN No. 48. In accordance with the modified prospective transition method, the financial statements for prior periods have not been restated to reflect, and do not include, the impact of FIN No. 48.

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

11. Stockholders Deficit

On April 12, 2005, the Company entered into the Shaar Exchange Agreement, in which the Company agreed that Shaar would exchange all of its right, title and interest in and to the remaining outstanding shares of the Series E and Series F Preferred (including all other accrued and unpaid dividends thereon) for 395,302 shares of the Company's Series I Preferred Stock. Effective October 1, 2005, the Company entered into the New Shaar Exchange Agreement, in which Shaar exchanged all of its right, title and interest in and to the remaining outstanding shares of the Series I Preferred (excluding all other accrued and unpaid dividends thereon) for 388,302 shares of the Company's Series J Preferred Stock, which represents all of the Series J preferred stock outstanding at December 31, 2008.

The Company accrued approximately \$184 thousand of dividends in 2005 on the Series I Preferred prior to its exchange, all of which dividends are outstanding at December 31, 2008.

Series H Convertible Preferred Stock

Applied authorized 1,000,000 shares of Series H Preferred Stock (the Series H Preferred), par value \$0.001 per share, having a stated value of \$1 per share. At December 31, 2008, there were 800,000 shares outstanding. The Series H Preferred shall have the following rights, privileges, and limitations:

a)

The conversion feature was exercisable on or after June 30, 2003.

b)

No Series H Preferred could be converted prior to June 30, 2003. Until July 31, 2005, only 80,000 shares could be convertible in any calendar quarter. The balance of any unconverted shares may be converted at any time on or after August 1, 2005.

c)

The conversion price is determined by the average closing price of Company's common stock in the previous 30 trading days, but in no event shall the conversion price be less than \$4.00 per share.

e)

The Series H Preferred has a non-cumulative annual dividend of 3%, payable in cash or Series H Preferred

within 30 days of the end of Applied's fiscal year, at Applied's election. Dividends of \$24 thousand were accrued during 2008 and 2007 respectively, and total accumulated dividends of \$155 thousand had been accrued at December 31, 2008.

f)

The Series H Preferred is not transferable.

There have been no shares of Series H Preferred stock converted into common shares as of December 31, 2008.

In the event of liquidation, dissolution or winding up of Applied, holders of Series H Convertible Preferred Stock are entitled to receive liquidation distributions equivalent to \$1.00 per share, and no more, before any distribution to holders of the common stock.

Series J Convertible Preferred Stock

Effective October 1, 2005, the Company authorized 550,000 shares of Series J Convertible Preferred Stock (Series J Preferred), par value \$0.001 per share, each such share having a stated value of \$10.00 per share.

The Series J Preferred have the following rights, privileges, and limitations:

a)

The conversion feature was exercisable immediately upon issuance of the shares.

b)

The conversion price is determined by the average closing price of the Company's common stock in the previous 10 trading days, but in no event shall the conversion price be more than \$0.50 per share or less than \$0.05 per share.

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

11. Stockholders Deficit, continued:

Series J Convertible Preferred Stock, continued:

c)

If the Company's common stock is not listed on an exchange at the time of the conversion, then the conversion price will be 50% of the market price at that time.

d)

The Series J Preferred have a cumulative annual dividend of 10%, payable in cash or shares of the Company's common stock at the Company's election.

e)

Dividends were to be paid quarterly commencing March 31, 2006, to the holder of the shares of the Series J

Preferred Stock. As of December 31, 2008, no dividends had yet been paid under these terms, and the holder has agreed to a deferral of payment without consequence to the Company.

f)

The Company has reserved 60,000,000 shares of its common stock for the conversion of the Series J Preferred and the Amended New Shaar Convertible Note.

g)

Both the conversion and the payment of dividends in the form of common stock are subject to limitation, such that no conversion or payment in the form of stock can be exercised or made that would result in the holder owning 5% or more beneficial ownership of the Company's common stock.

h)

The Company accrued approximately \$398 thousand \$392 of dividends in 2008 and 2007 on the Series J Preferred. Accumulated dividends totaled approximately \$1.3 million through December 31, 2008.

Upon liquidation, dissolution or winding up of Applied, holders of Series J Convertible Preferred Stock are entitled to receive liquidation distributions equivalent to a stated value of \$10.00 per share, plus 30% of the stated value, plus the aggregate of all accrued and unpaid dividends, the total of such distributions to be made before any distribution to holders of the common stock.

Rights and Dividends

The holders of all series of convertible preferred stock have the right, voting as a class, to approve or disapprove of the issuance of any class or series of stock ranking senior to or on a parity with the convertible preferred stock with respect to declaration and payment of dividends or the distribution of assets on liquidation, dissolution or winding up.

Cumulative unpaid dividends on all series of preferred stock are approximately \$1.6 million and \$1.2 million at December 31, 2008 and 2007, respectively.

Warrants

Each outstanding warrant is exercisable into one share of the Company's common stock. A summary of the warrants outstanding as of December 31, 2008 and 2007 and changes during the periods then ended is presented below:

	Number of Warrants	Weighted Avg. Exercise Price
Beginning Balance 2007	1,632,791	\$ 0.52
Expired	(50,001)	0.57
Beginning Balance 2008	1,582,790	\$0.50
Expired	(1,570,290)	0.52
Ending Balance 2008	12,500	\$ 0.60

At December 31, 2008, all outstanding warrants were originally issued during 2004, and expire in February 2009.

Commodore Applied Technologies, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****12. Share-Based Compensation**

During the year ended December 31, 2007, the Company issued 120,000 shares of common stock to an investor relations services consulting firm, for which an expense of approximately \$23 thousand was recognized, measured by the fair value of the shares at the date of issue.

In December 1998, Applied adopted its 1998 Stock Option Plan pursuant to which officers, directors, key employees and/or consultants of Applied can receive non-qualified stock options to purchase up to an aggregate 250,000 shares of Applied's common stock. In 1999 and 2000 Applied increased the number of shares authorized each year by 250,000, resulting in 7,500,000 shares available under the 1998 stock option plan. The plan expired on December 15, 2008 at which point all outstanding options under the plan terminated. As of December 31, 2008 there were no options outstanding under the 1998 option plan.

The Company issued 75,000 options to each of three directors in November 2008 under the 1998 Stock Option Plan, with a fair value of less than \$300, which expired in December of 2008, and so were not outstanding at any reporting period end. The Company did not issue any shares or options to purchase shares of the Company's common stock under the 1998 Stock Option Plan during 2007. The 1998 option plan terminated effective December 15, 2008 at which point all options outstanding under the plan expired. There were no options outstanding under the 1998 Stock Option Plan as of December 31, 2008. At December 31, 2008 there was no unrecognized compensation expense related to non-vested share-based compensation arrangements granted under any Company plan.

Stock Options

A summary of stock options outstanding as of December 31, 2008 and 2007 and changes during the periods then ended is presented below:

	# of Options	Weighted Avg. Exercise Price
Beginning Balance 2007	4,310,472	0.66
Forfeited	(2,500)	1.06
Beginning Balance 2008	4,307,972	0.66

Granted	300,000	0.04
Forfeited	(4,607,972)	0.66
Ending Balance 2008	-	\$ 0.00

13. Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the period. Diluted loss per share is computed using the weighted average number of shares determined for the basic computations plus the number of shares that would be issued assuming all contingently issuable shares having a dilutive effect on earnings per share were outstanding for the period. Options and warrants to purchase 12,500 and 5,890,762 shares of common stock were outstanding as of December 31, 2008 and 2007, respectively. Additionally, exercise of a convertible note, interest, Series H and Series J Preferred and dividends would result in issuance of approximately 414,410 shares of common stock, due to provisions that limit the total of these conversions to less than 5% beneficial ownership by the holder. Shares issuable upon exercise of options, warrants and convertible debt and instruments were excluded from the calculation of diluted loss per share as the effect would have been anti-dilutive as the Company has experienced net losses.

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

14. Related Party Transactions

Applied had the following related party transactions not fully disclosed elsewhere:

a)

Applied has payables to related parties of approximately \$187 thousand and \$269 thousand for the years ended December 31, 2008 and 2007, which are included in other accrued liabilities.

b)

Applied has a note payable to Bentley Blum, a former member of the board of directors that is due on demand and carries interest at 9%. The balance as of December 31, 2008 and 2007 was approximately \$312 thousand. Accrued interest as of December 31, 2008 and 2007 was \$155 thousand and \$127 thousand, respectively. The note is in default at December 31, 2008.

c)

Applied has accrued a payable in the amount of \$20 thousand to its CEO, Dr. Shelby T. Brewer, for the rent of office space located in Dr. Brewer's home in Alexandria, VA. Total rent expense under this agreement was \$20 thousand for the years ended December 31, 2008 and 2007.

d)

Applied has a convertible note payable to The Shaar Fund, Ltd., a shareholder of Applied, which matures in April 2009. The note bears annual interest at 10%, compounded monthly, with payments of interest only due in aggregate monthly installments beginning June 30, 2007. The balance as of December 31, 2008 and 2007 was approximately \$9.0 million and \$8.0 million, respectively. Accrued interest on the note was approximately \$3.1 million and \$2.0 million for the years ended December 31, 2008 and 2007 respectively,

15. Commitments and Contingencies

Operating Leases

Applied and its subsidiaries are committed under non-cancellable operating leases for office space and other equipment. Future obligations under the leases are as follows, in thousands:

2009	\$	128
2010		128
2011		77
Total	\$	333

Rent expense was approximately \$200 thousand and \$213 thousand in 2008 and 2007, respectively.

DCAA Audit

Contracts of the Company may be subjected to audit by the Defense Contract Audit Agency (DCAA). Anticipated losses on contracts are provided for by a charge to income during the period such losses are first identified. On January 25, 2007, the Company received a letter from the Department of Energy regarding a DCAA audit of a single contract of the Company for the period January 1995 through December 1999. The DCAA asserted that the Company incorrectly overbilled the Government for services rendered under contracts performed during said period. The Company had previously recorded a liability totaling \$376 thousand as a reserve to settle any claims or expense that may be incurred as a result of the audit process. The amount recorded was estimated based on an assessment of potential liability using an analysis of available information with respect to pending claims, historical experience and, where available, recent and current trends. During the fourth quarter of 2007 the DCAA completed their audit and a settlement was reached. The Company recognized additional contract revenues of \$86 and subcontractor cost of revenue of \$147 were recognized, resulting in an decrease in the loss from operations of \$315 for the year ended December 31, 2007.

Commodore Applied Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

15. Commitments and Contingencies, continued:

Guarantee

Applied, along with several other entities, in a prior year, guaranteed a performance bond of Commodore Separation Technologies, Inc. a discontinued subsidiary of the Company, relating to a contract with the Port of Baltimore. Applied was notified on June 28, 2000, that the performance bond was being called. It is not known at this time the amount, if any, Applied's share will be. No liability has been reflected in the financial statements as of December 31, 2008 or 2007 related to this bond, as the Company feels an adverse determination is not probable, and the amount of loss is not determinable.

16. 401(K) Savings Plan

Applied has adopted a 401(K) savings plan for all employees who qualify as to age and service. Contributions by Applied are discretionary. Applied did not make any discretionary contributions to the plan during the years ended December 31, 2008 or 2007.

17. Segment Information

Using the guidelines set forth in SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," Applied has identified two reportable segments as follows:

1.

Advanced Sciences, which primarily provides various engineering, legal, sampling and public relations services to government agencies on a cost plus basis.

2.

Solution, which, through Advanced Sciences, has equipment to treat mixed and hazardous waste through a patented process using sodium and anhydrous ammonia. No activity existed in Solutions as of and for the years ended December 31, 2008 and 2007.

Common overhead costs are allocated between segments based on a record of time spent by executives. Applied evaluates segment performance based on the segment's net income (loss). The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Summarized financial information concerning Applied's reportable segments is shown in the following table.

Commodore Applied Technologies, Inc. and Subsidiaries
Segment Disclosure
For the years ended December 31, 2008 and 2007
(Amounts in Thousands)

	2008			2007		
	CASI	Corporate & Other	Total	CASI	Corporate & Other	Total
Revenues						
Services	\$ 2,510	\$ -	\$ 2,510	\$ 2,589	\$ -	\$ 2,589
Product	576	-	576	607	-	607
Total Revenue	3,086	-	3,086	3,196	-	3,196
Cost of revenues						
Services	2,442	17	2,459	2,608	-	2,608
Products	545	-	545	574	-	574
DCAA settlement, net	-	-	-	(315)	-	(315)
General and administrative	494	840	1,334	517	982	1,499
Total costs and expenses	3,481	857	4,338	3,384	982	4,366
Loss from operations	(395)	(857)	(1,252)	(188)	(982)	(1,170)
Interest expense	5	(1,197)				