COMMODORE APPLIED TECHNOLOGIES INC
Form 10-Q
May 22, 2006

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended March 31, 2006

OR

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

Commission file number 1-11871

Commodore Applied Technologies, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	11-3312952
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
150 East 58th Street, Suite 3238 New York, New York	10155
(Address of Principal Executive Offices)	(Zip Code)

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

(Former Name, Former Address And Former Fiscal Year, If Changed Since Last Report)

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

Yes [ ] No [X]

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

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Large accelerated filer [ ]   Accelerated filer [ ] Non-accelerated filer (X)

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

Yes [ ]   No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 15, 2006
Common Stock, $0.001 par value	7,948,217 shares

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PART I - FINANCIAL INFORMATION

ITEM 1: Condensed Consolidated Financial Statements (unaudited)

COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

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

ASSETS	March 31, 2006	December 31, 2005
Current Assets:		
Cash and cash equivalents	$ 295	$ 65
Accounts receivable, net	1,094	2,065
Prepaid assets and other current assets	94	139
Total Current Assets	1,483	2,269
Property and equipment, net	148	148
Total Assets	$ 1,631	$ 2,417

See notes to condensed consolidated financial statements.

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COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

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

LIABILITIES AND STOCKHOLDERS' DEFICIT	March 31, 2006	December 31, 2005
Current Liabilities:		
Accounts payable	$ 1,103	$ 1,376
Related party payable	253	253
Line of credit	--	141
Notes payable, net	483	635
Other accrued liabilities	4,231	4,450
Total Current Liabilities	6,070	6,855
Long -term debt, net of current portion	5,666	5,426

Total Liabilities	11,736	12,281
Commitments and Contingencies		
Stockholders' Deficit		
Convertible Preferred Stock, Series H & J Par value $0.001 per share, aggregate liquidation value of $6,353 and $6,353 as of March 31, 2006 and December 31, 2005, respectively, 3% cumulative dividends for Series H, 10% cumulative dividends for Series J, 1,550,000 shares authorized, 1,188,302 shares and 1,188,302 shares issued and outstanding as of March 31, 2006 and December 31, 2005, respectively.	1	1
Common Stock, par value $0.001 per share, 300,000,000 shares authorized, 7,948,217 and 7,948,217 issued and outstanding, at March 31, 2006 and December 31, 2005, respectively.	8	8
Additional Paid-in Capital	69,577	69,680
Accumulated Deficit	(79,428)	(79,290)
	(9,842)	(9,601)
Treasury Stock, 171,875 shares	(263)	(263)
Total Stockholders' Deficit	(10,105)	(9,864)
Total Liabilities and Stockholders' Deficit	$ 1,631	$ 2,417

See notes to condensed consolidated financial statements.

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COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, except per share data)

	Three months ended March 31, 2006	Three months ended March 31, 2005
Contract revenues	$ 2,236	$ 1,626
Costs and expenses:		
Cost of sales	1,732	1,284
General and administrative	642	665
Depreciation and amortization	--	6
Total costs and expenses	2,374	1,955
loss from operations	(138)	(329)
Other income (expense):		
Gain on settlement of note payable		

and accrued interest	151	--
Interest expense	(151)	(148)
Net other income (expense)	--	(148)
Loss before income taxes	(138)	(477)
Income taxes	-	--
Net loss	(138)	(477)
Dividends accrued to preferred stockholders	(103)	(67)
Net loss applicable to common shareholders	$ (241)	$ (544)
Loss per share - basic and diluted	$ (.03)	$ (.08)
Weighted average shares outstanding (000's) basic and diluted	7,685	6,817

See notes to condensed consolidated financial statements.

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COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands, except per share data)

	Three months ended March 31, 2006	March 31, 2005
Cash flows from operating activities:		
Net loss	$ (138)	$ (477)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	--	6
Gain on settlement of note payable and accrued interest	(151)	--
Changes in assets and liabilities:		
Accounts receivable, net	971	(1,095)
Prepaid assets	45	(1)
Accounts payable	(273)	118
Other liabilities	(225)	870
Net cash provided by (used in) operating activities	229	(579)
Cash flows from investing activities:		
Purchase of equipment	--	(44)

Net cash used in investing activities	--	(44)
Cash flows from financing activities:		
Increase in (repayment of) line of credit	(141)	154
Payment of notes and loans payable	(98)	--
Increase in notes and loans payable	240	467
Net cash provided by financing activities	1	621
Increase (decrease) in cash	230	(2)
Cash and cash equivalents, beginning of period	65	15
Cash and cash equivalents, end of period	$ 295	$ 13

See notes to condensed consolidated financial statements.

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COMMODORE APPLIED TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2006

Note A - Basis of Presentation

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

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

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

The accompanying financial statements have been prepared under the assumption that Applied will continue as a going concern. Such assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the three months ended March 31, 2006, and for the years ended December 31, 2005, 2004, and 2003, Applied incurred losses of $138,000; $2,714,000, $2,404,000; and $2,957,000, respectively. The Company has also experienced net cash inflows (outflows) from operating activities of ($1,337,000), ($1,532,000), and ($955,000), for the years ended December 31, 2005, 2004 and 2003 respectively. The financial statements do not include any adjustments that might be necessary should Applied be unable to continue as a going concern. Applied's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitability. Potential sources of cash include new contracts, external debt, the sale of new shares of Company stock or alternative methods such as mergers or sale transactions. No assurances can be given, however, that Applied will be able to obtain any of these potential sources of cash.

Note B - Summary of Significant Accounting Policies

Allowance for Anticipated Losses on Contracts

Anticipated losses on contracts are provided for by a charge to income during the period such losses are identified. Changes in job performance, job conditions, estimated profitability (including those arising from contract penalty provisions) and final contract settlements may result in revisions to cost and income and are recognized in the period in which the revisions are determined. Allowances for anticipated losses totaled $376,000 and $376,000 at March 31, 2006 and December 31, 2005, respectively. These allowances are included in other accrued liabilities in the accompanying condensed consolidated financial statements.

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Consolidation

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

Stock-Based Compensation

The Company has established the 1998 Stock Option Plan, as amended (the "1998 Plan"), and performance based stock options to executives outside of the 1998 Plan granted in 2003, for the award of stock options, and stock bonuses to employees, executive officers, members of the Board of Directors and outside consultants. The Compensation Committee of the Board of Directors has the ability to determine the terms of the option, the exercise price, the number of shares subject to each option, and the exercisability of the options.

Under the terms of the 1998 Plan, options generally expire 10 years from the date of grant or within 90 days of termination. Options granted under these plans generally vest at 25 percent after the completion of one year of service and then 1/36 per month for the remaining three years and would be fully vested at the end of four years. Pursuant to the terms of their grant agreements, certain of the options granted under these plans may be subject to accelerated vesting upon a change in control of the Company.

Under the terms of the performance based stock options to executives outside of the 1998 Plan granted in 2003, options generally expire 5 years from the date of grant or within 90 days of termination. Options granted under these plans generally vest at grant date.

Prior to December 31, 2005, as permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, the Company accounted for its stock option plans following the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock issued to Employees," and related interpretations. Accordingly, no stock-based compensation expense had been reflected in the Company's statements of operations as all options granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant and the related number of shares granted was fixed at that point in time.

In December 2004, the FASB issued SFAS No. 123(R), "Share Based Payment." This statement revised SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective application method. Under this transition method, the Company would have recorded compensation expense on a straight-line basis for the three months ended March 31, 2006, for: (a) the vesting of options granted prior to January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and previously presented in the pro-forma footnote disclosures), and (b) stock-based awards granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R)). In accordance with the modified prospective application method, results for the three months ended March 31, 2005 have not been restated.

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There were no options granted in the three months ended March 31, 2006, and all options granted prior to January 1, 2006 were fully vested prior to January 1, 2006. As such, there was no compensation expense recorded for options during the three month period ended March 31, 2006. Also, there were no options granted during the three month period ended March 31, 2005.

Note C - Supplemental Cash Flow Information

During the three month period ended March 31, 2006, no shares of Series J Preferred Stock were converted into shares of the Company's common stock. During the three month period ended March 31, 2005, the Company paid no dividends on the Series J Preferred Stock conversions. The Company accrued dividends on Series J Preferred Stock for the three month period ended March 31, 2006, of $97,076 which is included in Other Accrued Liabilities.

During the three month period ended March 31, 2006, no shares of Series H Preferred Stock were converted into shares of the Company's common stock. The Company accrued dividends on the Series H Preferred Stock for the three month period ended March 31, 2006, of $6,000 which is included in Other Accrued Liabilities.

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Note D - Other Accrued Liabilities

Other accrued liabilities consist of the following:

	March 31, 2006 (unaudited)	December 31, 2005 (audited)
Compensation and employee benefits	$ 2,005	$ 1,987
Accrued interest	749	694
Dividends payable	464	361
Loss Reserve	376	376
Subcontractors	331	724
Related party advances	185	185
Other	121	123
	$ 4,231	$ 4,450

Note E - Segment Information

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: (i) Commodore Advanced Sciences, Inc., which primarily provides various engineering, legal, sampling, and public relations services to Government agencies on a cost plus basis; and (ii) Commodore Solutions, Inc., which is commercializing technologies to treat mixed and hazardous waste.

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

Three Months Ended March 31, 2006

	Total	Advanced Sciences	Solution
Contract Revenues	$ 2,236	$ 2,236	$ --
Costs and expenses			
Cost of Sales	1,732	1,732	--
Research and Development	--	--	--
General and Administrative	642	386	4
Depreciation and Amortization	--	--	--
Total costs and expenses	2,374	2,118	4
Income (Loss) from Operations	(138)	118	(4)
Gain on settlement of note payable and accrued interest	151	54	--
Interest Expense	(151)	--	--

Income (Loss) before income taxes	(138)	172	(4)
Income taxes	--	--	--
Net Income (Loss)	$ (138)	$ 172	$ (4)
Total Assets	$ 1,631	$ 1,631	$ --
Expenditures for long-lived assets	$ --	$ --	$ --

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Three Months Ended March 31, 2005

	Total	Advanced Sciences	Solution
Contract Revenues	$ 1,626	$ 1,609	$ 17
Costs and expenses			
Cost of Sales	1,284	1,283	1
Research and Development	--	--	--
General and Administrative	665	276	16
Depreciation and Amortization	6	6	-
Total costs and expenses	1,955	1,565	17
Income (Loss) from Operations	(329)	44	--
Interest Expense	(148)	--	--
Income (Loss) before income taxes	(477)	44	--
Income taxes	--	--	--
Net Income (Loss)	$ (477)	$ 44	$ --
Total Assets	$ 1,501	$ 1,477	$ --
Expenditures for long-lived assets	$ 44	$ 42	$ --

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Note F - Net Loss per Common Share

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

Options and warrants to purchase 6,029,463 and 6,100,297 shares of common stock and preferred stock convertible into 18,883,145 and 17,471,483 shares of common stock as of March 31, 2006 and 2005, respectively, were not included in the computation of Diluted EPS. The inclusion of the options and convertible preferred stock would have been anti-dilutive, thereby decreasing net loss per common share.

Note G - Contingencies

Applied has matters of litigation arising in the ordinary course of business which in the opinion of management will not have a material adverse effect on its financial condition or results of operations.

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

Overview

The Company is engaged in providing a range of environmental services to the public and private sectors related to (i) remediating contamination in soils, liquids and other materials and disposing of or reusing certain waste by-products by utilizing SET; and (ii) providing services related to, environmental management for on-site and off-site identification, investigation remediation and management of hazardous, mixed and radioactive waste.

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

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 engineering, legal, sampling, and public relations services to Government agencies on a cost plus 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 $80,000 at March 31, 2006. 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. In addition, the Company owes $564,429 in loans that are currently due or are payable on demand as of May 15, 2006. Although the lenders on these loans have not yet called the loans, the Company does not currently have the ability to pay these loans absent additional financing.

The Company's report of independent registered public accounting firm on our fiscal 2003, 2004 and 2005 financial statements contains a "going concern" qualification in which they express substantial doubt about the Company's ability to continue in business.

CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented.

Our accounting policies that are the most important to the portrayal of our financial condition and results, and which require the highest degree of management judgment relate to the reserves for doubtful accounts receivable and the valuation of stock and options issued for services.

Reserves for Doubtful Accounts

Management estimates the amount of required reserves for the potential non-collectibility of accounts receivable based upon the customer's financial condition, age of the customer's receivables, changes in payment histories, and consideration of other relevant factors. Because the reserve for doubtful accounts is an estimate of events that have not yet occurred, we could incur additional charges or benefits in the future to reflect differences between estimated and actual collections.

Valuation of stock and options

We value and account for the issuance of equity instruments to employees and non-employees to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable. The fair value of stock issued for goods or services is determined based on the quoted market price on the date the commitment to issue the stock has occurred. The fair value of stock options or warrants granted to employees and non-employees for goods or services is calculated on the date of grant using the Black-Scholes options pricing model.

Revenue Recognition

Substantially all the Company's current revenues consist of engineering and scientific services 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 are recorded when the services are provided.

Most of the Company's historical contracts provided for reimbursement of costs plus fixed fees. Direct and indirect contract costs incurred in reimbursement plus cost contracts are subject to audit by the Defense Contract

Audit Agency ("DCAA"). Management does not expect these audits to materially affect the financial statements and has established appropriate allowances to cover potential audit disallowances. Contract revenues have been recorded in amounts which are expected to be realized upon final settlement. The DCAA has audited the Company's contracts through 1999. An allowance for doubtful accounts and potential disallowances has been established based upon the portion of billed and unbilled receivables that management believes may be uncollectible.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Revenues were $2,236,000 for the three months ended March 31, 2006, compared to $1,626,000 for the three months ended March 31, 2005.

In the case of Advanced Sciences, revenues were $2,236,000 for the period ended March 31, 2006 as compared with $1,609,000 for the period ended March 31, 2005.

Overall, Advanced Sciences has experienced a significant increase in revenue as the result of the September 2004 award of the eDAM contract in Oak Ridge, TN and overall, more work being performed by Advanced Sciences. The revenues from Advanced Sciences consisted of engineering and scientific services performed for the United States government under a variety of contracts, most of which provide for reimbursement on a fixed rate and a lump sum basis. Revenue under these contracts is recorded as tasks under various work orders are completed and the client approved invoice is submitted for payment. Advanced Sciences has three major customers, each of which represents more than 10% of total revenue. The combined revenue for these three customers was $2,236,000 or 100% of total revenues for the period ended March 31, 2006. Advanced Sciences' cost of sales was $1,732,000 for the period ended March 31, 2006 compared to $1,283,000 for the period ending March 31, 2005. The increase in cost of sales can be attributed to an increase in variable costs caused by the eDAM contract and overall, more work being performed by Advanced Sciences.

In the case of Commodore Solutions, Inc. ("Solution"), revenues were $0 for the period ended March 31, 2006 as compared with $17,000 for the period ended March 31, 2005. Solution had no customers during the three-month period ended March 31, 2006. Revenues, when recognized, are primarily from remediation services performed for engineering and waste treatment companies in the U.S. under a variety of contracts. There was $0 cost of sales for the three-month period ended March 31, 2006 as compared to $1,000 for the period ended March 31, 2005. The cost of sales, when incurred, is attributable to selling expenses for the SET technology. Anticipated losses on engagements, if any, will be provided for by a charge to income during the period such losses are first identified.

General and administrative expenses for the three-month period ended March 31, 2006 were $642,000 as compared to $665,000 for the three-month period ended March 31, 2005. This difference is primarily due to less legal expenses.

In the case of Advanced Sciences, general and administrative costs increased from $276,000 for the three-month period ended March 31, 2005 to $386,000 for the three-month period ended March 31, 2006. This increase is primarily due to the increased staffing and salaries with the administrative staff associated with the eDAM contract. Solution incurred general and administrative costs of $4,000 for the three-month period year ended March 31, 2006 as compared with $16,000 for the three-month period ended March 31, 2005. This decrease was primarily due to the decrease in expenses associated with the

SET technology as there were no active contracts in the three month period ended March 31, 2006. The remaining costs are associated with the rented space to store the equipment necessary to utilize the SET technology.

Corporate general and administrative expenses that are not assigned specifically to an operating segment decreased by $121,000, from $373,000 during the three months ended March 31, 2005 to $252,000 during the three months ended March 31, 2006. Approximately $62,000 of this decrease was a result of a reclassification of salaries and wages to the Advanced Sciences operating segment. Because of the increase in operations at Advanced Sciences, certain administrative individuals have dedicated substantially all of their time to the Advanced Sciences segment during the three months ended March 31, 2006. In addition, because of the increase in operations at Advanced Sciences, the allocation of utilities from general corporate to Advanced Sciences increased by approximately $16,000, thus reducing the corporate general and administrative expenses. Legal expenses also decreased by approximately $25,000 during the three months ended March 31, 2006 as compared with the three months ended March 31, 2005. This is mainly due to the significant legal effort required in the first quarter of 2005 to complete the Shaar Exchange Agreement as described more fully below.

During the quarter ended March 31, 2006, the Company settled a note payable that was due and payable in the principal amount of $254,000 to a vendor for services provided from an earlier period. The settlement resulted in the recording of a short term note payable, 0% interest, in the principal amount of $200,000 to the vendor. The Company made the first of four payments of $50,000 on this short term note payable in March 2006. The settlement of this note payable to the vendor had the effect of recognizing the reduction of a historical recorded note payable by $54,000 (other income to Advanced Sciences) and the reduction of historical accrued interest payable by $97,000 (other income to Applied). These income amounts are included in Other Income and have not arisen from the Company's normal base of operations.

Interest expense for the three months ended March 31, 2006 was $151,000 as compared to $148,000 for the three months ended March 31, 2005. The increase in interest expense of $3,000 is primarily related to greater balances on the Amended and Restated Shaar Note, and partially offset by lower balances on the Company's line of credit.

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

At March 31, 2006 and December 31, 2005 Advanced Sciences had a $0 and $141,000 outstanding balance, respectively, on its revolving line of credit.

The Company currently requires additional cash to sustain existing operations and to meet current obligations and ongoing capital requirements. The Company's current monthly operating expenses exceed cash revenues by approximately $80,000 at March 31, 2006. Currently, the Company is addressing this cash shortfall though 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. In addition, the Company owes $564,429 in loans that are currently due or are payable on demand as of May 15, 2006. Although the lenders on these loans have not yet called the loans, the Company does not currently have the ability to pay these loans absent additional financing.

The report of our independent registered public accounting firm on our fiscal 2003, 2004 and 2005 consolidated financial statements contains 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.

For the three months ended March 31, 2006, and for the years ended December 31, 2005, 2004, and 2003, Applied incurred losses of $138,000; $2,714,000, $2,404,000; and $2,957,000, respectively. The Company has also experienced net cash inflows (outflows) from operating activities of ($1,337,000), ($1,532,000), and ($955,000), for the years ended December 31, 2005, 2004 and 2003 respectively.

For the three-month period ended March 31, 2006, the Company converted no shares of Series J Preferred into shares of the Company's common stock.

The Company has experienced a decrease in accounts receivable, net, as of March 31, 2006 compared to the year ended December 31, 2005 amount. Accounts receivable, net, as of December 31, 2005 was $2,065,000 as compared to $1,094,000 as of March 31, 2006. The decrease in accounts receivable, net, is due to (i) the collection of appreciable amounts of historical retainage on the eDAM contract in Oak Ridge; and (iii) general timing differences in the collection of the Company's accounts receivable. Approximately 90% of the accounts receivable, net, figure will be collected within 45 days of the period ended March 31, 2006. The remaining approximate 10% of the accounts receivable, net, amounts are deemed retainage by the Company's main client, Bechtel Jacobs, and is released to the Company on a periodic basis when the Company completes certain work orders that the retainage has been applied to.

The Company recently settled a note payable that was due and payable in the principal amount of $254,000 to a vendor for services provided from an earlier period in the three month period ended March 31, 2006. The settlement resulted in the recording of a short term note payable, 0% interest, in the principal amount of $200,000 to the vendor. The Company made the first of four payments of $50,000 on this short term Note payable in March 2006. The settlement of this note payable to the vendor had the effect of recognizing the reduction of a historical recorded note payable by $54,000 (other income to Advanced Sciences) and the reduction of historical accrued interest payable by $97,000 (other income to Applied). These income amounts are included in Other Income and have not arisen from the Company's normal base of operations.

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

For the three month period ended March 31, 2006, no shares of the Company's Series J Preferred were converted into shares of the Company's common stock. For the three month period ended March 31, 2006, the Company accrued all dividends payable on the Series J Preferred Stock.

On April 12, 2005, the Company entered into an exchange agreement with

The Shaar Fund, LTD (the "Shaar Exchange Agreement"). Under terms of the Shaar Exchange Agreement, the Company agreed that Shaar will exchange all of its right, title and interest in and to the remaining outstanding shares of the Series E Preferred and Series F Preferred (including all other accrued and unpaid dividends thereon) for 395,302 shares of the Company's Series I Preferred. Effective October 1, 2005, 388,302 shares of Series I Preferred were exchanged for 388,302 shares of Series J Preferred

For the Year ended December 31, 2005, the Company issued 439,206 shares of the Company's common stock upon conversion of 7,000 shares of Series I Preferred by the holders thereof. For the year ended December 31, 2005, the Company paid no dividends on the Series I Preferred Stock. The Company accrued dividends on the Series I Preferred for the year ended December 31, 2005 of $183,696, which is included in Other Accrued Liabilities.

Effective October 1, 2005, the Company entered into an exchange agreement with The Shaar Fund, LTD (the "New Shaar Exchange Agreement"). Under terms of the Shaar Exchange Agreement, the Company agreed that Shaar will exchange all of its right, title and interest in and to 388,302 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.

For the year ended December 31 2005, the Company converted no shares of Series H Preferred and issued no stock with respect to accrued dividends pertaining to the Series H Preferred. For the year ended December 31, 2005, the Company paid no dividends on the Series H Preferred Stock. The Company accrued dividends on Series H Preferred for the three month period ended March 31, 2006 of $6,000, which is included in Other Accrued Liabilities.

For the three month period ended March 31 2006, the Company converted no shares of Series J Preferred and issued no stock with respect to accrued dividends pertaining to the Series J Preferred. For the three month period ended March 31, 2006, the Company paid no dividends on the Series J Preferred. The Company accrued dividends on Series J Preferred for the three month period ended March 31, 2006 of $97,076, which is included in Other Accrued Liabilities.

In November 2000, the Company completed $500,000 in financing in the form of a loan (the "Weiss Group Note") from a group of four investors. The Weiss Group Note bears interest at 12% per annum and was due and payable on February 12, 2001. All holders of the Weiss Group Note have granted payment extensions to the Company until January 15, 2005 in exchange for warrants for 125,000 shares of the Company's common stock at an exercise price of $0.57. The current principal balance of the Weiss Group Note is $252,397 as of March 31, 2006 and remains unpaid as of May 15, 2006.

Effective February 14, 2004, the members of the Weiss Group Note voluntarily cancelled all issued warrants to purchase 75,000 shares at an exercise price of $1.00 per share of the Company's common stock in connection with the Weiss Group Note.

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Effective February 15, 2004, the Company issued warrants to purchase 125,000 shares of its common stock at an exercise price of $0.57 per share to all holders of the Weiss Group Note in consideration of the extension of the due date of such loans by such persons from May 31, 2002 to January 15, 2005. The Company believes that this transaction is exempt from the registration requirements of the Securities Act under Section 4(2) thereof as a transaction not involving any public offering of securities.

Mr. Blum, a director of the Company, provided cash installments in the form of a loan to the Company through February 2004 (the "Blum Demand Note"). The Blum Demand Note bears interest at 9% per annum and is payable on demand. The current principal balance of the Blum Demand Note is $312,032 as of March 31, 2006 and remains unpaid as of May 15, 2006.

On April 27, 2005, a private investor purchased $100,000 of the Company's unregistered common stock at the market price. The Company issued the private investor 500,000 shares of unregistered common stock of the Company as a result of the equity purchase. In connection with the purchase of the shares of the Company's common stock, the Company issued the private investor a 3-year warrant for 200,000 shares of the Company's common stock at an exercise price of $0.20 per share. The Company believes that this transaction is exempt from the registration requirements of the Securities Act under Section 4(2) thereof as a transaction not involving any public offering of securities.

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

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

a) The conversion feature shall be exercisable immediately.
b) The conversion price of the Series J Preferred shall be determined by the average closing price of 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.
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 shall have a non-cumulative annual dividend of 10%, payable in cash or shares of the Company's common stock at the Company's election.
e) Dividend will be paid quarterly commencing March 31, 2006, to the Holders of record of shares of the Series J Preferred Stock.
f) The Company has reserved 40,000,000 shares of its common stock for the conversion of the Series J Preferred and the Amended New Shaar Convertible Note.

Effective as of October 1, 2005, the Company entered into an exchange agreement with The Shaar Fund, LTD (the "New Shaar Exchange Agreement"). Under terms of the New Shaar Exchange Agreement, the Company agreed that Shaar will exchange 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.

Effective as of October 1, 2005, Shaar and the Company have agreed to amend the New Shaar Convertible Note (the "Amended New Shaar Convertible Note").

The Amended New Shaar Convertible Note shall have the following rights, privileges, and limitations:

a) The Amended New Shaar Convertible Note bears an interest rate of 10% per annum, which is payable in cash or shares of the Company's common stock at the Company's election.
b) Interest shall accrue on the principal amount for a one year period ("Deferral Period"). On March 22, 2006, the Company will

make a single lump sum payment to the holder in an amount equal to all interest that accrued during the Deferral Period

c) Beginning April 15, 2006, and monthly thereafter on the 15th day of each month until March 22, 2009 ("Maturity Date"), the Company shall pay to Shaar all accrued and unpaid interest ("Interest Payments")on the principal balance of the note accruing during the prior month.

d) On the Maturity Date, the Company shall make a single lump sum payment to Shaar equal to the outstanding principal balance of the Amended New Shaar Convertible Note ("Principal Balance"), together with all accrued and unpaid interest.

e) At the option of Shaar, the outstanding Principal Balance may be converted, either in whole or in part, into shares of the Company's common stock.

f) The conversion price of the payment of the Principal Balance, the Deferral Period, and the Interest Payments shall be determined by the average closing price of Company's common stock in the 10 trading days preceding the conversion date, but in no event shall the conversion price be more than $0.50 per share or less than $0.05 per share ("Conversion Price").

g) 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.

h) The Amended New Shaar Convertible Note may not be prepaid by the Company prior to the Maturity Date.

i) The Company has reserved 40,000,000 shares of its common stock for the conversion of the Amended New Shaar Convertible Note and the Series J Preferred.

The current principal balance of the New Shaar Note is $5,666,233 as of March 31, 2006 and remains unpaid as of May 15, 2006.

The recipient of securities in this transaction represented its intention to acquire the securities for investment only and not with a view to, or for sale in connection with, any distribution thereof, and appropriate restrictive legends were affixed to the warrants and the certificates representing the shares issued in this transaction. The Company made available to The Shaar Fund Ltd., written information about the Company in accordance with Rule 502 of the Securities Act and advised such recipient of the limitations on resale of such securities. In addition, The Shaar Fund Ltd. was offered the opportunity, prior to exchanging and/or purchasing any securities, to ask questions of, and receive answers from, the Company concerning the terms and conditions of the transaction and to obtain additional relevant information about the Company. Based upon the facts above, the Company believed this transaction to be exempt from the registration requirements of the Securities Act in reliance on Section 4 (2) thereof as a transaction not involving any public offering of securities.

The Company hopes to meet its short-term capital requirements (including its $80,000 monthly cash shortfall) through continued loans from The Shaar Fund, Ltd., although this lender is under no obligation to continue to make advances to the Company. The Company intends to negotiate a forbearance arrangement with other lenders on loans that are currently due. Ultimately, the Company intends to reduce its cash shortfall and intends to meet its long term capital needs through obtaining additional contracts that will generate funds from operations and obtaining additional debt or equity financing as necessary or engaging in merger or sale transactions. There can be no assurance that such sources of funds will be available to the Company or that it will be able to meet its short or long term capital requirements.

NET OPERATING LOSS CARRYFORWARDS

The Company has net operating loss carryforwards (the "NOLs") of approximately $39,000,000 as of December 31, 2005, which expire in the years 2010 through 2025. The amount of NOLs that can be used in any one year will be limited by the applicable tax laws that are in effect at the time such NOLs can be utilized. The unused NOLs balances may be accumulated and used in subsequent years. A full valuation allowance has been established to offset any benefit from the net operating loss carryforwards. It cannot be determined when or if the Company will be able to utilize the NOLs.

FORWARD-LOOKING STATEMENTS

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

Such statements may address future events and conditions concerning, among other things, the Company's results of operations and financial condition; the consummation of acquisition and financing transactions and the effect thereof on the Company's business; capital expenditures; litigation; regulatory matters; and the Company's plans and objectives for future operations and expansion. Any such forward-looking statements would be subject to the risks and uncertainties that could cause actual results of operations, financial condition, acquisitions, financing transactions, operations, expenditures, expansion and other events to differ materially from those expressed or implied in such forward-looking statements. Any such forward-looking statements would be subject to a number of assumptions regarding, among other things, future economic, competitive and market conditions generally. Such assumptions would be based on facts and conditions as they exist at the time such statements are made as well as predictions as to future facts and conditions, the accurate prediction of which may be difficult and involve the assessment of events beyond the Company's control.

Further, the Company's business is subject to a number of risks 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 opinion on our fiscal 2003, 2004 and 2005 financial statements contains a "going concern" qualification in which they express doubt about the Company's ability to continue in business, absent additional financing);
- the ability to generate profitable operations from a large scale remediation project;
- the ability of the Company to renew its nationwide permit to treat PCBs;
- 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 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; developments in environmental legislation and regulation;
- the ability of the Company to obtain future financing on favorable terms; and
- other circumstances affecting anticipated revenues and costs.

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

ITEM 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Exchange Act, we conducted an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of March 31, 2006. Based on their evaluations as of March 31, 2006, the chief executive officer and chief financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined

in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Management has taken steps to correct any material weaknesses that were identified in Company's fiscal 2005 10K report filed April 18, 2006 ("2005 Annual Report") on form 10K for the period ended December 31, 2005 with respect to analyzing debt and equity instruments to identify potential embedded derivatives and any required accounting entries and disclosures pertaining to embedded derivatives.

(b) Changes in internal controls

There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect these internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

Investing in our securities involves a material degree of risk. Before making an investment decision, you should carefully consider the risk factors set forth below as well as other information we include or incorporate by reference in this annual report and the additional information in the other reports we file with the U.S. Securities and Exchange Commission ("SEC").

For a complete list of the risk factors concerning an investment in our Company, please see the Risk Factors section in the Company's fiscal 2005 10K report filed April 18, 2006 ("2005 Annual Report"). There have been no material changes in the risk factors listed in the annual report nor have there been any additional risk factors recognized or deleted from this list in the 2005 Annual Report.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

None.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits and Reports on Form 8 - K

(a) Exhibits.

1. 31.1 - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

2. 31.2 - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

3. 32.1 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

4. 32.2 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

1. The Company filed a Current Report on Form 8-K, dated February 8, 2006, regarding a press release issued by the Company announcing the 2006 Chairman's Letter by CEO Shelby T. Brewer.

2. The Company filed a Current Report on Form 8-K, dated April 18, 2006, regarding a press release issued by the Company announcing its fiscal 2005 year end earnings.2.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 22, 2006

COMMODORE APPLIED TECHNOLOGIES, INC.
(Registrant)

By /s/ James M. DeAngelis

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