

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

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FILER

COMMODORE ENVIRONMENTAL SERVICES INC /DE/

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1 TO
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1995

Commission File Number 0-10054

COMMODORE ENVIRONMENTAL SERVICES, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

87-0275043
(IRS Employer Identification Number)

150 EAST 58TH STREET, NEW YORK, NEW YORK
(Address of principal executive offices)

10155
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock \$.01 Par Value	None

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 if disclosure of delinquent filers pursuant 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 contained incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. []

As of March 15, 1996, (a) 57,348,953 shares of the Company's Common Stock were outstanding; (b) 23,090,647 shares of Common Stock were held by non-affiliates; and (c) the aggregate market value of shares of Common Stock held by non-affiliates was \$20,204,316 based upon the closing bid price of \$.875 share on March 15, 1996.

PART I

ITEM 1. BUSINESS

GENERAL

THE COMPANY

Commodore Environmental Services, Inc. (the "Company" or "Commodore") was reincorporated in the State of Delaware in August 1988. The Company's predecessor was Commodore Resources Corporation. The current principal business of the Company is holding interests in commercial real estate properties and the development of technologies for the destruction or neutralization of hazardous materials.

For the year ended December 31, 1995, real estate related activities accounted for approximately 99% of the Company's revenues from operations, 1% related to environmental services, and oil and gas and mining activities accounted for less than one percent of the Company's revenues from continuing

operations, although the Company did acquire certain working interests in oil and gas properties in 1991 and 1994. In addition, in 1993, the Company acquired two companies which are engaged in the research, development and marketing of innovative technologies for the destruction of hazardous materials. The Company is concentrating its efforts on commercial opportunities, partnering and acquisitions necessary to bringing to market the new technologies. See "Acquisition of Remediation Businesses" for a description of the acquisitions. See "Item 2 - Properties" for a description of the Company's real estate properties and its remaining oil and gas properties.

The Company's principal executive offices are located at 150 East 58th Street, Suite 3400, New York, New York 10155. Its telephone number is (212) 308-5800.

ACQUISITION OF REMEDIATION BUSINESSES

On December 22, 1993, the Company acquired 90.05% of the issued and outstanding shares of voting common stock of each of Commodore Laboratories, Inc. f/k/a A.L. Sandpiper Corporation ("Commodore Labs") and subsidiary and CFC Technology, Inc. ("CFCT"). Commodore Labs and CFCT are the owners of certain technologies relating to the destruction of polychlorinated biphenyls ("PCBs"), dioxins and chlorofluorocarbons ("CFCs").

Commodore Labs was formed on July 1, 1981 to engage in the research, development, and marketing of innovative technologies for the destruction of hazardous materials. In 1990, Commodore Labs formed CFCT. Commodore Labs developed, and in most cases acquired patents for, a wide range of technologies for the destruction or remediation of hazardous wastes (the "Technology"). At the present time, virtually all activities of Commodore Labs and CFCT are concentrated on completing the laboratory development and design, construction and demonstration of pilot scale equipment for application of the Technology. In the future, Commodore Labs and CFCT are expected to continue to perform research and development activities.

2

3

Commodore Labs and CFC have had no commercial operations since they were formed. Although prototype equipment and processes have been developed and are continually being tested, management of the Company cannot project when, if ever, commercialization of the Technology may commence. As of December 31, 1995, Commodore Labs had spent approximately \$7,000,000 in research and development costs relating to the Technology, and is projected to spend approximately \$2,500,000 on research and development in 1996.

In connection with the closing of the Commodore Labs acquisition, in exchange for 90.05% of the outstanding common stock of Commodore Labs, the preacquisition holders of Commodore Labs common stock received shares of Commodore Labs non-voting series "B" preferred stock and 5-year warrants to purchase an aggregate of 3,000,000 shares of common stock, \$.01 par value, of the Company (the "Common Stock"), at an exercise price of \$.05 per share. Albert Abel ("Abel"), the President of Commodore Labs, retained ownership of 9.95% of Commodore Labs voting common stock and received 1,000,000 shares of Common Stock. In addition, Commodore issued to Abel and Allison L. Augur, Jr., ("Augur"), the President of CFC, non-qualified stock options to purchase an aggregate of 1,500,000 shares of Common Stock at an exercise price of \$.10 per share, which options vest at the rate of 20% of the shares subject to such options per year. At the date of acquisition, Commodore Labs had 977 shares of its series "A" preferred stock, par value \$1,000, which was not exchanged as part of the acquisition. In December, 1994, the Company issued 1,534,709 shares of its Series B Preferred Stock in exchange for the 977 shares of series "A" of Commodore Labs preferred and 557,709 of 577,081 of the shares of Commodore Labs Series "B" Preferred Stock described above.

Upon the closing of the CFCT acquisition, Commodore (i) obtained ownership of 90.05% of the outstanding shares of CFCT common stock, with the remaining 9.95% of such common stock being held by Abel, (ii) issued 750,000 shares of its common stock to Augur, and (iii) paid the aggregate sum of \$70,000 to Abel and Augur.

Commodore's purchase price at the time of the acquisitions of Commodore Labs and CFCT exceeded the historical cost of the net assets purchased by \$2,457,201. This excess purchase price was previously recorded by Commodore and reported in Commodore's 1993 and 1994 Annual Reports on Form 10-K as goodwill and was being amortized over 15 years. At the request of a regulatory agency, Commodore has reclassified the goodwill as in-process technology, in as much as the technology feasibility acquired had not yet been established and at the time of the acquisition there was no further alternative use. Accordingly, in this Annual Report, Commodore is reflecting the in-process technology of \$2,457,201

charged as an expense to operations effective January 1, 1994, rather than reporting it as capitalized goodwill to be amortized over 15 years.

In connection with the closing, Commodore entered into a license agreement with Commodore Labs and a sublicense agreement with CFCT pursuant to which the right to utilize and commercialize all patents, confidential information and know-how owned by Commodore Labs and/or licensed by Commodore Labs to CFCT was acquired by Commodore. These agreements provide that royalties of 5% of the revenues generated by Commodore from the Technology will be payable to Commodore Labs and CFCT, allocated pro rata to the particular technology used to generate the revenue.

3

4

POLYCHLORINATED BIPHENYLS (PCBs) AND DIOXINS

Prior to environmental restrictions, PCBs were used in a number of applications, including flame-retardant additives in resins and plastics, in formulas for paints and inks, as additives for thermally sensitive lubricants, and as dielectric fluids in transformers and resistors. Dioxins generally consist of herbicides, and as by-products from the use of chlorine in manufacturing and from the incineration of polyvinyl chloride (PVC) materials in trash incinerators. The United States Environmental Protection Agency ("EPA") has determined that PCBs and dioxins are toxic and present a general hazard to the environment and to human life. As a result, there appears to be a growing market for the destruction and/or neutralization of these contaminants.

Commodore Labs has developed and intends to commercialize its patented process known as AGENT 313(tm). AGENT 313 is based upon solvated electron chemistry, which mixes solvents such as anhydrous liquid ammonia with various base metals to produce a solvated electron solution. Based on the results of extensive testing by Commodore Labs, AGENT 313 appears capable of effectively treating and decontaminating soils and other materials, including sludges, sediments, oils and other hydrocarbon liquids, metals and porous and non-porous structures and surfaces, by destroying PCBs, pesticides, dioxins, chlorinated substances, chemical and biological phosphates and other toxic contaminants to levels greater than 99.9%. Based upon test results, the Company believes that AGENT 313 is also capable of neutralizing chemical weapons materials and warfare agents and of concentrating certain radioactive wastes for more effective disposal.

On March 15, 1996, the EPA issued to the Company a National Permit for Alternate Destruction, which will allow the Company to use AGENT 313 on-site to treat PCB-contaminated soil and other contaminated elements, such as sludges and sediments. Based on currently published EPA national operating permits, the Company believes that it possesses the only non-thermal PCB treatment technology permitted under the EPA's Alternate Destruction Technology Program.

Most of the current treatment and disposal methods involve air pollution emission, transportation, treatment and safety risks, and may not be permanent solutions. In addition, 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, many of these methods are being met with increasing public resistance and more stringent regulations.

The Company believes that AGENT 313 is more effective than incineration and other destruction methods for toxic substances, in that:

- * it does not emit toxic fumes into the atmosphere, as is sometimes the case with thermal or incineration methods;
- * the Company's equipment is portable and can be moved directly to the contaminated site, substantially reducing the risk of off-site contamination;
- * the Company's equipment utilizing AGENT 313 can be operated in

4

5

various numbers of units and configurations to treat contaminated materials in widely varying amounts;

- * In tests conducted by Geomet, Inc. (one of only eight surety laboratories licensed by the United States government to conduct tests on live chemical warfare agents), AGENT 313

neutralized or destroyed all chemical weapons material and warfare agents on which it was tested, consisting of all known 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);

- * the reaction time of AGENT 313 is under three minutes per load of soils and other materials, as compared to between four and six hours reaction time required for alternative processes, such as thermal desorption and chemical treatment;
- * the Company's equipment can be installed and operated inside industrial plant facilities, thereby immediately treating hazardous wastes as part of the manufacturing process;
- * approximately 95% of the solvent used by AGENT 313 can be recovered and reused for additional applications; and
- * as a by-product when treating soils, AGENT 313 yields nitrogen-enriched soils that can be reused on-site, avoiding replacement and post-treatment costs of off-site disposal.

The Environmental Business Journal estimates that the annual global market for all environmental products and services was approximately \$420 billion in 1995 and is expected to reach \$500 billion by 2000. The Company estimates that the United States market for the destruction of PCBs, dioxins, chlorinated substances and other toxic contaminants, including soils and water, industrial and chemical facilities, gas pipelines and other contaminated areas, is approximately \$100 billion. Additionally, the Chemical Weapons Convention, consisting of most of the world's nations, has adopted a treaty which mandates the worldwide destruction of all chemical weapons and warfare agents by 2006. Based upon reports furnished by the United States Department of Defense, the United States military and other government agencies have estimated the expenditure of approximately \$12 billion over the next ten years for the destruction of domestic stockpile and non-stockpile chemical weapons and chemical warfare agents. The projected international market for such services over the same period is estimated at approximately \$50 billion.

The Company's business strategy to commercialize AGENT 313 is to establish collaborative joint working and marketing arrangements with established engineering and environmental service organizations. The Company intends to enter into these relationships as a principal (i) in individual projects, in projects involving specific applications throughout the marketplace, or in projects involving specific industries, or (ii) as licensing arrangements with third parties for their use of AGENT 313 in specific industries or applications. The Company is currently involved in several demonstration projects and is negotiating potential working arrangements with several companies, including Teledyne Brown Engineering, Inc. and Sverdrup Corporation.

Although the Company believes that it will be able to enter into one or

more definitive agreements with collaborative partners and be awarded contracts to use AGENT 313 in significant projects, there can be no assurance that any of these discussions will result in collaborative agreements or contract awards. Even if such contracts are awarded, there is no assurance that AGENT 313 will perform successfully on a large-scale commercial basis or that it will be profitable to the Company. There can also be no assurance that AGENT 313 will not be superseded by other competing technologies.

CHLOROFLUOROCARBONS (CFCs)

CFCs are a class of chemicals that have properties that have made them attractive as refrigerants, aerosol propellants, fire retardants, foam-blowing agents and cleaning compounds. On the other hand, they present serious environmental problems, as CFCs have been confirmed as a cause of the depletion of the Earth's ozone layer.

These circumstances have prompted worldwide efforts to eliminate CFC manufacture and use, in favor of ozone-safe alternatives. However, this transition will take a decade or more to be completed worldwide. In 1987, delegates from all of the industrialized countries in the world met in Montreal to draft the first global environmental law concerning the cutback and eventual halt to production of all the ozone-depleting chemicals that the world was using. It provides that CFCs will be banned from production worldwide by the end of 1995. After 1995, when CFC production ceases, the only CFC refrigerants which

will be available will be those recovered from an operating system, i.e., recycled.

It is estimated that for the developed world, about 350 million pounds of CFCs are needed to service existing equipment each year. Even more significant, somewhere between one billion and two billion pounds will be needed by the time that equipment is retired or converted to use other refrigerants about a third of the way into the 21st century.

Presently, there is only one means of preserving the existing CFC stocks to service ongoing needs. That is to remove the material from the refrigeration or air conditioning unit, remove contaminants (such as moisture, acid, oil or chloride particulates) to established industry purity standards, and then return the reclaimed material to use, either in the same system or in another one. CFC reclaimers provide this service.

While providing a valuable service, the reclaiming industry cannot fill one urgent need. That need is for a means of returning to productive use mixtures of refrigerants that have become cross-contaminated during use. One approach is to blend pure refrigerant into the mixture until the contaminant component refrigerant is driven below the 0.5% level as mandated by industry standards. This is only economical, however, if the mixed refrigerant has small percentages of the offending contaminate refrigerant. If the contaminant percentage is too high, the cost of adding virgin refrigerant is extremely uneconomical. To further exacerbate the situation, there will be no more virgin CFCs available to blend after 1996. Presently, most mixed and contaminated refrigerants are being stockpiled pending an economic solution.

Commodore has developed and patented a process which, in test applications of limited quantities of CFCs, has been able to separate mixtures

6

7
of refrigerants so that they can be returned to productive use at purity levels meeting industry standards.

An example of the benefit of this process involves automobile air conditioners. EPA econometrics models predict that by 1996, there will be over 120,000,000 cars in the U.S. alone that will still rely on R12 as the refrigerant in their systems. Based on limited test results to date, it appears that Commodore's process can provide the required stocks economically through the patented separation process.

A dilemma also arises when parties have to decide what to do with their CFC stockpiles (banks) and daily usage waste streams that can not be recycled and must be destroyed. The current capacity of approved destruction technologies cannot destroy the anticipated stockpiles of ozone-depleting substances within a reasonable time frame. There exists a need to expand the options available for destruction/transformation technologies to ensure that the disposal of stockpiles is performed in an environmentally acceptable manner. Commodore has demonstrated, on a limited trial basis, the ability to destroy a number of the high ozone-depleting refrigerants to the required levels of destructive efficiency. This technology has not, however, been utilized on a commercial scale.

Commodore's CFC separation and destruction technologies may be a solution to a rapidly growing worldwide problem for which an economic and effective alternative is not otherwise known to be available. The Commodore process employs fundamental chemical principles in novel combinations to deal with two aspects of the CFC problem:

1. On a limited trial basis, the technology has separated mixtures of CFCs that have become cross-contaminated during use, thereby returning acceptable purity, high-valued CFCs to economic and productive use, and
2. The technology has also destroyed low-value CFCs, and mixtures thereof, that do not merit recycling. This is done in a non-thermal process, which is believed to have considerable cost advantage over alternative destruction processes.

To date, the separation and destruction technologies have proven effective in test applications of limited quantities of CFCs. Commodore hopes to place the technologies into commercial-scale use and application beginning in 1996, although there can be no assurance that this will occur.

LIABILITY INSURANCE

In July 1987, the Company established Harvest American Insurance Company ("Harvest"), a wholly-owned subsidiary of the Company, licensed by the State of Vermont as a "captive" insurance company. Harvest issued "occurrence" based insurance policies to each of the Company's former asbestos abatement subsidiaries, but not to any other persons or entities. An occurrence-based policy insures against claims arising at any time in the future based upon events which occurred while the policy was in effect. The policies were in effect from July 1987 through January 1989. The operating subsidiaries of the Company paid premiums to Harvest based upon a percentage of sales and had coverage through January 1989. Beginning in January 1989, in response to greater

7

8
availability of "occurrence type" insurance, the subsidiaries obtained asbestos abatement-related general liability insurance from unrelated insurance companies. Harvest no longer issues new policies. The maximum exposure under the outstanding policies is \$5,000,000 in the aggregate.

In December 1994, the Vermont Department of Banking and Insurance (the "Department") and the Company entered into a Settlement Agreement (the "Agreement") with respect to an order served by the Department against Harvest in November 1991. The Agreement required the Company to fund Harvest an additional \$750,000 over an 18-month period. Those funds have been and will be deposited into a Harvest interest-bearing account. As of December 31, 1995, Harvest had \$792,900 in an interest-bearing account and an amended \$4,514,683 intercompany demand note (the "Company Note") made to the order of Harvest by the Company. The Company funded an additional \$150,000 on January 15, 1996 and will fund another \$100,000 on July 15, 1996 as per the Agreement. The Department and/or Harvest have the right use proceeds from the reserve account to purchase reinsurance in order to eliminate all or part of the insurance risk.

In addition, the Company will indemnify and defend Harvest against any claims made against Harvest. There is currently one claim relating to a fire which occurred at a job site which Harvest insured. This claim is currently being investigated and defended by Harvest. See Item 3 - Legal Proceedings.

In 1994, the Company had an independent actuary evaluate the loss reserve required as of December 31, 1994. The actuary determined that a loss reserve of \$994,000 is adequate in connection with the policies issued by Harvest. The Company thereby maintains its loss reserve at \$994,000.

Finally, under the terms of the 1990 agreements pursuant to which the Company disposed of its former asbestos abatement subsidiaries, Hesco Environmental Safety Co., Inc. and AWI Environmental Services, Inc. (respectively, the "Hesco Agreement" and the "Allwash Agreement"), the Company has agreed to indemnify Hesco and Allwash for failures of Harvest to pay amounts payable under Harvest insurance policies, except that each of such indemnified parties (i) shall bear the first \$25,000 of liability for each claim against such party, respectively, for which Harvest fails to make payment (as identified above), up to a maximum of \$250,000 for all such claims against such party, respectively, and (ii) shall bear 20% of any such claim against such party, respectively, payable by Harvest, above the \$25,000 deductible referred to in subprovision (i), for which it is entitled to indemnification under the Hesco Agreement or Allwash Agreement, up to a maximum of \$250,000 for any single claim and up to a maximum of \$500,000 for such claims against such party, respectively, in the aggregate.

EMPLOYEES

The Company had twenty-one employees as of March 15, 1996. None of such employees are covered by collective bargaining agreements, and the Company's relations with its employees are believed to be satisfactory.

8

9
ITEM 6. SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1995	Year Ended December 31, 1994	Year Ended December 31, 1993	Year Ended December 31, 1992	Year Ended December 31, 1991
<S> Revenue	<C> \$ 1,089,000	<C> \$ 1,848,000	<C> \$ 803,000	<C> \$ 1,075,000	<C> \$ 871,000

Costs and Expenses	4,058,000	5,615,000	3,266,000	954,000	1,084,000
Net Income (Loss)	(2,969,000)	(3,767,000)	(2,463,000)	121,000	(213,000)
Net Income (Loss) Per Share	(.05)	(.07)	(.05)	.003	(.005)
Dividends Per Share	--	--	--	--	--
Total Assets	5,321,000	10,776,000	15,129,000	11,418,000	11,094,000
Long-Term Obligations (including current portions)	4,000,000	5,735,000	8,243,000	4,292,000	4,408,000
Redeemable Preferred Stock (including accrued interest)	0	0	567,000	517,000	468,000

9

10

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

RESULTS OF OPERATIONS

Fiscal Year Ended December 31, 1995 Compared to Fiscal Year Ended December 31, 1994

Commodore's purchase price at the time of the acquisitions of Commodore Labs and CFCT exceeded the historical cost of the net assets purchased by \$2,457,201. This excess purchase price was previously recorded by Commodore and reported in Commodore's 1993 and 1994 Annual Reports on Form 10-K as goodwill and was being amortized over 15 years. At the request of a regulatory agency, Commodore has reclassified the goodwill as in-process technology, in as much as the technology feasibility acquired had not yet been established and at the time of the acquisition there was no further alternative use. Accordingly, in this Annual Report, Commodore is reflecting the in-process technology of \$2,457,201 charged as an expense to operations effective January 1, 1994, rather than reporting it as capitalized goodwill to be amortized over 15 years.

Total revenues for the year ended December 31, 1995 were \$1,089,000 as compared with \$1,848,000 for the year ended December 31, 1994. The decrease in total revenues is the result of the following:

- Revenues in 1994 included an \$836,000 adjustment to the insurance loss reserve which was not adjusted in 1995, and the Company recovered a bad debt in 1994 of \$148,000 relating to an estimate of a mortgage receivable collected in 1994. In 1995, the Company realized a gain on the collection of a mortgage receivable of \$573,000. Revenues from 1995 also included interest income from mortgage receivables of \$468,000 as compared to \$818,000 in 1994, a decrease of \$350,000. The decrease was due to the collection of two mortgage receivables, one in December 1994 and one in October 1995. The Company expects a minimal amount of revenue to be generated by interest from mortgages in the future.

Costs and expenses for the year ended December 31, 1995 were \$4,058,000 as compared with \$5,615,000 for the year ended December 31, 1994. The analysis of costs and expenses is as follows:

- In 1994 the Company charged to expense \$2,457,201 of in-process technology which had been acquired in the acquisitions of Commodore Labs and CFCT.
- In 1995, the Company incurred approximately \$2,136,000 in research and development costs, of which \$159,000 was capitalized as equipment costs and the balance of \$1,990,000 was expensed. In 1994, the Company incurred approximately \$1,747,000 in research and development costs, of which \$710,000 was capitalized as equipment costs and the balance of \$1,037,000 was expensed.
- In 1995, consultants were hired as full-time employees and assigned to the research and development subsidiaries. The costs related to such personnel are now being included in research and development expense.

11

- In 1995, general and administrative expenses increased from \$1,358,000 to \$1,517,000, an increase of \$159,000. The Company incurred an additional \$135,000 in travel-related expenses which were attributable to support ongoing marketing of the Technology and the seeking of new business opportunities. The Company also incurred additional insurance expense of \$64,000, relating to equipment and other operating issues.
- In 1995, interest expense decreased from \$763,000 for the year ended December 31, 1994 to \$550,000 for the year ended December 31, 1995. The decrease is the result of the satisfaction of a mortgage payable in the fourth quarter of 1995. The decrease in interest expense partially offset the other cost increases noted above.

The net loss for the year ended December 31, 1995 was \$2,969,000, as compared to a net loss for the year ended December 31, 1994 of \$3,767,000. The difference is due to the write-off of in-process technology, the decrease in total revenues and the increase in expenses as noted above.

Fiscal Year Ended December 31, 1994 Compared to Fiscal Year Ended December 31, 1993

Total revenues for the year ended December 31, 1994 were \$1,848,000 as compared with \$803,000 for the year ended December 31, 1993. The increase in total revenues is the result of the following:

- In 1994, the Company had an actuarial valuation performed on its captive insurance company in order to determine an adequate reserve. As a result of the valuation, it was determined that the reserve was overaccrued by \$836,000. Because no asbestos abatement claims have been made to date and management believes the probability of a claim being reported is remote, management has reduced the reserve to agree with the actuary's findings and recognized \$836,000 in revenue in 1994.
- Interest income from commercial real estate activities increased in 1994 from that in 1993 by approximately \$326,000. At December 1993, the aggregate value of a certain mortgage receivable approximated market value of the underlying real estate security. In 1994, the Company received cash and recognized interest income to the extent of the contractual amount of the mortgage. In 1993, the interest income was offset by a realization allowance since the receivable was in excess of the market value of the underlying real estate property.
- In 1993, the Company realized \$125,000 of revenue on a note receivable that was theretofore deemed unrecoverable.

Costs and expenses for the year ended December 31, 1994 were \$5,615,042 as compared with \$3,265,000 for the year ended December 31, 1993. The analysis of costs and expenses is as follows:

- In 1994, the Company charged to expense \$2,457,201 of in-process technology which had been acquired in the acquisitions of Commodore Labs and CFCT.

11

12

- In 1994, the Company incurred approximately \$1,747,000 in research and development costs, of which \$710,000 was capitalized as equipment costs and the balance of \$1,037,000 was expensed. Research and development costs were insignificant in 1993, as the acquisitions of Commodore Labs and CFT were not completed until December 22, 1993.
- During 1993, the Company increased its receivable and non-performing asset allowance by \$1,970,665. This non-cash expense was made to adjust the carrying value of its mortgage and other related receivables to be approximately that of the underlying security. The Company evaluates periodically the underlying security of the mortgage notes and other receivables. An independent appraisal was obtained on some of the underlying security in 1993, as all underlying security has appraisals performed on a rotating basis. Although the Company is not looking to the underlying security to recover the value of the recorded assets, the Company believes that it is prudent to maintain the value of the receivables at the estimated fair market value of the underlying assets. The writedown of \$1,970,665 was due to the poor economic

conditions in the real estate industry and resulting depressed real estate values. The non-recurrence of this item in 1994 was substantially offset by the increase in research and development expenses noted above, and by the increases in travel and interest expenses noted below.

- The Company incurred \$214,000 of consulting expense in 1993, of which \$165,000 was paid to a related party. In 1994, the consultants were hired as full-time employees and assigned to the research and development subsidiaries. The costs related to such personnel are now being included in research and development expense. Additional consultants were hired in 1994 at a cost of approximately \$50,000.
- In 1994, the Company incurred travel and related expenses of approximately \$220,000 in connection with the obtaining of overseas financing and research and development activities. In addition, the Company incurred \$170,000 in salaries and wages and \$164,000 in professional fees relating to research and development activities which did not occur in 1993.
- During 1993, the Company was audited by the State of New York for tax returns filed in previous years. The Company paid interest and additional taxes of approximately \$80,000, which was expensed in 1993.
- Interest expense increased from \$443,000 for the year ended December 31, 1993 to \$763,000 for the year ended December 31, 1994. The increase is the result of an increase in long-term debt.

The net loss for the year ended December 31, 1994 was \$3,767,000, as compared to a net loss for the year ended December 31, 1993 of \$2,463,000. The difference was due primarily to the write-off of in-process technology and the increase in total revenues noted above.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficit of \$793,000 on December 31, 1995 as compared to a working capital deficit of \$78,000 on December 31, 1994.

The Company incurred approximately \$2,136,000 in research and development costs associated with the Technology in 1995. The Company anticipates that it will incur research and development costs of approximately \$2,500,000 in 1996, given its present level of activities. The Company is currently in the process of negotiating a line of credit with a commercial bank, to enable the Company to continue its research and development efforts and paying ongoing expenses; however, the Company does not have a commitment for any financing, and there can be no assurance as to whether or when any financing can be obtained. The Company's continued viability is dependent upon meeting its cash requirements during 1996. Currently, a corporation owned by the majority shareholder has been advancing the Company funds to continue to meet its obligations. In the event that the Company is not successful in obtaining third party financing, its continued existence will be totally dependent on the majority shareholder's ability to fund the Company. As of March 26, 1996, the Company is indebted to the majority shareholder's corporation for \$1,875,000.

Harvest American Insurance Company

In July 1987, the Company established Harvest, a wholly-owned subsidiary of the Company, licensed by the State of Vermont as a "captive" insurance company. Harvest issued "occurrence" based insurance policies to each of the Company's former asbestos abatement subsidiaries, but not to any other persons or entities. An occurrence-based policy insures against claims arising at any time in the future based upon events which occurred while the policy was in effect. The policies were in effect from July 1987 through January 1989. The operating subsidiaries of the Company paid premiums to Harvest based upon a percentage of sales and had coverage through January 1989. Beginning in January 1989, in response to greater availability of "occurrence type" insurance, the subsidiaries obtained asbestos abatement-related general liability insurance from unrelated insurance companies. Harvest no longer issues new policies. The maximum exposure under the outstanding policies is \$5,000,000 in the aggregate.

In December 1994, the Department and the Company entered into a Settlement Agreement (the "Agreement") with respect to an order served by the Department against Harvest in November 1991. The Agreement requires the Company to fund Harvest an additional \$750,000. Those funds have been and will be deposited into a Harvest interest-bearing account. As of December 31, 1995, Harvest had \$792,900 in an interest-bearing account and an amended \$4,514,683

intercompany demand note (the "Company Note") made to the order of Harvest by the Company. The Company funded an additional \$150,000 on January 15, 1996 and will fund another \$100,000 on July 15, 1996 as per the Agreement. The Department and/or Harvest have the right use proceeds from the reserve account to purchase reinsurance in order to eliminate all or part of the insurance risk.

In addition, the Company will indemnify and defend Harvest against any claims made against Harvest. There is currently one claim relating to a fire

13

14
which occurred at a job site which Harvest insured. This claim is currently being investigated and defended by Harvest. See Item 3 - Legal Proceedings).

In 1994, the Company had an independent actuary evaluate the loss reserve required as of December 31, 1994. The actuary determined that a loss reserve of \$994,000 is adequate in connection with the policies issued by Harvest. The Company thereby maintains its loss reserve to \$994,000.

Finally, under the terms of the Hesco Agreement and the Allwash Agreement, the Company has agreed to indemnify Hesco and Allwash for failures of Harvest to pay amounts payable under Harvest insurance policies, except that each of such indemnified parties (i) shall bear the first \$25,000 of liability for each claim against such party, respectively, for which Harvest fails to make payment (as identified above), up to a maximum of \$250,000 for all such claims against such party, respectively, and (ii) shall bear 20% of any such claim against such party, respectively, payable by Harvest, above the \$25,000 deductible referred to in subprovision (i), for which it is entitled to indemnification under the Hesco Agreement or Allwash Agreement, up to a maximum of \$250,000 for any single claim and up to a maximum of \$500,000 for such claims against such party, respectively, in the aggregate.

IMPACT OF INFLATION

Management does not believe that inflation is likely to have a significant impact on the results of the Company's current operations.

14

15 ITEM 8. LIST OF FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The following consolidated financial statements of Commodore Environmental Services, Inc. and subsidiaries are included as Item 8 and can be found on pages F-1 through F-28, inclusive:

Consolidated Balance Sheets - December 31, 1995 and 1994.

Consolidated Statements of Operations - Years ended December 31, 1995, 1994 and 1993.

Consolidated Statements of Stockholders' Equity - Years ended December 31, 1995, 1994 and 1993.

Consolidated Statements of Cash Flow - Years ended December 31, 1995, 1994 and 1993.

Notes to Consolidated Financial Statements.

The following consolidated financial statement schedule of Commodore Environmental Services, Inc. and subsidiaries is included in this Item 8:

Schedule II - Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and, therefore, have been omitted.

15

16

COMMODORE ENVIRONMENTAL
SERVICES, INC.

DECEMBER 31, 1995, 1994 AND 1993

CONSOLIDATED FINANCIAL STATEMENTS

17

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
COMMODORE ENVIRONMENTAL SERVICES, INC.

We have audited the consolidated balance sheet of Commodore Environmental Services, Inc., and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, stockholders' equity and cash flows for the three years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements 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 financial position of Commodore Environmental Services, Inc., and subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for the three years then ended, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note P, the Company's significant operating losses, and deficits in working capital and retained earnings 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 P. The accompanying consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

F-1

18

Our audit, referred to above, also included the financial schedule listed in answer to item 14(a)(2). In our opinion, such financial schedule present fairly the information required to be set forth therein.

The Company established a captive insurance subsidiary in July, 1987, for the purpose of providing liability insurance coverage to the environmental services subsidiaries of the Company for asbestos abatement site work performed during the period July, 1987 to January, 1989. The accompanying financial statements at December 31, 1995 and 1994 reflect a reserve of \$994,000 to offset possible future claims. As discussed in note O, the subsidiary does not have sufficient experience to accurately determine the estimate of possible claims which may be filed. Accordingly, the financial statements do not include any adjustments that might result from the outcome of these uncertainties.

TANNER & CO.

COMMODORE ENVIRONMENTAL SERVICES, INC.
 AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1995 AND 1994

<TABLE>
 <CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash (note B)	\$ 36,189	3,011,423
Certificates of deposit restricted (note B)	50,000	50,000
Other receivable	39,561	39,561
Notes and advances to related parties (note N)	7,500	8,544
Inventories (note B)	45,572	--
Prepaid assets	25,000	--
Restricted cash (note B)	1,792,900	291,622
	-----	-----
Total current assets	1,996,722	3,401,150
	-----	-----
Receivables, net (notes B, D, and H)	303,517	4,683,290
Furniture and equipment less accumulated depreciation of \$140,460 and \$92,586 (note B)	1,053,983	715,233
Other investments (note F)	356,892	356,892
Note receivable from related party (note N)	125,000	125,000
Nonperforming assets (note E)	911,862	911,862
Other assets (notes B and G):		
Deferred financing costs, net	288,000	384,000
Deferred acquisition costs, net	45,144	90,292
Patent costs, net	205,898	82,466
Other	33,600	25,556
	-----	-----
	572,642	582,314
	-----	-----
	\$ 5,320,618	10,775,741
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 669,887	1,039,179
Payables to related parties (note N)	1,085,490	1,294,829
Current portion - long-term debt (note H)	--	151,462
Insurance loss reserve (note O)	994,000	994,000
	-----	-----
Total current liabilities	2,749,377	3,479,470
	-----	-----
Bonds payable (note I)	4,000,000	4,000,000
Long-term debt (note H)		1,583,175
Commitments and contingencies (notes M and O)	--	--
Stockholders' equity (note L):		
Preferred stock, par value \$.01 per share, authorized 10,000,000 shares, issued and outstanding 4,534,709 shares and 4,434,709 shares	45,347	44,347

Common stock, par value \$.01 per share, authorized 100,000,000 shares, issued 56,768,953 shares and 56,406,687 shares	567,689	564,067
Additional paid-in capital	19,209,445	19,386,555
Retained deficit	(21,225,927)	(18,256,560)
	-----	-----
	(1,403,446)	1,738,409
Less 506,329 shares of treasury stock, at cost	(25,313)	(25,313)
	-----	-----
Total stockholders' equity	(1,428,759)	1,713,096
	-----	-----
	\$ 5,320,618	10,775,741
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

F-3

20

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

<TABLE>

<CAPTION>

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues:			
Income from commercial real estate activities (notes B and D)	\$ 1,041,366	818,336	649,141
Income from refrigerant technology services	2,901	--	--
Interest income	44,445	46,464	28,360
Bad debt recovery (notes D and E)	--	147,545	125,000
Other income (note O)	--	835,922	--
	-----	-----	-----
Total revenues	1,088,712	1,848,267	802,501
	-----	-----	-----
Costs and expenses:			
Research and development	1,990,395	1,036,892	--
In-process technology acquired	--	2,457,201	--
General and administrative:			
Salaries and wages	393,138	362,918	193,200
Travel	356,901	221,979	--
Amortization	78,436	50,907	--
Rent (notes K and N)	126,992	97,829	65,789
Professional fees	122,497	240,721	76,867
Insurance	121,386	57,488	19,128
Consulting	--	50,443	214,000
Other	318,434	275,675	281,983
Increase in receivable realization allowance	--	--	1,970,665
Interest	549,900	762,989	443,402
	-----	-----	-----
Total expense	4,058,079	5,615,042	3,265,034
	-----	-----	-----
Net loss before income taxes	(2,969,367)	(3,766,775)	(2,462,533)
Income tax expense (note J)	--	--	--
	-----	-----	-----
Net loss	\$ (2,969,367)	(3,766,775)	(2,462,533)
	=====	=====	=====
Net loss per share (note B)	\$ (.05)	(.07)	(.05)
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

<TABLE>
<CAPTION>

	PREFERRED STOCK SHARES	PREFERRED STOCK PAR VALUE	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	RETAINED DEFICIT	COMMON STOCK HELD IN TREASURY
<S>	<C>	<C>	<S>	<C>	<C>	<C>	<C>
Balance, January 1, 1993	--	--	46,536,687	465,367	15,535,698	(12,027,252)	(25,313)
Issuance of common stock for services	--	--	7,300,000	73,000	2,000	--	--
Issuance of common stock for investment in subsidiary	--	--	1,750,000	17,500	--	--	--
Issuance of preferred stock for cash	925,000	\$ 9,250	--	--	915,750	--	--
Dividends on preferred stock	--	--	--	--	(6,514)	--	--
Dividends on redeemable preferred stock	--	--	--	--	(49,500)	--	--
Net (loss)	--	--	--	--	--	(2,462,533)	--
Balance, December 31, 1993	925,000	9,250	55,586,687	555,867	16,397,434	(14,489,785)	(25,313)
Issuance of preferred stock less offering costs for cash	1,975,000	19,750	--	--	1,595,250	--	--
Exchange of preferred stock for preferred stock of subsidiary	1,534,709	15,347	--	--	1,519,362	--	--
Issuance of common stock - exercise of options	--	--	820,000	8,200	4,000	--	--
Issuance of common stock options	--	--	--	--	25,000	--	--
Dividends on preferred stock	--	--	--	--	(143,623)	--	--
Dividends on redeemable preferred stock	--	--	--	--	(10,868)	--	--
Net (loss)	--	--	--	--	--	(3,766,775)	--
Balance, December 31, 1994	4,434,709	44,347	56,406,687	564,067	19,386,555	(18,256,560)	(25,313)
Issuance of preferred stock less offering costs for cash	100,000	1,000	--	--	99,000	--	--
Issuance of common stock - exercise of options	--	--	362,266	3,622	20,091	--	--
Dividends on preferred stock	--	--	--	--	(296,201)	--	--
Net loss	--	--	--	--	--	(2,969,367)	--
Balance, December 31, 1995	4,534,709	\$45,347	56,768,953	567,689	19,209,445	(21,225,927)	(25,313)

</TABLE>

See accompanying notes to consolidated financial statements.

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (2,969,367)	(3,766,775)	(2,462,533)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	202,721	158,400	10,942
Gain on collection of note receivable	(573,025)	--	--
Bad debt recovery	--	(147,545)	(125,000)
Decrease in insurance loss reserve	--	(835,922)	--
Increase in receivable allowances	--	--	1,970,665
write off of in-process technology	--	2,457,201	--
Issuance of stock for services	--	25,000	75,000
Increase in other receivables	--	(39,561)	--
Increase in inventories	(45,572)	--	--
Increase in prepaid assets	(25,000)	--	--
(Increase) decrease in other assets	(8,044)	3,016	1,956
Increase (decrease) in accounts payable and accrued liabilities	(369,292)	440,634	319,329
Increase in patents	(137,131)	(66,890)	--
	-----	-----	-----
Net cash used in operating activities	(3,924,710)	(1,772,442)	(209,641)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments received on receivables	3,242,382	4,047,819	615,043
Increase in receivables, net	--	(920,172)	(644,280)
Purchase of furniture and equipment	(386,624)	(707,766)	--
Increase in other investments	--	(110,017)	(9,375)
Payments recovered on nonperforming assets	--	37,645	44,190
(Increase) decrease in notes and advances to related parties	1,044	16,456	(150,000)
Increase in restricted cash	(1,501,278)	(11,461)	(6,860)
Advances to subsidiary	--	--	(403,715)
Payments received on notes receivable	--	--	325,000
Acquisition of Commodore Laboratories, formerly A.L. Sandpiper, and CFC Technologies	--	--	(18,216)
Increase in deferred acquisition costs	--	--	(135,440)
	-----	-----	-----
Net cash provided by (used in) investing activities	\$ 1,355,524	2,352,504	(383,653)
	-----	-----	-----

</TABLE>

See accompanying notes to consolidated financial statements.

COMMODORE ENVIRONMENTAL SERVICES, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

<TABLE>

<CAPTION>

	1995	1994	1993
	----	----	----
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of preferred stock	100,000	1,975,000	925,000
Issuance of bonds	--	1,500,000	2,500,000
Payments of long-term debt	(24,221)	(2,454,337)	(102,558)
Payment of preferred stock and dividend	(296,201)	(721,123)	--
Offering costs of preferred stock	--	(360,000)	--
Payables to related parties, net	(209,339)	(142,474)	350,050
Increase in deferred financing costs	--	(77,500)	(392,500)
Increase of stock for cash	23,713	12,200	--
	-----	-----	-----
Net cash provided by (used in) financing activities	(406,048)	(268,234)	3,279,992
	-----	-----	-----
Increase (decrease) in cash	(2,975,234)	311,828	2,686,698
Cash, beginning of year	3,011,423	2,699,595	12,897
	-----	-----	-----
Cash, end of year	\$ 36,189	3,011,423	2,699,595
	=====	=====	=====

</TABLE>

NONCASH INVESTING AND FINANCING ACTIVITIES:

During the year ended December 31, 1993, the Company acquired 90.05 percent of the outstanding common stock of Commodore Laboratories, formerly A.L. Sandpiper, and subsidiary for 1,000,000 shares of the Company's common stock. The Company also acquired 90.05 percent of the outstanding common stock of CFC Technologies for \$70,000 cash and the issuance of 750,000 shares of the Company's common stock. Assets and liabilities acquired are as follows:

<TABLE>

<S>	<C>
Cash	\$ 51,784
Furniture and equipment less accumulated depreciation	11,423
Patent costs	20,080
Other assets	4,476
Accounts payable and accrued expenses	(115,734)
Payables related parties	(409,170)
Preferred stock	(1,554,081)
Advances from Commodore	(403,715)

Net liabilities in excess of assets purchased	(2,394,937)
Cash paid	(70,000)
Issuance of common stock	(17,500)

In-process technology acquired	(2,482,437)

1994 adjustment for revaluation of accrued liabilities	25,236

Total in-process technology acquired	\$ (2,457,201)
	=====

</TABLE>

See accompanying notes to consolidated financial statements.

F-7

24

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

NONCASH INVESTING AND FINANCING ACTIVITIES - CONTINUED:

In December 1994, the Company exchanged 977 shares of series "A" (par value \$1,000) and 557,709 of the 577,081 shares of series "B" (par value \$1)

outstanding preferred stock in Commodore Laboratories, formerly A.L. Sandpiper, for 1,534,709 shares of Commodore series "B" preferred stock (par value \$.01) totaling \$1,534,709. In addition, the Company accrued \$19,372 of accrued liabilities for the 19,372 shares of series "B" (par value \$1) preferred stock that was not exchanged.

During 1995, the Company released a property in Illinois, in which it held a security interest, to be sold in exchange for pay off of the mortgage note payable of \$1,710,416, which the Company owed. The balance outstanding on the note receivable at the date of payoff was \$1,137,391 and the Company recognized a gain on the collection of the receivable of \$573,025.

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Operations reflect actual amounts paid for interest and income taxes as follows:

<TABLE>
<CAPTION>

	1995 ----	1994 ----	1993 ----
<S>	<C>	<C>	<C>
Interest	\$454,000 =====	662,000 =====	427,000 =====
Income taxes	\$ 81,000 =====	90,000 =====	40,000 =====

</TABLE>

See accompanying notes to consolidated financial statements.

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BACKGROUND

Commodore Environmental Services, Inc., and subsidiaries (the "Company"), from January 1, 1991 to December 31, 1995, has been engaged in real estate operations. Effective December 22, 1993, the Company acquired 90.05 percent of the common stock in two entities (technology entities) which own technology relating to the destruction of polychlorinated biphenyls and chlorofluorocarbons. Since acquisition, the Company has also been engaged in activities relating to these technologies.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Commodore Environmental Services, Inc., and its wholly-owned subsidiaries, which are over 50% owned. All significant intercompany balances and transactions have been eliminated in consolidation.

Effective December 22, 1993, the Company acquired 90.05 percent of the issued and outstanding common stock of Commodore Laboratories, Inc., formerly A.L. Sandpiper, and subsidiary (Commodore

Labs) and 90.05 percent of the outstanding common stock of CFC Technologies, Inc., (CFCT). The acquisitions are accounted for as a purchase. The consolidated financial statements include the operations of the Company and its subsidiaries for all years presented and Commodore Labs and CFCT from December 22, 1993 to December 31, 1995. Separate operations of Commodore Labs and CFCT for the period December 22, 1993 through December 31, 1993 are not presented separately as the amounts are immaterial. Segment reporting is not presented as the amounts are not materially different than those presented in the financial statements.

CASH AND CASH EQUIVALENTS

The Company considers cash and highly liquid debt instruments with maturities of three months or less to be cash equivalents.

CERTIFICATES OF DEPOSIT

At December 31, 1995 and 1994, the Company maintained \$50,000 in certificates of deposit which is security for a letter of credit.

RESTRICTED CASH

Effective October 1995, the Company is required to maintain, in an interest-bearing escrow account, \$1,000,000 designated as collateral security for the repayment of principal and interest of the Convertible Bonds. In addition, the Company maintains \$792,900 and \$291,622 as of December 31, 1995 and 1994, respectively, in an interest-bearing deposit account pursuant to the Harvest American Insurance Company settlement agreement.

F-9

26

COMMODORE ENVIRONMENTAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

REVENUE RECOGNITION

REAL ESTATE

Revenues are recognized from sales of real estate on the installment method. Cash receipts are apportioned between cost recovery and profit recognition in the same ratio that cost and profit bore to the original sales price.

INTEREST INCOME

The Company recognizes interest income on notes receivable when earned. The recognition of interest income on notes receivable is discontinued when management determines that the continual accrual of interest may exceed the underlying security of the receivables.

REALIZATION ALLOWANCE

Receivable losses are accounted for under the allowance method. Losses and recoveries are charged or credited directly to the allowance. The allowance is adjusted so that the net mortgage receivable is valued at its estimated recovery amount. The difference between the original mortgage notes receivable with the accrued interest and the estimated fair market value of the underlying security is the value of the allowance. While management uses the best information available on which to base estimates, future adjustments to the reserve may be necessary if economic conditions differ substantially from the assumptions used by management.

INVENTORIES

Inventories consist of materials and supplies, including contaminated agents, stated at cost, on a first-in, first-out basis, and labor costs to purify the contaminated agents preparing them for resale. Inventories are stated at the lower of cost or market.

FURNITURE AND EQUIPMENT

Furniture and equipment is carried at cost. Improvements which substantially increase the useful lives of the 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 credited or charged to income.

Provisions for depreciation are computed on the straight-line method based on the estimated useful lives of the assets.

F-10

27

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

AMORTIZATION OF OTHER ASSETS

The Company has included in other assets patent costs, deferred acquisition costs, goodwill, and deferred financing costs. These assets are being amortized over the following estimated useful lives:

<TABLE>

<S>		<C>
	Patents	17 years
	Deferred financing costs	5 years
	Deferred acquisition costs	3 years

</TABLE>

INSURANCE LOSS RESERVE

Insurance loss reserves are estimates of the ultimate cost of both reported and unreported claims incurred and unpaid at year-end (see note O).

LOSS PER SHARE

Loss per share is computed based on the weighted average number of shares outstanding. Shares used to determine loss per share exclude common stock equivalents as they are antidilutive. Accordingly, loss per share is based on weighted average shares outstanding of 56,212,000 for the year ended December 31, 1995, 55,535,000 for the year ended December 31, 1994 and 52,450,000 for the year ended December 31, 1993.

CONCENTRATION OF CREDIT RISK

The Company's principal operations and substantially all revenues are from collections on mortgage notes receivable. These mortgage notes receivables are from real estate transactions in Illinois and North Carolina. As discussed in note D and E, the Company has a second position security interest in the Illinois property and the receivable on the North Carolina property is unsecured.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such account. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

INCOME TAXES

The Company provides for deferred income taxes on temporary differences which represent the tax effects on transactions reported for tax purposes in periods different than for book purposes.

F-11

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INCOME TAXES - CONTINUED

Temporary differences relate primarily to recognizing income on mortgage notes receivable and nonperforming assets, the realization allowance, and the income loss reserve.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standard No. 121 "Accounting for Long Lived Assets" and No. 123 "Accounting for Stock Based compensation." Statement Nos. 121 and 123 are effective for years beginning after December 15, 1995. The effect of adoption of Statement Nos. 121 and 123 are not anticipated to have a material impact on the Company's financial statements.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Financial instruments subject to possible material market variations from the recorded book value are the convertible bonds and notes receivable. There are no material differences in these financial instruments from the recorded book value as of December 31, 1995.

RECLASSIFICATIONS

Certain amounts in the 1993 and 1994 presentation have been reclassified to conform with the 1995 presentation.

NOTE C - ACQUISITION

The Company entered into an agreement which was completed December 22, 1993, to acquire 90.05 percent of the issued and outstanding shares of voting common stock of each Commodore Labs and CFCT. Commodore Labs and CFCT are the owners or licensees of certain technologies relating to the destruction of polychlorinated biphenyls and chlorofluorocarbons (the Technologies).

F-12

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE C - ACQUISITION - CONTINUED

In connection with the Commodore Labs acquisition, the holders of Commodore Labs common stock received 577,081 shares of Commodore Labs non-voting series "B" preferred stock par value \$1.00 and 5 year warrants to purchase an aggregate of 3,000,000 shares of Commodore common stock at an exercise price of \$.05 per share. Albert Abel (Abel), the president of Commodore Labs, retained ownership of 9.95 percent of the Commodore Labs common stock and received 1,000,000

shares of Commodore common stock. In addition, Commodore issued to Abel and Allison L. Augur, Jr. (Augur), the former president of CFCT, non-qualified stock options to purchase an aggregate of 1,500,000 shares of Commodore common stock at the rate of 20 percent per year at an exercise price of \$.10 per share.

At the date of acquisition, Commodore Labs had 977 shares of its series "A" preferred stock par value \$1,000 which was not exchanged.

As part of the acquisition, the Company acquired ownership and licenses to certain technologies. Inasmuch as the entities acquired would not, in the current period, generate significant revenues from its technology the excess purchase price of \$2,457,201 over the assets acquired is considered in-process technology. The in-process technology was charged to operations effective January 1, 1994.

In December, 1994, the Company extended an agreement to the holders of Commodore Labs Series "A" and "B" preferred stock to exchange their Commodore Labs preferred stock for Commodore Series "B" preferred stock. See description of Series "B" Preferred Stock in Note L. The Company received acceptance from shareholders holding 977 shares of series "A" preferred stock and 557,709 of the 577,081 shares of series "B" preferred stock and accrued a liability of \$19,372 for those shareholder that had not returned the agreement.

In connection with the closing of the CFCT acquisition, Commodore acquired 90.05 percent of the outstanding shares of CFCT common stock, with the remaining 9.95 percent of such common stock being held by Abel, through the issuance of 750,000 shares of its common stock to Augur and, in addition, paid the aggregate sum of \$70,000 to Abel and Augur.

The Company has not recorded minority interest inasmuch as Commodore Labs and CFCT had a deficit in stockholders' equity at the date of acquisition and has a deficit in stockholders' equity at December 31, 1995.

In connection with the closing, Commodore entered into a license agreement with Commodore Labs and a sublicense agreement with CFCT pursuant to which all patents, confidential information and know-how owned by Commodore Labs and licensed by Commodore Labs to CFCT were acquired by Commodore. These agreements provide that royalties of 5 percent of the revenues generated by the Commodore Labs Technologies will be payable to Commodore Labs.

F-13

30

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE D - RECEIVABLES

The Company is the holder of certain mortgage notes receivable and other related receivables at December 31, 1995 and 1994, which arose through the sale of certain properties.

The purchasers of the properties have all been limited partnerships for whom the majority stockholder of the Company was initially the primary promoter. The majority shareholder is no longer directly affiliated with the limited partnerships, except that certain general partners are affiliated with companies owned by the majority stockholder.

The Company has adopted a position whereby a portion of cash received, under the terms of the mortgage receivables, are being applied to interest receivable. Under this position, there are not current principal maturities. During 1995, the Company received cash payments of \$3,242,382 and payments in the form of direct payoff of the mortgage note due on the property of \$1,710,416. During 1994, the Company received \$4,047,819 in cash payments on the mortgage receivables. Upon collection of all unpaid interest and other receivables the Company will apply payments to the principal and amortization of the deferred gain.

The components of notes receivable are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1995	1994
	-----	-----
	1995	1994
	-----	-----
	<C>	<C>
Mortgage note receivable at an interest rate of 13.25%. Annual payments range from \$891,434 in 1995 to \$1,015,741 in 1997 with the remaining amount due in 1998, secured by real estate	\$ --	3,800,000
Accrued interest receivable	1,231,332	2,410,347
Other receivables related to the obligor of the mortgage receivable	80,000	80,000
Deferred income on sale	--	(1,884,357)
Realization allowance	(1,311,332)	--
	-----	-----
Net receivable	--	4,405,990
	-----	-----

</TABLE>

F-14

31

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE D - RECEIVABLES - CONTINUED

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1995	1994
	-----	-----
	1995	1994
	-----	-----
	<C>	<C>
Mortgage note receivable with interest at 6% to be paid in monthly installments of \$29,257 along with additional related receivables including interest receivable and management fees, unsecured	7,135,469	7,009,685
Note receivable, with interest at 10%, in various installments through 2002, unsecured	274,517	277,300
Realization allowance	(7,135,469)	(7,009,685)
	-----	-----
Net receivable	274,517	277,300
	-----	-----
Other receivables	29,000	--
	-----	-----
Total mortgage and notes receivable net of realization allowance	\$ 303,517	4,683,290
	=====	=====

</TABLE>

The balance due from the debtors at December 31, 1995 of \$8,750,318 is now unsecured. Management has adjusted the realization allowance to reflect management's estimate of the net realizable value of the receivable. On December 30, 1994, the Company entered into an agreement with one of the debtors whereby the debtor would pay to the

Company all future proceeds from a note in the amount of \$277,300 which the debtor received as proceeds from the sale of the property.

The realization allowance for these mortgage receivables reduced the net receivable to management's estimate of the value of the real estate securing the receivables. In December, 1993, based upon the poor economic conditions of the real estate industry, the Company reevaluated the net realizable value of these receivables and increased the realization allowance by \$1,970,665. Effective in 1995, the receivables are unsecured. Payments have been made in accordance with the agreement on the remaining receivables and the balance appears collectable. No additional realization allowance has been established.

F-15

32

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE E - NON-PERFORMING ASSETS

The Company has a mortgage note receivable and other related receivables which have an aggregate net book value of \$911,862 at December 31, 1995 and 1994, respectively, which are not performing according to the terms of the note and receivables. The Company is in a second position on the real estate securing the mortgage note receivable. At December 31, 1995 and 1994, the Company has a realization allowance of \$1,481,536 and \$1,321,024, respectively, on the mortgage note receivable and related receivables based upon the estimated recoverability of the receivables and the underlying value of the security. The Company is not recognizing interest income on the receivables and is applying all payments received as a reduction of accrued interest receivable. The Company received payments of \$-0- and \$37,743 relating to the nonperforming assets for the years ended December 31, 1995 and 1994, respectively.

NOTE F - OTHER INVESTMENTS

In March, 1991, the Company invested \$200,000 for a joint ownership interest in an oil and gas field located in Oklahoma. The Company had a 14.0625 percent working interest in the joint venture. The investment is accounted for on the cost basis. The Blum Family Trust (BFT), an entity in which the Company's Chairman of the Board, Chief Executive Officer and Majority Stockholder serves as trustee, had a majority interest in the same oil and gas field. The Field is currently producing oil, and revenues generated are being reinvested to further the development of the Field. The Company invested an additional \$9,375 from its portion of operating income in the venture in 1993.

In 1994, the Company exchanged its interest in the above property for a joint ownership interest in an oil and gas field located in Louisiana (the Louisiana Property). The Company has a 22.67 percent working interest in the Louisiana Property. The Louisiana Property is approximately 10,000 acres which contain a number of producing wells. Some wells need remedial work and other wells need minor work to be brought back on line. In addition, a geological and geophysical study on the Louisiana Property will be performed to recommend new drilling locations. The Company's portion of revenues and expenses relating to the property were \$4,300 and \$13,600, respectively, in 1995. The investment is accounted for on the equity method. Condensed financial statements are not presented as the investment and its operations are immaterial to the Company.

In 1994, BFT exchanged its interest in the Oklahoma Field for additional ownership interest in the Louisiana Property. BFT originally had a 45 percent interest in the Louisiana Property and has increased its ownership to 56.33 percent as a result of this transaction.

F-16

33

COMMODORE ENVIRONMENTAL SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE G - OTHER ASSETS - CONTINUED

The Company has other assets consisting of costs incurred in obtaining patents, acquisition costs, financing costs, and goodwill relating to the purchase of Commodore Labs and CFCT (see notes A and C).

The amount and accumulated amortization is as follows at December 31, 1995:

<TABLE>
<CAPTION>

ITEM	AMOUNT	ACCUMULATED AMORTIZATION	NET BALANCE
----	-----	-----	-----
<S>	<C>	<C>	<C>
Deferred financing costs	\$480,000	192,000	288,000
Deferred acquisition costs	135,440	90,296	45,144
Patent costs	224,906	19,008	205,898
Other assets not amortizable	33,600	--	33,600
	-----	-----	-----
	\$873,946	301,304	572,642
	=====	=====	=====

</TABLE>

The amount and accumulated amortization is as follows at December 31, 1994:

<TABLE>
<CAPTION>

ITEM	AMOUNT	ACCUMULATED AMORTIZATION	NET BALANCE
----	-----	-----	-----
<S>	<C>	<C>	<C>
Deferred financing costs	\$480,000	96,000	384,000
Deferred acquisition costs	135,440	45,148	90,292
Patent costs	88,225	5,759	82,466
Other assets not amortizable	25,556	--	25,556
	-----	-----	-----
	\$729,221	146,907	582,314
	=====	=====	=====

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE H - LONG-TERM DEBT

Long-term obligations consisted of the following:

<TABLE>
<CAPTION>

	DECEMBER 1,	
	1995	1994
	-----	-----
<S>	<C>	<C>
Notes payable to financial and insurance companies:		
First mortgage note payable in monthly		

installments of \$24,946 including interest through February, 2003 with interest at 8.9 percent, secured by mortgage note receivable and the underlying real estate	\$ --	1,734,637
	-----	-----
 Total	--	1,734,637
 Less current maturities	--	(151,462)
	-----	-----
 Total long-term	\$ --	1,583,175
	=====	=====

</TABLE>

NOTE I - BONDS PAYABLE

In 1993 and 1994, the Company issued convertible bonds aggregating in the principal amount of \$4,000,000, pursuant to a private offering. The bonds carry an interest rate of 8.5 percent with the interest payable quarterly. Maturity of the bonds is in 1998. During 1995, the collateral agreement associated with the convertible bonds was amended. The bonds are secured by an amount of unissued shares of the Company's common stock such that the market price equals 125 percent of the outstanding principal amount of the bonds (8,000,000 shares at December 31, 1995), whereby if the Company defaults on payment, the borrower has the right to have the certificates endorsed by the Company. In addition, the Company must maintain \$1,000,000 in cash in a bank account as additional security. As partial consideration to terminate the original collateral agreement, the Company issued warrants to purchase 2,000,000 shares of the Company's common stock at a price of \$.68 per share through December 2000.

The bonds, at the holders option, are convertible at any time into common stock of the Company at the rate of \$1.00 of bond principal value for each share of common stock. The Company has paid an aggregate commission of \$480,000 in cash plus 5 year warrants to purchase 2,233,332 shares upon complete issuance of the \$4,000,000 in bonds, pro rated for the principal amount of such bonds actually sold. Subsequent to when the bid price of the Company's common stock exceeds \$1.25 per share, the bonds are redeemable and repayable by the Company at the face amount thereof plus accrued interest. The bonds also have detachable 5 year warrants, with an exercise price of \$.10 per share, which allow the holders to purchase one share of the Company's common stock for every \$8.00 of bond principal. As a result, the Company has issued to bond holders warrants to purchase 500,000 of the Company's common stock at \$.10 per share. The common shares acquired upon conversion of the bonds and exercise of the detachable warrants are subject to "piggy back" registration rights.

F-18

35

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE J - INCOME TAXES

The Company provides for deferred income taxes on temporary differences which represent tax effects of transactions reported for tax purposes in periods different than for book purposes.

The difference between the income tax (benefit) at statutory rates for 1995, 1994 and 1993 and the amount presented in the financial statements is the change in the tax valuation allowance which offsets the income tax benefit of the operating loss.

Deferred tax assets at December 31, 1995 and 1994 are as follows:

<TABLE>
<CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
Realization allowance	\$ 2,870,000	2,380,000
Insurance loss reserve	350,000	350,000
Operating loss carryforwards	4,650,000	3,580,000
	-----	-----
	7,870,000	6,310,000
Valuation allowance	(7,870,000)	(6,310,000)
	=====	=====
	--	--
	=====	=====

</TABLE>

The Company has net operating loss carryforwards of approximately \$13,672,000 which expire in the years 1996 through 2010. The amount of net operating loss carryforward that can be used in any one year will be limited by the applicable tax laws which are in effect at the time such carryforward can be utilized. If certain substantial changes in the Company's ownership should occur, there would be an annual limitation of the amount of NOL carryforwards which could be utilized.

F-19

36

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE K - OPERATING LEASES

The Company is committed under noncancellable operating leases for office space and other office equipment. Future maturities under the leases for the next five years are as follows:

<TABLE>		<C>
<S>	1996	\$ 62,927
	1997	64,941
	1998	50,868
	1999	4,140
	2000	1,380

		\$184,256
		=====

</TABLE>

NOTE L - STOCKHOLDERS' EQUITY

ISSUANCE OF COMMON STOCK

During 1995, 362,266 options for the purchase of common stock were exercised. Of the options exercised, 60,000 were at \$.01 per share, 100,000 were at \$.03 per share, 2,266 were at \$.05 per share and 200,000 were at \$.10 per share.

During 1994, 820,000 options for the purchase of common stock were exercised. Of the options exercised, 620,000 shares were at \$.01 per share and 200,000 shares were at \$.03 per share.

On February 16, 1993, Paul E. Hannesson, a former principal shareholder, officer and director of the Company, at the time the

services were rendered, received for \$75,000 in services rendered to the Company in connection with acquisitions, including those described below, an aggregate of 7,300,000 shares of the Company's common stock.

On December 22, 1993, in connection with the acquisition of Commodore Labs and CFCT, the Company issued 1,000,000 shares of the Company's common stock to the president of Commodore Labs and 750,000 shares of the Company's common stock to one of the CFCT shareholders.

F-20

37

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE L - STOCKHOLDERS' EQUITY - CONTINUED

ISSUANCE OF PREFERRED STOCK

In December 1994, the board of directors approved the issuance and sale of the Company's series "B" preferred stock.

The Series "B" preferred stock pays dividends quarterly at a rate of \$.08 per annum per share accruing from January 1, 1998 and is callable at any time the bid price of the Company's common stock equals or exceeds \$3.00 per share at the call price of 110 percent of the bid price on date of call.

In December, 1994, the Company extended an agreement with Commodore Labs series "A" and "B" preferred stock holders to exchange said stock for the Company's series B preferred stock. In connection therewith, the Company desired to issue 977,000 shares of series "B" to the holder of Commodore Labs series "A" preferred stock and 577,081 shares of series "B" to the holder of Commodore Labs series "B" preferred stock. All but 19,372 shares of the Commodore Labs series "B" preferred stock was exchanged.

On November 10, 1993, the board of directors approved the issuance and sale of 3,000,000 shares of the Company's series "AA" preferred stock with five year warrants to acquire 6,000,000 shares of the Company's common stock at an exercise price of \$.10 per share. The series "AA" preferred stock pays dividends at a rate of \$.10 per annum per share and is callable at any time the bid price of the Company's common stock equals or exceeds \$1.25 per share, at the call price of \$1.00 per share.

In 1993, 1994, and 1995 the Company sold 3,000,000 shares of series "AA" preferred stock for \$3,000,000. In connection with the issuance of 3,000,000 shares of the preferred stock, the Company paid commissions of \$360,000, and issued 5 year warrants to purchase 550,000 shares of its common stock of an exercise price of \$.10 per share.

REDEEMABLE PREFERRED STOCK

The Company's majority stockholder owned redeemable series "A" preferred stock of the Company at December 31, 1993. The balance of redeemable series "A" preferred stock including dividends was \$566,633 at December 31, 1993. The dividends accrue at \$.15 per annum per share. Accrued dividends were \$49,500 for 1993 and \$10,868 in 1994 prior to the redeemable preferred stock being redeemed in May, 1994.

F-21

38

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

STOCK OPTIONS

On January 28, 1987, the Company adopted the 1987 Stock Option Plan (the Plan), reserving 10,000,000 shares of common stock for issuance in connection with the Plan. Adoption of the Plan was approved at the annual meeting of shareholders on June 26, 1987. Under the Plan, the Company can grant both incentive stock options (ISO's) and nonqualified stock options.

The 1987 Stock Option Plan authorized the granting, to key employees, of incentive stock options and nonqualified stock options to purchase shares of the Company's common stock at fair market values at dates of grant. Options generally are exercisable on a pro rata basis over a five year period. On December 30, 1992, 300,000 options were granted at an exercise price of \$.01 per share under the Plan. During 1993 and 1994, options to purchase a total of 120,000 shares were exercised.

On November 22, 1993, options to purchase an aggregate of 500,000 shares of common stock were granted to an employee at an exercise price of \$.03 per share, of which 200,000 were exercised in 1994. The Company also granted an option to purchase an aggregate of 100,000 shares of common stock to a non-employee at an exercise price of \$.10 per share.

In connection with the acquisition by the Company of Commodore Labs and CFCT in 1993, the Company issued nonqualified stock options to purchase an aggregate of 1,500,000 shares of the Company's common stock at the rate of 20 percent per year at an exercise price of \$.10 per share.

No compensation expense was recognized by the Company relating to the aforementioned options as the market value equalled the exercise price at the date of grant in all situations.

In August 1994, options to purchase an aggregate of 500,000 shares of common stock were granted to a nonrelated party at an exercise price of \$.01 per share, for future services. An expense of \$10,000 was recognized by the Company as a result of this transactions as the market value exceeded the exercise price at the date of grant by \$.02 per share. These options were exercised in 1994.

In 1995, options to purchase an aggregate if 480,000 shares of common stock were granted to employees at an exercise price of \$.50 per share, exercisable vesting in one-third increments.

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE M - STOCK OPTIONS AND STOCK WARRANTS - CONTINUED

STOCK OPTIONS - CONTINUED

No compensation expense was recognized by the Company relating to the aforementioned options as the market value equalled the exercise price at the date of grant in all situations.

The following table presents the outstanding options at December 31, 1995.

<TABLE>
<CAPTION>

NUMBER OF OPTIONS 1994	GRANTED 1995	EXERCISED 1995	NUMBER OF OPTIONS 1995	EXERCISE PRICE	EXPIRATION DATE
-----	-----	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>	<C>
1,600,000	--	200,000	1,400,000	\$.10	December, 1998
180,000	--	60,000	120,000	\$.01	December, 1997
300,000	--	100,000	200,000	\$.03	December, 1997
--	480,000	--	480,000	\$.50	December, 1998
-----	-----	-----	-----		
2,080,000	480,000	360,000	2,200,000		
=====	=====	=====	=====		

</TABLE>

STOCK WARRANTS

During 1993 and 1994, as part of its issuance of its \$4,000,000 convertible bonds, the bond holders received one warrant to purchase one share of common stock at an exercise price of \$.10 per share for each \$8 of bond principal. Attached to the Series "AA" preferred stock sold were warrants to acquire two shares of the Company's common stock for each share of preferred stock at an exercise price of \$.10 per share.

In addition, in connection with the bond and preferred stock offerings, warrants to purchase 2,783,332 shares of common stock were issued to nonrelated third parties at an exercise price of \$.10 per share.

As part of the Company's issuance of 3,000,000 shares of series "AA" preferred stock, the Company issued five year warrants to purchase 6,000,000 shares of the Company's common stock at an exercise price of \$.10 per share.

As part of its acquisition in 1993 of Commodore Labs and CFCT, the Company issued warrants to acquire shares of the Company's common stock totaling 3,000,000 shares at \$.05 per share. During 1995, warrants to acquire 2,266 shares were exercised.

F-23

40

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE M - STOCK OPTIONS AND STOCK WARRANTS - CONTINUED

STOCK WARRANTS - CONTINUED

In October, 1994, the Company entered into an employee agreement and issued a warrant to purchase 500,000 shares of the Company's common stock at an exercise price of \$.14 per share exercisable 20 percent per year over a five year period ending October, 1999.

An expense of \$15,000 was recognized by the Company as a result of this transaction as the market value exceeded the exercise price at the date of grant by \$.03 per share.

Outstanding warrants at December 31, 1995 are as follows:

<TABLE>
<CAPTION>

	NUMBER OF WARRANTS 1994	GRANTED 1995	EXERCISED 1995	NUMBER OF WARRANTS 1995	EXERCISE PRICE	EXPIRATION DATE
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	3,000,000	--	2,266	2,997,734	\$.05	July 1, 1998
	9,283,332	--	--	9,283,332	\$.10	1998 - 1999
	500,000	--	--	500,000	\$.14	October, 1999
	--	2,000,000	--	2,000,000	\$.68	December, 2000
	-----	-----	-----	-----		

12,783,332	2,000,000	2,266	14,781,066
=====	=====	=====	=====

</TABLE>

F-24

41

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE N - TRANSACTIONS WITH RELATED PARTIES

The Company had demand payables to Kraft Capital Corporation (Kraft) of \$655,964 and \$859,795 as of December 31, 1995 and 1994, respectively. Commodore's majority stockholder is the sole stockholder of Kraft. The Company was allocated rental charges of \$58,015 in 1995, \$63,184 in 1994 and \$65,789 in 1993 from an affiliate of the majority stockholder.

A subsidiary of the Company has payables to shareholders of the Company totaling \$428,677 at December 31, 1995 and 1994.

The Company has a note receivable from a stockholder of the Company for \$125,000 at December 31, 1995 and 1994. The note is interest bearing at 6 percent and due December, 1998. The note is secured by certain subsidiary notes and advances payable to the individuals. The Company also has advances receivable of \$7,500 and \$8,544 at December 31, 1995 and 1994, respectively.

The Company has accrued interest from a 10 percent demand note payable to a relative of the majority stockholder. The unpaid balance of accrued interest was \$-0- and \$5,508 at December 31, 1995 and 1994, respectively.

NOTE O - COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENTS

The Company has employment agreements with six corporate officers. Aggregate minimum payments under the employment agreements are as follows:

<TABLE>		<C>	
<CAPTION>			
YEAR			

<S>	1996	\$	702,000
	1997		419,000
	1998		85,000

	Total	\$1,206,000	
			=====

</TABLE>

F-25

42

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

LITIGATION

Harvest American

In July 1987, the Company established Harvest American Insurance Company, a wholly-owned subsidiary of the Company, licensed by the state of Vermont as a "captive" insurance company. Harvest issued "occurrence" based insurance policies to each of the Company's former asbestos abatement subsidiaries and not to any other persons or entities. An occurrence-based policy insures against claims arising at any time in the future based upon events which occurred while the policy was in effect. The policies were in effect from July 1987 through January 1989. The operating subsidiaries of the Company paid premiums to Harvest based upon a percentage of sales and had coverage through January 1989. Beginning in January 1989, in response to greater availability of "occurrence type" insurance, the subsidiaries obtained third party asbestos abatement related general liability insurance from unrelated insurance companies. Harvest no longer issues new policies. The maximum exposure under the policy is \$5,000,000 in the aggregate.

In December, 1994, the Department of Banking and Insurance in Vermont (the Department) and the Company entered into a Settlement Agreement with respect to an order served by the Department against Harvest in November 1991. The Agreement requires the Company to fund Harvest an additional \$250,000. Those funds will be deposited into a Harvest interest bearing account. As of December 31, 1995, Harvest had \$792,900 in an interest bearing account and an amended \$4,514,683 intercompany demand note made to the order of Harvest by the Company. The Department and/or Harvest have the right use proceeds from the reserve account to purchase reinsurance in order to eliminate all or part of the insurance risk.

In addition, the Company will indemnify and defend Harvest against any claims made against Harvest. There is currently one claim relating to a fire which occurred at a job site which Harvest insured. This claim is currently being investigated by the Company.

In 1994, the Company had an independent actuary evaluate the loss reserve required as of December 31, 1994. The actuary has determined that a loss reserve of \$994,000, which includes the cash already on deposit with the State of Vermont and the additional cash required to be paid, is adequate in connection with the policies issued by Harvest. The Company thereby reduced its loss reserve to \$994,000.

OTHER

The Company has several other matters of litigation arising from operations of the Company. Management is defending these claims and believes the outcome of these will not have a material effect on the financial condition of the Company.

F-26

43

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE P - GOING CONCERN

The Company has sustained significant operating losses in 1995, 1994, and 1993. In addition, the Company has significant deficits in working capital and retained earnings. These factors create an uncertainty about the Company's ability to continue as a going concern.

The Company intends to obtain external financing through a public offering of a subsidiary in 1996. The ability of the Company to continue as a going concern is dependent on the Company obtaining external financing and attaining future profitable operations. The financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

The Company, in December 1993 as further described in Note C acquired 90.05% of two entities. The excess \$2,457,201 purchase price paid by the Company has previously been reflected in the consolidated financial statements as capitalized goodwill and was being amortized over 15 years. At the request of a regulatory agency, the Company has reclassified the goodwill as in-process technology inasmuch as the technology feasibility acquired had not yet been established and at the time of acquisition there was no further alternative use. The in-process technology of \$2,457,201 is now charged against operations effective January 1, 1994. The consolidated financial statements have been restated for this change.

NOTE R - SUBSEQUENT EVENTS

In March 1996, the Company formed a new subsidiary, and in June 1996, completed an offering on Form S-1 with the Securities and Exchange Commission for the new subsidiary where in the new subsidiary sold newly issued shares representing 27.7% of the subsidiary for net proceeds of approximately \$30,617,000. The Company intends to acquire the remaining 9.95% of all subsidiaries owned by Al Abel for a purchase price of \$3 million, of which \$750,000 represents cash paid at closing and a \$2,250,000 note payable with a portion of the interest payable quarterly and the balance along with principal payable after 10 years.

F-27

44

COMMODORE ENVIRONMENTAL SERVICES, INC.
AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

DESCRIPTION -----	BALANCE AT BEGINNING OF YEAR -----	ADDITIONS -----			BALANCE AT END OF PERIOD -----
		CHARGED TO COSTS AND EXPENSES (1) -----	CHARGED TO BAD DEBT EXPENSE -----	DEDUCTIONS (2) -----	
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1995:					
Deducted from asset accounts:					
Realization allowance on receivables	\$ 7,009,685 =====	1,437,116	--	--	8,446,801 =====
Realization on nonperforming assets	\$ 1,321,024 =====	160,512	--	--	1,481,536 =====
Year ended December 31, 1994:					
Deducted from asset accounts:					
Realization allowance on receivables	\$ 5,290,617 =====	1,866,613	--	147,545 (2)	7,009,685 =====
Realization of allowance on nonperforming assets	\$ 1,160,512 =====	160,512	--	--	1,321,024 =====
Year ended December 31, 1993:					
Deducted from asset accounts:					
Realization allowance on receivables	\$ 4,026,152 =====	293,800	970,665	--	5,290,617 =====
Realization allowance on nonperforming assets	\$ -- =====	--	1,160,512	--	1,160,512 =====
Allowance on note receivable	\$ 125,000 =====	--	--	125,000 (2)	-- =====

</TABLE>

1. The allowance is reflected as a reduction of "mortgage note and related receivables."

2. Management determined amount was collectable.

F-28

45

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

COMMODORE ENVIRONMENTAL SERVICES, INC.

Dated: November 14, 1996

By: /s/ Andrew P. Oddi

Andrew P. Oddi
Vice President - Finance & Administration
and Chief Financial Officer

<TABLE> <S> <C>

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