

COMMODORE APPLIED TECHNOLOGIES INC
Form PRER14A
December 16, 2004

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

SCHEDULE 14A INFORMATION

Proxy Statement
Pursuant to Section 14(a) of the Securities Exchange Act of
1934

Filed by the Registrant |
Filed by a Party other than the Registrant |

Check the appropriate box:

- | Preliminary Proxy Statement | Confidential,
For Use of Commission
Only (as permitted by
Rule 14a-6(e) (2))
- | Definitive Proxy Statement
- | Definitive Additional Materials
- | Soliciting Material Under Rule 14a-12

COMMODORE APPLIED TECHNOLOGIES, INC.

(Name of Registrant as Specified in Its Charter)

(Names of Person(s) Filing Proxy Statement, if Other Than the
Registrant)

Payment of Filing Fee (Check the appropriate box):

- | X | No fee required
- | Fee computed on table below per Exchange Act Rules 14a-
6(i) (1) and 0-11.

(1) Title of each class of securities to which transaction
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(2) Aggregate number of securities to which transaction
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(3) Per unit price or other underlying value of transaction
computed pursuant
to Exchange Act Rule 0-11 (set forth the amount on which the
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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement no.:

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PROXY STATEMENT
AND NOTICE OF

2003

ANNUAL
STOCKHOLDERS
MEETING

COMMODORE APPLIED TECHNOLOGIES, INC.

NOTICE OF 2003 ANNUAL
MEETING OF STOCKHOLDERS

Time: 11:00 a.m. on Tuesday, February 8, 2005

Place: The Fitzpatrick Hotel
687 Lexington Avenue
New York, NY 10022

Items of
Business:

- 1) To elect directors.
- 2) To authorize our Board of Directors in its discretion, to amend our Certificate of Incorporation to effect a reverse stock split in a ratio of between 1-for-10 and 1-for-20, without further approval of our stockholders.
- 3) To ratify the Company's selection of independent auditors.
- 4) To transact other business properly coming before the meeting.

Who Can Vote: You can vote if you were a stockholder of record on December 14, 2004.

Annual Report: A copy of our 2003 Annual Report on Form 10K is enclosed.

Date of Mailing: This notice and the proxy statement are first being mailed to stockholders on or about December 28, 2004.

By Order of the Board of Directors
James M. DeAngelis, Secretary

LETTER TO THE STOCKHOLDERS

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To Our Stockholders:

It is our pleasure to invite you to attend our 2003 Annual Meeting of Stockholders, which will be held this year on Tuesday, February 8, 2005, at the Fitzpatrick Hotel, 687 Lexington Avenue, New York, NY 10022. The meeting will start at 11:00 a.m. local time.

On the ballot at this year's meeting are company proposals (1) for the election of directors, (2) to authorize our Board of Directors in its discretion, to amend our Certificate of Incorporation to effect a reverse stock split in a ratio of between 1-for-10 and 1-for-20, without further approval of our stockholders, and (3) to ratify the Company's independent auditor. We also look forward to answering your questions at the meeting in the manner discussed in the proxy statement. If you will need special assistance at the meeting because of a disability, please contact James M. DeAngelis at 212-308-5800. We will not provide an interpreter for the hearing impaired.

Please note that you will need to show that you are a stockholder of Commodore to attend the annual meeting. If your shares are registered in your name, your admission card is attached to your proxy card, and you will need to bring this card with you to the meeting. If your shares are in the name of your broker or bank or you received your proxy materials electronically, you will need to bring evidence of your stock ownership, such as your most recent brokerage statement, and valid picture identification. If you do not have either an admission card or proof that you own Commodore Applied Technologies, Inc. stock, you may not be admitted into the meeting.

Whether or not you plan to attend, you can be sure your shares are represented at the meeting by promptly voting and submitting your proxy by completing, signing and returning the enclosed proxy card.

Thank you for your support.

Sincerely,

/s/ Shelby T. Brewer

Shelby T. Brewer
Chairman and CEO

ABOUT THE MEETING

What am I voting on?

You will be voting on the following:

* To elect eight directors;

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- * To authorize our Board of Directors in its discretion, to amend our Certificate of Incorporation to effect a reverse stock split in a ratio of between 1-for-10 and 1-for-20, without further approval of our stockholders; and
- * To ratify Tanner + Co as the Company's independent auditors.

Who is entitled to vote?

You may vote if you owned stock as of the close of business on November 10, 2004. Each share of common stock is entitled to one vote. As of November 11, 2004, we had 134,346,053 shares of common stock outstanding. As of December 14, 2004 there were 382 shareholders of record. The holders of the Company outstanding shares of preferred stock have no voting rights.

How do I vote before the meeting?

You have two voting options:

- * By facsimile through the number shown on your proxy card; or
- * By mail by completing, signing and returning the enclosed proxy card.

If you hold your shares in the name of a bank or broker, whether you can vote by facsimile depends on their voting processes. Please follow the directions on your proxy card carefully.

Can I vote at the meeting?

You may vote your shares at the meeting if you attend in person. Even if you plan to attend the meeting, we encourage you to vote your shares by proxy. You may vote by proxy by facsimile or by mail.

Can I change my mind after I vote?

You may change your vote at any time before the polls close at the meeting. You may do this by (1) signing another proxy with a later date and returning it to us by mail or facsimile prior to the meeting, or (2) voting again at the meeting.

What if I return my proxy card but do not provide voting instructions?

Proxies that are signed and returned but do not contain instructions will be voted (1) FOR the election of the nominee directors named on page 3 of this proxy statement; (2) FOR the authorization of our Board of Directors in its discretion, to amend our Certificate of Incorporation to effect a reverse stock split in a ratio of between 1-for-10 and 1-for-20, without further approval of our stockholders; and (3) FOR the ratification of Tanner + Co. as the Company's

independent auditors.

What does it mean if I receive more than one proxy card?

It means that you have multiple accounts with brokers and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is Registrar and Transfer Company, which may be reached at 1-800-866-1340.

Will my shares be voted if I do not provide my proxy?

Your shares may be voted under certain circumstances if they are held in the name of a brokerage firm. Brokerage firms have the authority under the National Association of Securities Dealers rules to vote customers' un-voted shares, which are referred to as "broker non-votes," on certain "routine" matters, including the election of directors. Shares represented by broker non-votes are counted for purposes of establishing a quorum. At our meeting, shares represented by broker non-votes will be counted as voted by the brokerage firm in the election of directors and the ratification of the auditors, but will not be counted for all other matters to be voted on because these other matters are not considered "routine" under the applicable rules. If you hold your shares directly in your own name, they will not be voted if you do not provide a proxy.

How can I attend the meeting?

The annual meeting is open to all holders of Commodore Applied Technologies common stock. To attend the meeting, you will need to bring evidence of your stock ownership. If your shares are registered in your name, your admission card is attached to your proxy card, and you will need to bring it with you to the meeting. If your shares are in the name of your broker or bank or you received your proxy materials electronically, you will need to bring evidence of your stock ownership, such as your most recent brokerage statement, and valid picture identification. For directions to the annual meeting, please call our Investor Relations department at 212-308-5800. If you do not have either an admission card or proof that you own Commodore Applied Technologies stock, you may not be admitted into the meeting.

May stockholders ask questions at the meeting?

Yes. Representatives of the Company will answer stockholders' questions of general interest at the end of the meeting. In order to give a greater number of stockholders an opportunity to ask questions, individuals or groups will

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be allowed to ask only one question and no repetitive or follow-up questions will be permitted.

How many votes must be present to hold the meeting?

Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a proxy by mail, or facsimile. In order for us to conduct our meeting, a majority of our outstanding shares of common stock as of November 10, 2004, must be present in person or by proxy at the meeting. This is referred to as a quorum.

ABOUT THE MEETING

How many votes are needed to elect directors?

The eight nominees receiving the highest number of "Yes" votes will be elected as directors. This number is called a plurality. Shares not voted, whether by marking "Abstain" on your proxy card, by broker non-vote (which is described above), or otherwise, will have no impact on the election of directors, except that they may be counted for purposes of establishing a quorum. Unless a properly executed proxy card is marked "Withhold Authority," the proxy given will be voted "For" the eight nominees for director.

How many votes are needed to authorize our Board of Directors in its discretion, to amend our Certificate of Incorporation to effect a reverse stock split in a ratio of between 1-for-10 and 1-for-20, without further approval of our stockholders?

The amendment of the Certificate of Incorporation to authorize our Board of Directors in its discretion, to amend our Certificate of Incorporation to effect a reverse stock split in a ratio of between 1-for-10 and 1-for-20, without further approval of our stockholders must receive the "Yes" vote of a majority of our outstanding shares of common stock as of November 10, 2004. A properly executed proxy card marked "Abstain" with respect to these proposals will not be voted. Accordingly, abstentions will have the effect of a vote "Against" these proposals.

How many votes are needed to ratify the auditors?

The proposal to ratify the Company's selection of an independent auditor must receive the "Yes" vote of a majority of the shares present at the meeting in order to be approved. Shares not voted, whether by marking "Abstain" on your proxy card, by broker non-vote (which is described above), or otherwise, will have no impact on the ratification of the

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Company's independent auditor. Unless a properly executed proxy card is marked "Withhold Authority," the proxy given will be voted "For" ratification of the Company's independent auditor.

Can my shares be voted on matters other than those described in this proxy statement?

Yes. The Company has not received proper notice of, and is not aware of, any business to be transacted at the meeting other than as indicated in this proxy statement. If any other item or proposal properly comes before the meeting, the proxies received will be voted in accordance with the discretion of the proxy holders.

Are appraisal rights applicable to any of the proposals?

No, appraisal rights do not apply to any of the proposals.

ELECTION OF DIRECTORS & DIRECTOR BIOGRAPHIES (Proposal Number 1)

Who are this year's nominees?

The directors standing for election this year are:

- * Dr. Shelby T. Brewer - Chairman
- * Bentley J. Blum
- * Dr. Frank E. Coffman
- * James M. DeAngelis
- * Paul E. Hannesson
- * O. Mack Jones
- * VADM Michael P. Kalleres
- * Ambassador William A. Wilson

WE RECOMMEND THAT YOU VOTE FOR THE ELECTION OF THESE DIRECTORS

How long will this year's nominees serve?

Each director is elected to serve for a term of one year or until his or her successor is duly elected and qualified. The Company's officers are elected by, and serve at the pleasure of, the Board of Directors, subject to the terms of any employment agreements. Messrs. Hannesson and Blum are brothers-in-law. No family relationship exists among any other directors or executive officers of the Company.

Who are the directors who are nominated to serve?

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SHELBY T. BREWER, 68, Director since January 2001,

- * Chairman and CEO of the Company since April 2003.
- * President of the Company from January 2001 to April 2003.
- * Since April 2000, Mr. Brewer served as Chairman and CEO of Solutions, a wholly owned subsidiary of the Company.
- * From 1996 to March 2000, Dr. Brewer was President of S. Brewer Enterprises, a privately held consulting firm he founded that is engaged in supporting mergers and acquisitions, arranging private and public financing, and forming joint ventures abroad.
- * Served as President and CEO of the nuclear power businesses of ABB Combustion Engineering, a public company, from 1985 to 1995.
- * From 1981 to 1984, he served as Assistant Secretary of Energy in the Reagan administration, holding the top nuclear post in the US government.
- * Dr. Brewer holds Ph.D. and M.S. degrees in nuclear engineering from Massachusetts Institute of Technology; he holds a B.S. degree in mechanical engineering and a B.A. in humanities from Columbia University.

BENTLEY J. BLUM, 63, Director since March 1996,

- * Served as director of Environmental since 1984, Chairman of the Board of Environmental, a public company, from 1984 to November 1996 and is its principal stockholder.
- * Currently serves as a director of Separation, a wholly owned subsidiary of Environmental. Currently serves as a director of Solution, a wholly owned subsidiary of the Company.

- * Sole stockholder and director of a number of corporations that hold real estate interests, oil drilling and other corporate interests that are privately held companies.
- * Mr. Blum is the brother-in-law of Paul E. Hannesson, a director of the Company.

DR. FRANK E. COFFMAN 63, Director since June 2002,

- * Mr. Coffman also currently serves as Senior Vice President, Corporate Development Officer of Holmes & Narver, a public company, involved in construction and engineering (August 1997 - Present).
- * Mr. Coffman served as Senior Vice President, Government & Commercial Programs, IT Corporation, a public company, from January 1995 to May 1997 and as Vice President, Government & Commercial Programs, IT Corporation from 1984 to 1995.
- * Mr. Coffman served as Deputy Assistant Secretary for Waste Management for the Department of Energy ("DOE") from 1981 to 1984, Director of the Office of Advanced Nuclear Systems, DOE from 1980 to 1981 and as a Director of the Division of Fusion Development and Technology, DOE from 1978 to 1980.
- * Mr. Coffman served as Chief of the Energy Research Development Agency, Fusion Systems and Applications Studies

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Branch from 1970 to 1975.

- * Mr. Coffman serves on the Board of Directors of Holmes and Narver, a public company.
- * Mr. Coffman holds a Ph.D. in nuclear physics and a MA degree in plasma physics from Vanderbilt University. Mr. Coffman holds a BS degree in physics from Western Kentucky University.

JAMES M. DEANGELIS, 44, Director since June 2002,

- * Mr. DeAngelis was appointed Vice President-Finance and Treasurer of the Company in 1998 and promoted to Chief Financial and Administrative Officer and Secretary in December 1998.
- * Mr. DeAngelis also served as Senior Vice President-Sales & Marketing of Separation, a public company, since July 1996.
- * He also served as the President of CFC Technologies, formerly a wholly owned subsidiary of the Company, since September 1994.
- * He holds a MBA from the American Graduate School of International Management. He holds B.S. degrees in Biology and Physiology from the University of Connecticut.

PAUL E. HANNESSON, 62, Director since March 1996,

- * Mr. Hannesson served as CEO and President of the Company from 1996 to January 2001.
- * He served as Director and Officer of Environmental, a public company, from 1996 to July 1998.
- * He serves as Chairman of the Board and CEO of Separation, a wholly owned subsidiary of the Company.
- * Mr. Hannesson is the brother-in-law of Bentley Blum, a director of the Company.

O. MACK JONES, 64, Director since October 2003,

- * President and C.O.O. of the Company since April 2003.
- * Since February 2001, Mr. Jones served as Acting President of Advanced Sciences, a wholly owned subsidiary of the Company.
- * From April 1998 to February 2001, Mr. Jones also has served as Vice President of Field Operations of the Company since April 1998, managing its field treatability studies and commercial projects.
- * From June 1996 to April 1998, Mr. Jones served as a consultant to the Company assisting in the commercialization of the solvated electron technology.
- * From 1991 to May 1996, Mr. Jones served as the founder and principal executive officer of a privately held environmental consulting company, Florida Vector Services, which provided both consulting and hands-on remediation services primarily in TSCA-related areas.
- * From 1986 to 1991, Mr. Jones was Vice President-Operations with Quadrex Environmental Company, a public company, managing the company's field remediation businesses.
- * Mr. Jones held several managerial operating positions in power generation and distribution arenas during his twenty-six years of service to General Electric Company, a public company.
- * Mr. Jones holds a degree in mechanical engineering from Mississippi State University and is registered as a

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professional mechanical engineer.

- VADM MICHAEL P. KALLERES, 63, Director since June 2002,
- * VADM Kalleres currently serves as President of Dare to Excel Inc., a privately held financial management and consulting firm (1998 to present). He also served as President and Chief Executive Officer of Global Associates, Ltd., Technology Services Group, a privately held financial and corporate consulting firm, from 1994 to 1998.
 - * VADM Kalleres retired from active duty in September 1994 after 32 years as a naval officer.
 - * VADM Kalleres was awarded 18 personal/unit military/combat decorations including the Defense Distinguished Service Medal (2 awards) and the U.S. Navy Distinguished Service Medal. He is also a recipient of the Congressional, Ellis Island Medal of Honor.
 - * VADM Kalleres is a former member (1994-1998) of the Defense Science Board, the Naval Studies Board of the National Academy of Science. He is also a board member of the Dean's Advisory Council at the Krannert School of Management-Purdue University, and the National Board of the Salvation Army.
 - * VADM Admiral Kalleres was awarded a BS degree in Industrial Management and Engineering from the Krannert School of Management-Purdue University, and a MS degree in Political and International Affairs from George Washington University.

AMBASSADOR WILLIAM A. WILSON, 89, Director since June 2002,

- * Mr. Wilson has been active in ranching and farming in California and Mexico from 1980 to the present.
- * Mr. Wilson was active in real estate development in California from 1961 through 1980.
- * Mr. Wilson served as Chief Engineer of Wilson Oil Tools, a privately held, from 1938 through 1955 and as Chairman from 1955 to 1961.
- * Mr. Wilson served as the Presidential Envoy to the Holy See from 1980 to 1984 and as Ambassador to the Holy See from 1984 to 1986.
- * Mr. Wilson served on the Board of Directors of Jorgensen Steel Co., a public company, from 1973 to 1984 and again from 1986 to 1991. Mr. Wilson also served on the Board of Directors of Pennzoil Company, a public company, from 1983 to 1987.
- * Mr. Wilson holds a BA in Mechanical Engineering from Stanford University and a Doctor of Laws, Honoris Causa from Assumption College, Barry University, and Pepperdine University.

BOARD OF DIRECTORS INFORMATION

What is the makeup of the Board of Directors?

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Our Board of Directors currently has eight (8) members. All current directors will be standing for election.

Is the Board currently divided into classes?

No.

What if a nominee is unwilling or unable to serve?

This is not expected to occur. If it does, proxies will be voted for a substitute nominated by the Board of Directors or the Board of Directors may reduce the number of directors.

What happens if a Board member retires between the election of directors?

Under terms of our Certificate of Incorporation, any vacancy on the Board may be filled by a majority vote of the directors then in office.

How are directors compensated?

Each director who is not an employee of Commodore Applied Technologies, Inc. receives \$375.00 for meetings they attend other than by telephone and are reimbursed for reasonable expenses in attending meetings. Directors who are also employees of Commodore Applied Technologies, Inc. are not separately compensated for their services as directors. Directors are eligible to participate in the Company's 1998 Stock Option Plan, as amended. All non employee directors were granted 310,000 options to purchase the Company's common stock on November 19, 2003, at an exercise price equal to 100% of the trading price of the common stock on the date of award (\$0.0285).

What are the committees of the Board?

The Company's Board of Directors has (i) an Audit Committee and (ii) a Compensation, Stock Option and Benefits Committee. The Company no longer maintains an Executive and Finance Committee. On August 30, 2000, the Board of Directors unanimously voted to abolish the Executive & Finance Committee and determined that the entire Board of Directors would perform its function. The Company does not have a nominating committee. The Board believes that the entire Board of Directors can effectively perform the functions of a nominating committee.

As of December 31, 2002, and as of July 24, 2003 the Audit Committee was composed of Michael P. Kalleres as Chairman, Frank E. Coffman, James M. DeAngelis and William A. Wilson. The responsibilities of the Audit Committee include recommending to the Board of Directors the firm of independent accountants to be retained by the Company, reviewing with the Company's independent accountants the scope and results of their audits, reviewing with the

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independent accountants and management the Company's accounting and reporting principles, policies and practices, as well as the Company's accounting, financial and operating controls and staff, supervising the Company's policies relating to business conduct and dealing with conflicts of interest relating to officers and directors of the Company.

As of December 31, 2003, and as of November 11, 2004, the Compensation, Stock Option and Benefits Committee, was composed of William A. Wilson, as Chairman, Shelby T. Brewer, Frank E. Coffman and Michael P. Kalleres. The Compensation, Stock Option, and Benefits Committee has responsibility for establishing and reviewing employee and consultant/advisor compensation, bonuses and incentive compensation awards, administering and interpreting the Company's 1998 Stock Option Plan, and determining the recipients, amounts and other terms (subject to the requirements of the 1998 Stock Option

Plan) of options which may be granted under the 1998 Stock Option Plan from time to time and providing guidance to management in connection with establishing additional benefit plans.

How often did the Board meet in fiscal 2003?

The Board met four (4) times during 2003. Each director attended at least 75% of the meetings of the Board and of the committees of which they were members. The Company's policy is that the directors are expected to attend the Annual Meeting of Stockholders unless extenuating circumstances prevent their attendance. All of the directors except William Wilson, Michael Kalleres, and Frank Coffman attended the last Annual Meeting of Stockholders.

BOARD OF DIRECTORS INFORMATION

Our Board of Directors has the following committees:

EXECUTIVE & FINANCE:

On August 30, 2000, the Board of Directors unanimously voted to abolish the Finance & Executive Committee and determined that the entire Board of Directors would perform its function.

AUDIT:

- * Oversees auditing procedures
- * Receives and accepts the report of independent auditors
- * Oversees internal systems of accounting and management control
- * Selection of independent auditors

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- * Pre-approves all audit and non-audit services to be performed by the independent auditor
- * See Audit Committee Charter - Appendix B, for expanded list of responsibilities

VADM Michael P. Kalleres - Chair
James M. DeAngelis
Frank E. Coffman, PhD.
Ambassador William A. Wilson

The Audit Committee met two (2) times in 2003.

COMPENSATION, STOCK OPTION & BENEFITS:

- * Administers stock incentive plans
- * Makes grants of stock awards to employees pursuant to stock incentive plans
- * Reviews and recommends compensation of directors and executive officers
- * Makes grants of stock awards to directors and officers pursuant to stock incentive plans

Ambassador William A. Wilson - Chair
Shelby T. Brewer, PhD.
Frank E. Coffman, PhD.
VADM Michael P. Kalleres

The Compensation, Stock Option & Benefits Committee met two (2) times in 2003.

PROPOSED AMENDMENT RELATING TO A REVERSE SPLIT
OF OUR OUTSTANDING COMMON STOCK (Proposal Number 2)

What am I voting on?

Our Board of Directors is seeking approval of an amendment to our certificate of incorporation, as amended, which we refer to as our certificate of incorporation, to effect a proposed reverse split of our issued and outstanding common stock in a ratio between 1-for-10 and 1-for-20 at any time before the 2005 Annual Meeting of Stockholders. Our Board of Directors believes that, because it is not possible to predict market conditions at the time the reverse stock split is to be effected, it would be in the best interests of the stockholders if the Board were able to determine, within specified limits approved in advance by our stockholders, the appropriate reverse stock split ratio. The proposed reverse stock split would combine a whole number of outstanding shares of our common stock into one share of common stock, thus reducing the number of outstanding shares without any

corresponding change in our par value or market capitalization. As a result, the number of shares of our common stock owned by each stockholder would be reduced in the same proportion as the reduction in the total number of shares outstanding, so that the percentage of the outstanding shares owned by each stockholder would remain unchanged (subject to any adjustments for fractional shares).

If this proposal is approved by our stockholders, our Board of Directors will subsequently have the authority, in its sole discretion, to determine whether or not to proceed with a reverse stock split. If the Board of Directors determines, based on factors such as prevailing market and other relevant conditions and circumstances and the trading prices of our common stock at that time, that a reverse stock split is in our best interests and in the best interests of our stockholders, it may, at such time as it deems appropriate, determine the exact ratio of the reverse stock split and effect the reverse split approved by our stockholders without further approval or authorization of our stockholders. The text of the proposed amendment to our certificate of incorporation is provided in Appendix A. The text of the proposed amendment is subject to modification to include such changes as may be required by the office of the secretary of state of Delaware or as our Board of Directors deems necessary and advisable to effect the reverse stock split.

Our Board of Directors reserves the right, even after stockholder approval, to forego or postpone the filing of the amendment to our certificate of incorporation if it determines such action is not in our best interests or the best interests of our stockholders. If the reverse stock split adopted by the stockholders is not subsequently implemented by our Board of Directors and effected by the 2005 Annual Meeting of Stockholders, this proposal will be deemed abandoned, without any further effect. In such case, our Board of Directors will again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time. If the amendment to our certificate of incorporation is adopted and filed with the Delaware secretary of state, there will be no change in the number of authorized shares of our common stock.

What are the Reasons for the Board's Recommendation?

Our Board of Directors has determined that it would be advisable to effect a reverse stock split that would reduce the number of shares of our outstanding common stock. The primary reason for the reverse split stock is to increase the trading price of our common stock on the Over the Counter Bulletin Board on a per share basis, which we believe will have several benefits to our company and our stockholders.

Our Board of Directors believes that our current low per share market price of our common stock is due to many factors which include: the Company's lack of profitable operations over the last three years, the Company's declining revenue base over the last three years, the Company's restructuring efforts over the last three years, and to a lesser extent overall weakness in the environmental services sector. Our Board of Directors is hopeful that the price of our common stock will increase as

we continue to implement our business plan.

Our Board of Directors believes that the increased market price of our common stock expected as a result of implementing a reverse stock split will improve the marketability of our common stock and encourage interest and trading in our common stock. Because of the trading volatility often associated with low-priced stocks, many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. Some of those policies and practices may function to make the processing of trades in low-priced stock economically unattractive to brokers. Additionally, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of our common stock can result in individual shareholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher.

Our Board of Directors believes that by increasing the per share market price of our common stock as a result of the reverse stock split, we may encourage greater interest in our common stock and enhance the acceptability and marketability of our common stock to the financial community and investing public as well as promote greater liquidity for our stockholders. In addition, we have 134,346,053 outstanding shares of common stock and 1,001,200 outstanding shares of preferred stock, which are convertible into an aggregate of 181,473,539 shares of common stock, which is more than other engineering and environmental waste treatment companies that are comparable in size to us. A reverse stock split would reduce the number of shares outstanding to a number that is more comparable with those of similar engineering and environmental waste treatment companies and more appropriate to the size and scope of our current business.

It should be noted that even after implementing a reverse stock split, the marketability of our common stock will still be adversely impacted by the rules addressing broker-dealer practices in connection with transactions involving a stock defined as a "penny stock" (generally, an equity security that has a market price of less than \$5.00 per share that is not traded on a national securities exchange or quoted on Nasdaq). In addition, the liquidity of our common stock may be adversely affected by the proposed reverse stock split given the reduced number of shares that would be outstanding after the reverse stock split. For more information on these considerations and other potential disadvantages or special considerations relating to the reverse stock split, see "What are the Risk Factors and Other Special Considerations Relating to the Proposed Reverse Stock Split?" below.

How did the Board Decide on the Range of 1-10 to 1-20 for the Reverse Split?

The Board of Directors believes that shareholder approval of an exchange ratio range (rather than an exact exchange ratio) provides the Board of Directors with maximum flexibility to achieve the purposes of the reverse stock split. The Board analyzed several companies in the same industrial sector and of similar market capitalization and annual revenue size to determine the optimal level of common stock issuance in the public marketplace. The Board determined that the Company should have 1/10 to 1/20 of the currently issued shares of common stock to more favorably compare to these companies with respect to share price, share activity, and capital structure.

A reverse stock split would reduce the number of shares outstanding to a number that is more comparable with those of similar engineering and environmental waste treatment companies and more appropriate to the size and scope of our current business.

Why does the Board think the Proposed Reverse Split is Fair to the Shareholders?

The Board feels the proposed reverse stock split is fair to all shareholders because they will all be treated equally with respect to the terms and conditions of the reverse stock split. The reverse stock split will affect all of our shareholders uniformly and will not affect any shareholder's percentage ownership interest in the Company except to the extent that the reverse stock split results in any shareholder owning a fractional share.

As described below in the section entitled "What is the Effect on Fractional Shares?", shareholders holding fractional shares will be entitled to cash payments in lieu of such fractional shares. Such cash payments would reduce the number of post-split shareholders to the extent there are shareholders holding fewer than up to 20 shares, depending on the ratio for the reverse stock split selected by the Board of Directors. This is not,

however, the purpose for which the reverse stock split is being affected. As of December 10, 2004, the Company has no shareholder of record holding less than 20 shares, although the Company may have beneficial owners of fewer than 20 shares.

What are the Risk Factors and Other Special Considerations Relating to the Reverse Stock Split?

If the reverse stock split is effected, the resulting per-share stock price may not attract institutional investors or investment funds and may not satisfy the investing guidelines of such investors and, consequently, the trading liquidity of our common stock may not improve.

While the Board of Directors believes that a higher stock price may help generate investor interest, there can be no assurance

that the reverse stock split will result in a per-share price that will attract investors or that such share price will satisfy the investing guidelines of institutional investors or investment funds. As a result, the trading liquidity of our common stock may not necessarily improve.

There can be no assurance that that the total market capitalization of our common stock (the aggregate value of all our common stock at the then market price) after the proposed reverse stock split will be equal to or greater than the total market capitalization before the proposed reverse stock split or that the per-share market price of our common stock following the reverse stock split will increase in proportion to the reduction in the number of shares of our common stock outstanding before the reverse stock split.

There can be no assurance that the market price per new share of our common stock after the reverse stock split will remain unchanged or increase in proportion to the reduction in the number of old shares of our common stock outstanding before the reverse stock split. For example, based on the closing price of our common stock on December 14, 2004 as quoted in the Over-the-Counter Bulletin Board of \$.01 per share, if the Board of Directors decides to implement the reverse stock split and selects a reverse stock split ratio of one-for-twenty, there can be no assurance that the post-split market price of our common stock would be \$.20 or greater. Accordingly, the total market capitalization of our common stock after the reverse stock split may be lower than the total market capitalization before the reverse stock split. Moreover, in the future, the market price of our common stock following the reverse stock split may not exceed or remain higher than the market price prior to the reverse stock split.

A decline in the market price of our common stock after the reverse stock split may result in a greater percentage decline than would occur in the absence of a reverse stock split, and the liquidity of our common stock could be adversely affected following such a reverse stock split.

If the reverse stock split is effected and the market price of our common stock declines, the percentage decline may be greater than would occur in the absence of a reverse stock split. The market price of our common stock will, however, also be based on our performance and other factors, which are unrelated to the number of shares of common stock outstanding. Furthermore, the liquidity of our common stock could be adversely affected by the reduced number of shares that would be outstanding after the reverse stock split.

The marketability of our common stock will continue to be adversely impacted by the "penny stock rules."

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the Securities and Exchange Commission. Penny stocks, like shares of our common stock, generally are equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on Nasdaq. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure

document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, broker-dealers who sell these securities to persons other than established customers and "accredited investors" must make

a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. Consequently, these requirements will continue to have the effect of reducing the level of trading activity and marketability of our common stock.

Stockholders holding less than 20 shares of common stock may be forced to sell their shares at a time not of their choosing and at a depressed market price.

Shareholders holding fractional shares will be entitled to cash payments in lieu of such fractional shares. Thus, shareholders holding fewer than 20 shares may be forced, as a result of the reverse stock split, to sell their shares at a time not of their own choosing. Moreover, because such holders do not choose the time of such sale, such holders may be forced to sell at a depressed price.

The reverse stock split may result in increased transaction costs to stockholders.

The number of shares held by each individual stockholder will be reduced if the reverse stock split is implemented. This will increase the number of stockholders who hold less than a "round lot," or 100 shares. Typically, the transaction costs to stockholders selling "odd lots" are higher on a per share basis. Consequently, the reverse stock split could increase the transaction costs to existing stockholders in the event they wish to sell all or a portion of their position.

The reverse stock split will result in an increased number of authorized but unissued shares, which could lead to greater dilution as a result of future financing. Upon effectiveness of the reverse stock split, the number of authorized shares of common stock that are not issued or outstanding, as of December 10, 2004, would increase from approximately 165,653,947 shares to as many as approximately 286,565,395 shares assuming a 1-for-10 reverse stock split. As a result, we will have an increased number of authorized but unissued shares of common stock. Authorized but unissued shares will be available for issuance, and we may issue such shares in financings or otherwise. If we issue additional shares, the ownership interests of our current stockholders may be diluted.

What Factors will the Board Consider in Determining Whether

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and when to effect the Reverse Stock Split?

Although the Board of Directors has not yet determined the timing of the reverse stock split, the Board is currently in favor of effecting the reverse stock split in a timely manner following stockholder approval of this proposal in the range proposed assuming all of the factors which led the Board to consider the reverse stock split continue to exist. The determination of whether and when to effect the reverse stock split will be determined by the Board of Directors based on prevailing market conditions at the time and the current share price of the Company's common stock at such time.

How many Shares Will Result after the Reverse Split?

The information in the following table is based on 134,434,605 shares of the Company's issued and outstanding common stock as of December 10, 2004.

| Proposed Reverse Stock Split | Shares Issued and Outstanding | Shares Authorized and Reserved for Issuance | Shares Authorized but Unreserved |
|------------------------------|-------------------------------|---|----------------------------------|
| 1 for 10 | 13,434,605 | 30,052,549 | 256,512,846 |
| 1 for 20 | 6,717,303 | 15,026,274 | 278,256,423 |

What is the Effect on Fractional Shares?

If any reverse split ratio is authorized by our Board of Directors, implementation of a reverse stock split would result in some stockholders owning a fractional share of common stock. For example, if a 1-for-10 reverse stock split were to be implemented, the shares owned by a stockholder with 99 shares would be converted into 9.9 shares. To avoid such a result, stockholders that would otherwise be entitled to receive a fractional share of our common stock as a consequence of the reverse stock split will receive, instead, at the discretion of our Board of Directors, either (i) a cash payment from us in U.S. dollars equal to the value of that fractional share, determined on the basis of the average closing sales price of our common stock on the Over the Counter Bulletin Board for the 20 trading days immediately preceding the effective date of the reverse stock split (as adjusted for that reverse stock split) or (ii) a cash payment from the transfer agent in an amount equal to such stockholder's pro rata share of the total proceeds from the sale, by the transfer agent on behalf of those holders who would otherwise be entitled to receive a

fractional share, of an aggregate of all fractional shares in the open market at the then prevailing prices. No transaction costs will be assessed in connection with the sale of the aggregated shares. You will not be entitled to receive interest for the period between the effective time of the reverse stock split and the date you receive your payment for cashed-out shares.

If any stockholder owns, in total, fewer than the number of our shares to be converted into one share as a result of the reverse stock split, that stockholder's shares would be converted into a fractional share of stock and that stockholder would receive only cash in place of the fractional share. For example, if a 1-for-10 reverse stock split is implemented then stockholders with fewer than ten shares would receive only cash. As a result, the interest of such stockholders in our company would be terminated and such stockholders would have no right to share in our assets or future growth. Based on this example, each stockholder that owns ten shares or more of our common stock prior to the reverse stock split will continue to own one or more shares after the reverse stock split and would continue to share in our assets and future growth as a stockholder, and any stockholder that owns fewer than ten shares would receive only cash in place of the fractional share resulting from the reverse stock split. Assuming the reverse split under the proposed amendment to our certificate of incorporation is a 1-for-10 reverse stock split, a stockholder could assure his or her continued ownership of shares of our stock after the reverse split by purchasing a number of shares sufficient to increase the total number of shares that he or she owns to ten or more.

Shareholders should be aware that under the escheat laws of the various jurisdictions where they reside, where the Company is domiciled and where the funds will be deposited, sums due for the fractional interests that are not timely claimed after the funds are made available may be required to be paid to the designated agent for each such jurisdiction. Thereafter, holders of our common stock otherwise entitled to receive such funds may have to obtain the funds directly from the state to which they were paid.

What is the Effect of Reverse Stock Split on Options?

The number of shares subject to outstanding options to purchase shares of our common stock also would automatically be reduced in the same ratio as the reduction in the outstanding shares. Correspondingly, the per share exercise price of those options will be increased in direct proportion to the reverse stock split ratio, so that the aggregate dollar amount payable for the purchase of the shares subject to the options will remain unchanged. Assuming that an optionee holds options to purchase 1,000 shares at an exercise price of \$0.07 per share, on the effectiveness of a 1-for-10 reverse stock split, the number of shares subject to that option would be reduced to 100 shares and the exercise price would be proportionately increased to \$0.70 per share.

Why is the Effect of Reverse Stock Split on Warrants?

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The agreements governing the outstanding warrants to purchase shares of our common stock include provisions requiring adjustments to both the number of shares issuable upon exercise of such warrants, and the exercise prices of such warrants, in the event of a reverse stock split. Assuming that a warrant holder holds a warrant to purchase 10,000 shares of our common stock at an exercise price of \$0.07 per share, on the effectiveness of a 1-

for-10 reverse stock split, the number of shares subject to that warrant would be reduced to 1,000 shares and the exercise price would be proportionately increased to \$0.70 per share.

What is the Effect of Reverse Stock Split on Series E Convertible Preferred Stock?

On November 4, 1999, the Company completed a \$2.5 million private placement financing with The Shaar Fund Ltd. The Company issued to The Shaar Fund 335,000 shares of a newly authorized Series E Convertible Preferred Stock (the "Series E Convertible"), par value \$0.001 per share, each such share of Series E Convertible having a stated value of \$10.00 per share.

The holder of our Series E Convertible may convert into the Company's common stock, at any time after April 30, 2000, for a conversion price equal to the arithmetic mean of the closing prices of the Company's common stock as reported on the Over the Counter Bulletin Board for the ten trading days immediately preceding the date of conversion. The Shaar Fund currently holds 95,500 shares of Series E Convertible. The conversion of the Series E Convertible is unaffected by the Reverse Stock Split.

Accordingly, if the market price of the Company's common stock after the reverse stock split does not increase at least proportionately to the reduction in the number of outstanding shares of common stock as a result of the split (and remain at at least such level), then the Series E Convertible will convert in to a larger percentage of the outstanding shares of the Company's common stock and therefore have a greater a greater dilutive effect on existing shareholders after the reverse stock split.

The holders of the Series E Convertible have no voting rights and will not be entitled to vote on proposals addressed in the Company's proxy statement.

What is the Effect of Reverse Stock Split on Series F Convertible Preferred Stock?

On March 20, 2000, the Company completed a \$2.0 million private placement financing with The Shaar Fund Ltd. The Company issued to The Shaar Fund 226,000 shares of Series F Convertible Preferred Stock (the "Series F Convertible"), par

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value \$0.001 per share, each such share of Series F Convertible having a stated value of \$10.00 per share.

The holder of our Series F Convertible may convert into the Company's common stock, at any time after September 31, 2000, for a conversion price equal to the arithmetic mean of the closing prices of the Company's common stock as reported on the Over the Counter Bulletin Board for the ten trading days immediately preceding the date of conversion. The Shaar Fund currently holds 118,200 shares of Series F Convertible. The conversion of the Series F Convertible is unaffected by the Reverse Stock Split.

Accordingly, if the market price of the Company's common stock after the reverse stock split does not increase at least proportionately to the reduction in the number of outstanding shares of common stock as a result of the split (and remain at at least such level) then the Series F Convertible will convert in to a larger percentage of the outstanding shares of the Company's common stock and therefore have a greater a greater dilutive effect on existing shareholders after the reverse stock split.

The holders of the Series F Convertible have no voting rights and will not be entitled to vote on proposals addressed in the Company's proxy statement.

What is the Effect of Reverse Stock Split on Series H Convertible Preferred Stock?

The Company issued 800,000 shares of Series H Preferred stock (the "Series H Preferred"), par value \$0.001 per share, each such share of Series H Preferred having a stated value of \$1.00 per share, to DRM, Russell and Speciale as part of the DRM Settlement Agreement as of September 30, 2002 for satisfaction of the remaining liabilities relating to the purchase and working capital of DRM.

The certificate of designations governing the rights of our outstanding shares of Series H Preferred provides for adjustments to the conversion amount of the outstanding Series H Preferred stock in the event of a reverse stock split. Assuming that a 1-for-10 reverse stock split is implemented and a stockholder holds one share of our Series H Preferred, with an accreted value of \$1.00 per share and a minimum conversion price of \$0.40 per share, before the effectiveness of the reverse stock split, this share of Series H Preferred would be convertible into 2.5 shares of common stock. On the effectiveness of the reverse stock split, the conversion price of the Series H Preferred would be proportionately increased to \$4.00 per share. As a result, these 800,000 shares of Series H Preferred would be convertible into 200,000 shares of common stock.

The holders of the Series H Convertible have no voting rights and will not be entitled to vote on proposals addressed in the Company's proxy statement.

Implementation and Effect of the Reverse Stock Split

If approved by our stockholders at the Special Meeting, and if our Board of Directors determines that effecting a reverse stock split is in our best interests and the best interests of our stockholders, the Board will, in its sole discretion, select the reverse stock split in a ratio between 1-for-10 and 1-for-20, based on market and other relevant conditions and circumstances and the trading prices of our common stock at that time, and determine the method of dealing with fractional shares. Following such determinations, our Board of Directors will effect the reverse stock split by directing management to file the amendment to our certificate of incorporation with the secretary of state of Delaware at such time as the Board has determined is appropriate to effect the reverse stock split. The reverse stock split will become effective at the time specified in the amendment to our certificate of incorporation after its filing with the secretary of state of Delaware, which we refer to as the effective time.

We estimate that, following the reverse stock split, we would have approximately the same number of stockholders and, except for the effect of cash payments for fractional shares as described above, the completion of the reverse stock split would not affect any stockholder's proportionate equity interest in our company. By way of example, a stockholder who owns a number of shares that prior to the reverse stock split represented one-half of a percent of the outstanding shares of the company would continue to own one-half of a percent of our outstanding shares after the reverse stock split. The reverse stock split also will not affect the number of shares of common stock that our Board of Directors is authorized to issue under our certificate of incorporation, which will remain unchanged at 300,000,000 shares. However, it will have the effect of increasing the number of shares available for future issuance because of the reduction in the number of shares that will be outstanding after giving effect to the reverse stock split. Also, because the reverse stock split would result in fewer shares of our common stock outstanding, the per share income/(loss), per share book value and other "per share" calculations would be increased.

Even if the reverse stock split is approved by the Stockholders, our Board of Directors has discretion to decline to carry out the reverse split if it determines for any reason that the reverse split will not be in our best interests. If the reverse split is not implemented on or before the 2005 Annual Meeting of Stockholders, the Board will either resolicit stockholder approval or abandon the reverse stock split.

Exchange of Stock Certificates and Payment for Fractional Shares

Exchange of Stock Certificates. Promptly after the effective time, you will be notified that the reverse stock split has been effected. Our stock transfer agent, Registrar and Transfer Company, whom we refer to as the exchange agent,

will implement the exchange of stock certificates representing outstanding shares of common stock. You will be asked to surrender to the exchange agent certificates representing your pre-split shares in exchange for certificates representing your post-split shares in accordance with the procedures to be set forth in a letter of transmittal which we will send to you. You will not receive a new stock certificate representing your post-split shares until you surrender your outstanding certificate(s) representing your pre-split shares, together with the properly completed and executed letter of transmittal to the exchange agent. We will not issue scrip or fractional shares, or certificates for fractional shares, in connection with the reverse stock split. For example, if a ratio of 1-for-10 is authorized by our Board of Directors, should you be entitled to receive fractional shares because you hold a number of shares not evenly divisible by the number four, you will be entitled, upon

surrender to the exchange agent of certificates representing such shares, to a cash payment, without interest, in lieu of such fractional shares. The ownership of a fractional share will not give you any voting, dividend or other rights, except the right to receive payment for the fractional share as described above. PLEASE DO NOT DESTROY ANY STOCK CERTIFICATE OR SUBMIT ANY OF YOUR CERTIFICATES UNTIL YOU ARE REQUESTED TO DO SO.

Effect of Failure to Exchange Stock Certificates.

Upon the filing of the amendment to our certificate of incorporation with the Delaware secretary of state, each certificate representing shares of our common stock outstanding prior to the that time will, until surrendered and exchanged as described above, be deemed, for all corporate purposes, to evidence ownership of the whole number of shares of our common stock, and the right to receive, from us or the transfer agent, the amount of cash for any fractional shares, into which the shares of our common stock evidenced by such certificate have been converted by the reverse stock split. However, a holder of such unexchanged certificates will not be entitled to receive any dividends or other distributions payable by us after the effective date, until the old certificates have been surrendered. Such dividends and distributions, if any, will be accumulated, and at the time of surrender of the old certificates, all such unpaid dividends or distributions will be paid without interest.

Are There Appraisal Rights?

Under the Delaware General Corporation Law and our certificate of incorporation and amended bylaws, you are not entitled to appraisal rights with respect to the reverse stock split.

What are the Federal Income Tax Consequences?

The following description of the material federal income tax consequences of the reverse stock split is based on the Internal Revenue Code, applicable Treasury Regulations promulgated under the Code, judicial authority and current administrative rulings and practices as in effect on the date of this proxy statement. Changes to the laws could alter the tax consequences described below, possibly with retroactive effect. We have not sought and will not seek an opinion of counsel or a ruling from the Internal Revenue Service regarding the federal income tax consequences of the proposed reverse stock split. This discussion is for general information only and does not discuss the tax consequences that may apply to special classes of taxpayers (e.g., non-resident aliens, broker/dealers or insurance companies). The state and local tax consequences of the reverse stock split may vary significantly as to each stockholder, depending upon the jurisdiction in which such stockholder resides. We urge stockholders to consult their own tax advisors to determine the particular consequences to them.

In general, the federal income tax consequences of the reverse stock split will vary among stockholders depending upon whether they receive cash for fractional shares or solely a reduced number of shares of our common stock in exchange for their old shares of our common stock. We believe that because the reverse stock split is not part of a plan to increase periodically a stockholder's proportionate interest in our assets or earnings and profits, the reverse stock split will likely have the following federal income tax effects.

A stockholder who receives solely a reduced number of shares of our common stock will not recognize gain or loss. In the aggregate, such a stockholder's basis in the reduced number of shares of our common stock will equal the stockholder's basis in its old shares of common stock and the holding period of the common stock received after the reverse stock split will include the holding period of the common stock held prior to the reverse stock split exchanged therefore. A stockholder who receives cash in lieu of a fractional share as a result of the reverse stock split will generally be treated as having received the payment as a distribution in redemption of the fractional share, as provided in section 302(a) of the Code, which distribution will be taxed as either a distribution under Section 301 of the Code or an exchange to such stockholder, depending on that stockholder's particular facts and circumstances. Generally, if such distribution is treated as an exchange to a stockholder receiving such a payment, the stockholder should recognize gain or loss equal to the difference, if any, between the amount of cash received and the stockholder's basis in the fractional share. If the fractional share was held by the stockholder as a capital asset then the gain or loss will be taxed as capital gain or loss, and will be long-term capital gain or loss if the stockholder's holding period in the fractional share is greater than one year. In the aggregate, such a stockholder's

basis in the reduced number of shares of our common stock will equal the stockholder's basis in its old shares of common stock

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decreased by the basis allocated to the fractional share for which such stockholder is entitled to receive cash and the holding period of the common stock received after the reverse stock split will include the holding period of the common stock held prior to the reverse stock split exchanged therefore.

We will not recognize any gain or loss as a result of the reverse stock split.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE PROPOSAL TO AUTHORIZE OUR BOARD OF DIRECTORS TO AMEND OUR CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE SPLIT OF OUR OUTSTANDING COMMON STOCK IN A RATIO BETWEEN 1-FOR-10 AND 1-FOR-20 WITHOUT FURTHER APPROVAL OF OUR STOCKHOLDERS, UPON A DETERMINATION BY OUR BOARD THAT SUCH A REVERSE STOCK SPLIT IS IN OUR BEST INTERESTS AND IN THE BEST INTERESTS OF OUR STOCKHOLDERS.

RATIFICATION OF APPOINTMENT
OF INDEPENDENT ACCOUNTANTS (Proposal 3)

What am I voting on?

The board of directors recommends that stockholders vote "for" ratification of the appointment of Tanner + Co. as the Company's independent accountants for fiscal 2004.

What services does the independent accountant provide?

The Audit Committee of the Company has appointed Tanner + Co. as the Company's independent accountants for the fiscal year ending December 31, 2004. Tanner + Co. has served as the Company's independent accountants since 1999. Services provided to the Company and its subsidiaries by Tanner + Co. in fiscal 2003 included the examination of the Company's consolidated financial statements, limited reviews of quarterly reports, services related to filings with the Securities and Exchange Commission and consultations on various tax matters.

Will the independent auditors be present at the Annual Meeting?

A representative(s) of Tanner + Co. will be present at the annual meeting to respond to appropriate questions and to make such statements as they may desire.

How many votes are necessary to ratify Tanner + Co. as the Company's independent accountants for fiscal 2004?

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Ratification of the appointment of Tanner + Co. as the Company's independent accountants for fiscal 2004 will require the affirmative vote of a majority of the shares of Common Stock represented in person or by proxy and entitled to vote at the annual meeting. In the event stockholders do not ratify the appointment of Tanner + Co., the appointment will be reconsidered by the Audit Committee and the Board of Directors.

What fees did the Company pay to Tanner + Co. for services provided in fiscal year 2003 and 2002?

The following table presents fees for professional audit services rendered by Tanner + Co. for the audit of the Company's financial statements for the years ended December 31, 2003 and December 31, 2002, and fees billed by Tanner + Co. for other services during those periods.

| | 2003 | 2002 |
|----------------|----------|----------|
| | ---- | ---- |
| Audit Fees (1) | \$41,273 | \$57,570 |
| Audit Related | | |
| Fees (2) | 8,831 | 12,689 |
| Tax Fees (3) | 11,100 | 11,600 |
| All Other Fees | -0- | -0- |
| Total | \$61,204 | \$81,859 |

1. Audit fees consisted of audit work performed in the preparation of the financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, such as statutory audits.
2. Audit related fees consisted principally of audits of employee benefit plans.
3. Tax fees consisted principally of assistance related to tax compliance and reporting.

Financial Information Systems Design and Implementation Fees: There were no fees billed by Tanner + Co. for services rendered in connection with financial information systems design and implementation services described in Paragraph (c)(4)(ii) of Rule 2-01 of Regulation S-X. during the fiscal year ended December 31, 2003.

Principal Accountant Independence: The Audit Committee has determined that the provision of all non-audit services performed by the principal accountant were compatible with maintaining their independence.

WE RECOMMEND THAT YOU VOTE FOR THE RATIFICATION OF
THIS PROPOSAL

EXECUTIVE COMPENSATION

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The following table sets forth the amount of all compensation paid by the Company and/or its affiliates and allocated to the Company's operations for services rendered during each of 2003, 2002 and 2001 to all persons serving as the Company's Chief Executive Officer during 2003, 2002, and 2001 to each of the Company's four most highly compensated executive officers other than the Chief Executive Officer whose total salary and bonus compensation exceeded \$100,000 during any such year.

Summary Compensation Table

| Name and Principal Position (a) | Year (b) | Annual Compensation ----- | | | Long-Term Compensation ----- | | | LTIP Pay- outs (h) | AL Co s |
|--|-------------|------------------------------|----------------------|---|--|--|-----|-----------------------------|---------------|
| | | Salary (\$) (c) | Bonus (\$) (d) | Other Annual Compen- sation (\$) (e) | Restricted Stock Award(s) (\$) (g) | Securities Under- Lying Options (#) (g) | | | |
| Shelby T. Brewer, Ph.D. (1) Chief Executive Officer | 2003 | -0- (2) | -0- | -0- | -0- | 39,450,846 (3) | -0- | 3 | |
| | 2002 | 69,677 (2) | -0- | -0- | -0- | 2,865,200 (3) | -0- | 3 | |
| | 2001 | 90,137 (2) | -0- | -0- | -0- | 200,000 (3) | -0- | | |
| Paul E. Hannesson Former Chief Executive Officer | 2003 | -0- | -0- | -0- | -0- | 4,818,075 (6) | -0- | | |
| | 2002 | -0- | -0- | -0- | -0- | 1,181,925 (6) | -0- | | |
| | 2001 | 77,242 (5) | -0- | -0- | -0- | -0- | -0- | | |
| James M. DeAngelis (7) Senior Vice President & Chief Financial Officer | 2003 | 12,480 (8) | -0- | -0- | -0- | 20,641,812 (9) | -0- | | |
| | 2002 | 114,175 (8) | -0- | -0- | -0- | 1,841,688 (9) | -0- | | |
| | 2001 | 164,368 (8) | -0- | -0- | -0- | -0- | -0- | | |
| William E. Ingram Former Vice President & Controller | 2003 | -0- | -0- | -0- | -0- | -0- | -0- | | |
| | 2002 | -0- | -0- | -0- | -0- | -0- | -0- | | |
| | 2001 | 20,645 (10) | -0- | -0- | -0- | -0- | -0- | | |
| O. Mack Jones (11) President & Chief Operating Officer | 2003 | 103,938 (12) | -0- | -0- | -0- | 10,240,625 (13) | -0- | | |
| | 2002 | 110,019 (12) | -0- | -0- | -0- | 1,759,37 (13) | -0- | | |
| | 2001 | 134,805 (12) | -0- | -0- | -0- | 100,000 (13) | -0- | | |
| Peter E Harrod Former President Advanced Sciences | 2003 | -0- | -0- | -0- | -0- | -0- | -0- | | |
| | 2002 | -0- | -0- | -0- | -0- | -0- | -0- | | |
| | 2001 | 49,460 (14) | -0- | -0- | -0- | 200,000 (15) | -0- | | |

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- (1) Mr. Brewer served as Chief Executive Officer and President of Solutions and a director of the Company since April 2000. Mr. Brewer assumed the positions of Chairman, Chief Executive Officer and President of the Company from January 2001 through October 2003 and continues to serve as Chief Executive Officer and a director since October 2003 to present.
- (2) Represents the amount of Mr. Brewer's base salary paid by the Company. Mr. Brewer's base salary for 2003 from January through April was \$250,000, and from May through December was \$285,000 of which \$271,000 was originally deferred until December 31, 2003, and remains unpaid as of November 11, 2004. Mr. Brewer's base salary for 2002 was \$250,000 of which \$184,231 was originally deferred until December 31, 2002, and remains unpaid as of November 11, 2004. Mr. Brewer's base salary for 2001 was \$250,000 of which \$160,000 annually originally deferred until December 31, 2001, and remains unpaid as of November 11, 2004. Mr. Brewer's base salary for 2000 was \$90,000.
- (3) Represents shares of common stock underlying stock options granted to Mr. Brewer by the Company in his capacity as an officer and director of the Company. Mr. Brewer canceled prior options for 840,000 shares of common stock voluntarily on October 2, 2002.
- (4) Represents a \$1,000,000 Life Insurance Policy in the name of Shelby T. Brewer paid on behalf of Mr. Brewer by the Company.
- (5) Represents the amount of Mr. Hannesson's base salary paid by the Company. The Company previously recorded a liability for \$344,000 representing amounts owed to Mr. Hannesson under his employment contract, but deferred per agreement. The deferred salary amount was used by Mr. Hannesson to offset a portion of the exercise price and taxes with respect to Mr. Hannesson's stock option exercise of 830,000 stock options in July 2000. See "Certain Relationships and Related Transactions-Services Agreement." Mr. Hannesson was replaced as Chief Executive Officer by Shelby T. Brewer effective January 15, 2001. Mr. Hannesson remains a director of the Company.
- (6) Represents shares of common stock underlying stock options granted to Mr. Hannesson by the Company in his capacity as an officer and director of the Company. Mr. Hannesson canceled prior options for 2,147,500 shares of common stock voluntarily on October 2, 2002.
- (7) Mr. DeAngelis served as Vice President and Treasurer of the Company from July 1998 to December 1999 and as Sr. Vice President, Chief Financial and Administrative Officer, Treasurer and Secretary from December 1999 to present. Mr. DeAngelis has served as a director of the Company since June 2002.
- (8) Represents the amount of Mr. DeAngelis' base salary paid by the Company. Mr. DeAngelis' total base salary for 2003 from January through April was \$165,000, and from May through

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December was \$225,000 of which \$194,520 was originally deferred until December 31, 2003, and remains unpaid as of November 11, 2004. Mr. DeAngelis' total base salary for 2002 was \$165,000 of which \$55,985 was originally deferred until December 31, 2002, and remains unpaid as of November 11, 2004. Mr. DeAngelis' total base salary for 2001 was \$165,000 of which \$33,000 was originally deferred until December 31, 2002, and remains unpaid as of November 11, 2004. Mr. DeAngelis' base salary for 2000 and 1999 was \$165,000 and \$145,000 respectively.

- (9) Represents shares of common stock underlying stock options granted to Mr. DeAngelis by the Company in his capacity as an officer of the Company. Mr. DeAngelis canceled prior options for 681,250 shares of common stock voluntarily on October 2, 2002.
- (10) Represents the amount of Mr. Ingram's base salary paid by the Company. Mr. Ingram's total base salary for 2001, 2000 and 1999 was \$150,000. Mr. Ingram resigned his management position effective January 12, 2001.
- (11) Mr. Jones served as Vice President and Field Operations Manager of Solutions from April 1998 to January 2001 and as President of Advanced Sciences from February 2001 to present, and President and Chief Operating Officer from April 2003 to present. Mr. Jones has served as a director of the Company since October 2003.
- (12) Represents the amount of Mr. Jones' base salary paid by the Company. Mr. Jones' total base salary for 2003 from January through April was \$165,000, and from May through December was \$250,000 of which \$115,485 originally deferred until December 31, 2003, and remains unpaid as of November 11, 2004. Mr. Jones' total base salary for 2002 was \$165,000 of which \$60,581 originally deferred until December 31, 2002, and remains unpaid as of November 11, 2004. Mr. Jones' total base salary for 2001 was \$165,000 of which \$33,000 originally deferred until

December 31, 2001, and remains unpaid as of November 11, 2004. Mr. Jones' base salary for 2000 and 1999 was \$150,000.

- (13) Represents shares of common stock underlying stock options granted to Mr. Jones the Company in his capacity as an officer of the Company. Mr. Jones canceled prior options for 437,500 shares of common stock voluntarily on October 2, 2002.
- (14) Represents the amount of Mr. Harrod's base salary paid by the Company, through its wholly owned subsidiary, Advanced Sciences. Mr. Harrod's total base salary for 1997, 1998 and 1999 was \$150,000, \$170,000, and \$190,000 respectively. Mr. Harrod resigned his management position effective February 28, 2001.
- (15) Represents shares of common stock underlying stock options granted to Mr. Harrod by the Company in his capacity

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as an officer of the Company. Mr. Harrod resigned his management position effective February 28, 2001.

STOCK OPTIONS

The following table sets forth certain information concerning options granted during the year ended December 31, 2003 to the individuals listed in the Summary Compensation Table pursuant to the Company's 1998 Stock Option Plan, as amended, (the "1998 Plan") and to certain individuals outside of the 1998 Plan. The Company has no outstanding stock appreciation rights and granted no stock appreciation rights during the year ended December 31, 2003.

Option Grants in Last Fiscal Year

Individual Grants

| Name (a) | Number of Securities Underlying Options Granted (#) (b) | Percent of Total Options Granted to Employees in Fiscal Year(5) (c) | Exercise of Base Price (\$/Share) (d) | Expiration Date (e) | Potential Realiza Value at Assum Annual Rates o Stock Price Appreci for Option Term | |
|--------------------|--|--|---|---------------------------|---|------------|
| | | | | | 5% (\$) (f) | 10% (g) |
| Shelby T. Brewer | 39,450,846(1) | 51.18% | 0.0285 | 12/14/08 | -0- | -0- |
| James M. DeAngelis | 20,641,812(2) | 26.78% | 0.0285 | 12/14/08 | -0- | -0- |
| O. Mack Jones | 10,240,625(3) | 13.29% | 0.0285 | 12/14/08 | -0- | -0- |
| Paul E. Hannesson | 4,818,075(4) | 6.25% | 0.0285 | 12/14/08 | -0- | -0- |

- (1) Options to purchase 39,450,846 shares of common stock were issued on November 19, 2003 outside of the 1998 Plan of which 100% vested upon issuance.
- (2) Options to purchase 20,641,812 shares of common stock were issued on November 19, 2003 outside of the 1998 Plan of which 100% vested upon issuance.
- (3) Options to purchase 10,240,625 shares of common stock were issued on November 19, 2003 outside of the 1998 Plan of which 100% vested upon issuance.
- (4) Options to purchase 4,818,075 shares of common stock were issued on November 19, 2003 outside of the 1998 Plan of

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which 100% vested upon issuance.

- (5) Percentages based on 77,081,358 stock options granted (under the 1998 Plan and outside the 1998 Plan) during the year ended December 31, 2003.
- (6) The closing price for the Company's common stock on December 31, 2003 was \$0.013. The closing price is used for all the subsequent stock appreciation calculations.

The following table sets forth certain information concerning the exercise of options and the value of unexercised options held under the 1998 Plan and outside of the 1998 Plan at December 31, 2003 by the individuals listed in the Summary Compensation Table.

Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values

| Name | Shares Acquired on Exercise (#) | Value Realized (\$)(1) | Number of Securities Underlying Unexercised Options at Fiscal Year-End(#) Exercisable/ Un-exercisable | Value of Unexercised In-the-Money Options at Fiscal Year-End(\$) Exercisable/ Un-exercisable(2) |
|--------------------|---------------------------------|------------------------|---|---|
| (a) | (b) | (c) | (d) | (e) |
| | | | (d) | |
| Shelby T. Brewer | -0- | -0- | 40,316,046/40,316,046 | -0-/-0- |
| Paul E. Hannesson | -0- | -0- | 6,000,000/6,000,000 | -0-/-0- |
| James M. DeAngelis | -0- | -0- | 21,483,500/21,483,500 | -0-/-0- |
| O. Mack Jones | -0- | -0- | 12,000,000/12,000,000 | -0-/-0- |

(1) Represents the difference between the last reported sale price of the Common Stock on December 31, 2003 (\$0.013), and the exercise prices of the options (ranging from \$0.0285 to \$0.07) multiplied by the applicable number of options exercised.

(2) Represents the difference between the exercise price and the closing price on December 31, 2003, multiplied by the applicable number of securities.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table reflects the number of shares of our common stock that, as of December 15, 2004, were outstanding and available for issuance under compensation plans that have previously been approved by our stockholders as well as compensation plans that have not previously been approved by our stockholders.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (\$) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
|--|---|--|---|
| | (a) | (b) | (c) |
| Equity Compensation Plans Approved by Security Holders (1) (2) | 12,692,312 | 0.06 | 5,307,688 |
| Equity Compensation Plans not Approved by Security Holders (3) (4) | 102,507,158 | 0.03 | -0- |
| Total..... | 115,199,470 | 0.04 | 5,307,688 |

-
1. Consists of options issuable under the 1998 Stock Option Plan, as amended, as approved by the stockholders on September 12, 2003.
 2. Consists of options issuable outside of the 1998 Stock Option Plan, as amended as approved by the stockholders on September 12, 2003.
 3. Includes options to purchase a total of 75,151,358 shares issued to Mr. Brewer, Mr. DeAngelis, Mr. Jones, and Mr. Hannesson in November 2003 outside of the 1998 Stock Option Plan, as amended.
 4. Includes warrant to purchase a total of 27,355,800 shares issued to Mr. Blum in November 2003.

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The following is a brief description of the material features of the equity compensation plans not approved by our stockholders that are reflected in the chart above.

On November 19, 2003, our Board of Directors approved the issuance of stock options outside of the Company's 1998 Stock Option Plan, as amended, and warrants for the Company's common stock to executive officers and directors of the Company. A total of 75,151,358 fully vested, non-qualified stock options were issued with an exercise price of \$0.0285 and an expiration date of December 14, 2008 (as described in footnote 3 above). A warrant for a total of 27,355,800 shares of the Company's common stock was issued to a director with an exercise price of \$0.0285 and an expiration date of November 18, 2008 (as described in footnote 4 above). The purpose of these options and warrant is to advance the interests of our stockholders by enhancing our ability to attract, retain and motivate persons who make important contributions to the Company by providing them with equity ownership opportunities that better align their interests with those of our stockholders.

Ten Year Option Repricing

The following table sets forth information regarding options held by the Commodore Named Executive Officers and Directors that were voluntarily surrendered by such persons, after which the Company issued new options to such persons at current fair market value. The Compensation Committee approved these transactions in order to restore the incentive value of such options.

| | Date | Number of Securities Underlying Options Repriced or Amended (#) | Market Price of Stock at Time of Repricing or Amendment (\$)(1) | Exercise Price of Option at Time of Repricing or Amendment (\$) | New Exercise Price(\$)(2) |
|--------------------|----------|---|---|---|---------------------------|
| Shelby T. Brewer | 10/02/02 | 200,000 | \$0.07 | \$0.288 | \$0.07 |
| | 10/02/02 | 500,000 | \$0.07 | \$1.00 | \$0.07 |
| | 10/02/02 | 140,000 | \$0.07 | \$1.06 | \$0.07 |
| James M. DeAngelis | 10/02/02 | 181,250 | \$0.07 | \$0.4375 | \$0.07 |
| | 10/02/02 | 300,000 | \$0.07 | \$0.288 | \$0.07 |
| | 10/02/02 | 200,000 | \$0.07 | \$0.688 | \$0.07 |
| O. Mack Jones | 10/02/02 | 187,500 | \$0.07 | \$0.4375 | \$0.07 |
| | 10/02/02 | 100,000 | \$0.07 | \$0.288 | \$0.07 |
| | 10/02/02 | 150,000 | \$0.07 | \$0.688 | \$0.07 |
| Paul E. Hannesson | 10/02/02 | 147,500 | \$0.07 | \$0.4375 | \$0.07 |
| | 10/02/02 | 1,000,000 | \$0.07 | \$0.50 | \$0.07 |

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| | | | | | |
|-----------------|----------|--------|--------|----------|--------|
| Bentley J. Blum | 10/02/02 | 70,000 | \$0.07 | \$0.4375 | \$0.07 |
| | 10/02/02 | 70,000 | \$0.07 | \$1.00 | \$0.07 |

-
- (1) Represents the closing price of our common stock on October 2, 2002 as reported by the AMEX Stock Market (\$0.07).

 - (2) In October 2002, Mr. Brewer, the Company's Chairman of the Board and Chief Executive Officer, voluntarily surrendered options to purchase 840,000 shares of our common stock, after which the Company issued to him options to purchase 865,200 shares of our common stock so long as Mr. Brewer continues to be an eligible participant under the 1998 Stock Option Plan, as amended. The exercise price of the new options is equal to 100% of the fair market value of our common stock on the date of grant of the new options, as determined by the last reported sales price of our common stock as reported by the AMEX Stock Market on the date we granted the new options.

 - (3) In October 2002, Mr. DeAngelis, the Company's Chief Financial and Administrative Officer, Treasurer and Secretary, voluntarily surrendered options to purchase 681,250 shares of our common stock, after which the Company issued to him options to purchase 681,250 shares of our common stock so long as Mr. DeAngelis continues to be an eligible participant under the 1998 Stock Option Plan, as amended. The exercise price of the new options is equal to 100% of the fair market value of our common stock on the date of grant of the new options, as determined by the last reported sales price of our common stock as reported by the AMEX Stock Market on the date we granted the new options.

 - (4) In October 2002, Mr. Jones, the Company's President and Chief Operating Officer, voluntarily surrendered options to purchase 437,500 shares of our common stock, after which the Company issued to him options to purchase 437,500 shares of our common stock so long as Mr. Jones continues to be an eligible participant under the 1998 Stock Option Plan, as amended. The exercise price of the new options is equal to 100% of the fair market value of our common stock on the date of grant of the new options, as determined by the last reported sales price of our common stock as reported by the AMEX Stock Market on the date we granted the new options.

 - (5) In October 2002, Mr. Hannesson, the Company's former Chairman of the Board and Chief Executive Officer, voluntarily surrendered options to purchase 1,147,500 shares of our common stock, after which the Company issued to him options to purchase 1,147,500 shares of our common stock so long as Mr. Hannesson continues to be an eligible participant under the 1998 Stock Option Plan, as amended. The exercise price of the new options is equal to 100% of the fair market value of our common stock on the date of grant of the new options, as determined by the last reported sales price of our common stock as reported by the AMEX Stock Market on the

date we granted the new options.

- (6) In October 2002, Mr. Blum voluntarily surrendered options to purchase 140,000 shares of our common stock, after which the Company issued to him options to purchase 144,200 shares of our common stock so long as Mr. Blum continues to be an eligible participant under the 1998 Stock Option Plan, as amended. The exercise price of the new options is equal to 100% of the fair market value of our common stock on the date of grant of the new options, as determined by the last reported sales price of our common stock as reported by the AMEX Stock Market on the date we granted the new options.

COMPENSATION COMMITTEE REPORT

Filings made by companies with the Securities and Exchange Commission sometimes "incorporate information by reference." This means the Company is referring you to information that has been previously filed with the SEC and that this information should be considered as part of the filing you are reading. The Compensation Committee Report and Stock Performance Graph in this proxy statement are not incorporated by reference into any other filings with the SEC.

What are the components of executive compensation?

Our compensation program for executives consists of three key elements:

- * Annual base salary
- * Performance based annual bonus
- * Long-term stock incentive compensation

What is the overview and philosophy of executives compensation?

The Company's executive compensation program is designed to be linked to corporate performance and returns to stockholders. Of particular importance to the Company is its ability to grow and enhance its competitiveness for the rest of the decade and beyond. Shorter-term performance, although scrutinized by the CSOB Committee, stands behind the issue of furthering the Company's strategic goals. To this end, the Company has developed an overall compensation strategy and specific compensation plans that tie a significant portion of executive compensation to the Company's success in meeting specified performance goals.

The objectives of the Company's executive compensation program are to:

- * attract, motivate and retain the highest quality executives;
- * motivate them to achieve tactical and strategic objectives in a manner consistent with the Company's corporate values; and
- * link executive and stockholder interests through equity-

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based plans and provide a compensation package that recognizes individual contributions as well as overall business results.

To achieve these objectives, the Company's executive compensation program is designed to:

- * focus participants on high priority goals to increase stockholder value;
- * encourage behavior that exemplifies to Company's values relating to customers, quality of performance, employees, integrity, teamwork and good citizenship;
- * assess performance based on results and pre-set goals that link the business activities of each individual to the goals of the Company; and
- * increase stock ownership to promote a proprietary interest in the success of the Company.

How are the Chairman of the Board and Chief Executive Officer compensated?

Shelby T. Brewer, the Chairman of the Board and Chief Executive Officer of the Company, received a base salary for 2003 from January through April of \$250,000 per annum, and from May through December was \$285,000 per annum of which \$271,000 was originally deferred until December 31, 2003, and remains unpaid as of November 11, 2004. The members of the CSOB Committee established the amount actually received by Mr. Brewer last year as base salary for services rendered to the Company and its affiliates. In determining Mr. Brewer's salary, the CSOB Committee considered, without any particular weighting, the salaries paid to chief executive officers of comparable companies, the company's performance in terms of stock price and key financial indices compared to its peers, the performance of Mr. Brewer, and Mr. Brewer's extensive industry knowledge.

Mr. Brewer received no cash bonus for fiscal 2003 under the Officers Bonus Pool Plan. This plan pays total bonuses of up to 25% of a participant's salary. The CSOB Committee determined that no bonus was to be paid in fiscal 2003.

How are other executive officers compensated?

In setting all other executive officers annual salaries, the CSOB Committee reviews an annual salary plan recommended by the Chairman and CEO. The annual salary plan is based on numerous subjective factors that include performance, merit increases and responsibility levels.

All executive officers are eligible to participate in the officer's bonus plans. Under these plans, officers are eligible to receive a bonus up to an established percent of their annual base salary, depending on the Company's performance relative to criteria established by the Compensation Committee. During fiscal 2003, based upon these objective performance assessments, no officer was awarded a bonus as reflected in the Summary

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Compensation Table contained elsewhere in this proxy statement.

COMPENSATION, STOCK OPTION AND BENEFITS COMMITTEE

The Report of the Compensation Committee on Executive Compensation shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report into any filing under the Securities Act, or under the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

Does the Compensation Committee compare Company salaries to other companies?

Salaries are based on the Compensation Committee assessment of each officer's past performance and the expectation for future contributions in leading the Company. In addition, the Compensation Committee reviews compensation data for the industry and other companies similar in size. This review is not done scientifically. The Compensation Committee uses other company compensation data for information purposes only, but also considers subjective factors relating to the differences between companies.

How are limitations on the deductibility of compensation handled?

Section 162(m) of the Internal Revenue Code limits the deductibility of executive compensation paid by publicly held corporations to \$1 million per employee. The \$1 million limitation generally does not apply to compensation based on performance goals if certain requirements are met. The Company believes its Senior Officers' Bonus Pool Plan and Executive Officers' Bonus Plan each satisfy Section 162(m). As a result, the Company believes that the compensation paid under these plans is not subject to limits on deductibility. However, there can be no assurance that the Internal Revenue Service would reach the same conclusion.

Who prepared this report?

This report has been furnished by the members of the Compensation, Stock Option and Benefits committee:

- Ambassador William A. Wilson, Chair
- Shelby T. Brewer, PhD.
- Frank E. Coffman, PhD.
- VADM Michael P. Kalleres

AUDIT COMMITTEE REPORT

Filings made by companies with the Securities and Exchange Commission sometimes "incorporate information by reference." This means the Company is referring you to information that has been previously filed with the SEC and that this information should be considered as part of the filing you are reading. The Audit Committee Report in this proxy statement is not incorporated by reference into any other filings with the SEC.

What are the responsibilities of the Audit Committee?

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors and is governed by its Charter as set forth in Exhibit A, hereto, which was adopted in October of 2004. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the committee reviewed the audited financial statements in the Annual Report with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Audit Committee received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 and discussed with the independent accountants the independence of the independent accountants. The Audit Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61.

What are the areas of focus of the Audit Committee?

The Audit Committee reviews with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles:

- * the overall scope and plans for their respective audits,
- * their judgments as to the quality, not just the acceptability, of the Company's accounting principles,
- * their independence from management and the Company including matters in the written disclosures and the letter from the independent accountants required by the Independence Standards Board No. 1,
- * and such other matters as are required to be discussed with the committee under generally accepted auditing standards.

The Audit Committee also pre-approves all audit and non-audit services performed by the independent auditors. (see Audit Committee Charter - Appendix B, for expanded list of responsibilities)

Who are the independent members of the Audit Committee?

Messrs. Kalleres, Coffman, and Wilson are independent audit committee members in accordance with the listing standards of the American Stock Exchange. Mr. DeAngelis is an Executive Officer of the Company, and as such, is not independent. Having Mr. DeAngelis on the committee is in the best interest of the Company because he can provide day-to-day supervision to the internal audit staff, he is readily available to address issues with management, and provides independent members insight into audit and financial matters.

What financial statements does the Audit Committee review?

The audit committee, as part of its Charter, reviews quarterly with management the Company's financial statements prior to filing with the Securities and Exchange Commission and discusses with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61. In addition, the committee in reliance on the reviews and discussions referred to above, has recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

Does the Company have an Audit Committee Financial Expert?

The Board of Directors has determined that VADM Kalleres and Mr. DeAngelis by virtue of their background, education, and experience are audit committee financial experts within the meaning of SEC rules. VADM Kalleres is independent of management under the AMEX listing standards.

Who prepared this report?

This report has been furnished by the members of the Audit Committee:

VADM Michael P. Kalleres - Chair
Frank E. Coffman, PhD.
James M. DeAngelis
Ambassador William A. Wilson

What fees were paid to the Company's Principal Accountant?

The following table presents fees for professional audit services rendered by Tanner + Co. for the audit of the Company's financial statements for the years ended December 31, 2003 and December 31, 2002, and fees billed by Tanner + Co. for other services during those periods.

| 2003 | 2002 |
|------|------|
| ---- | ---- |

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| | | |
|------------------------|----------|----------|
| Audit Fees (1) | \$41,273 | \$57,570 |
| Audit Related Fees (2) | 8,831 | 12,689 |
| Tax Fees (3) | 11,100 | 11,600 |
| All Other Fees | -0- | -0- |
| Total | \$61,204 | \$81,859 |

1. Audit fees consisted of audit work performed in the preparation of the financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, such as statutory audits.
2. Audit related fees consisted principally of audits of employee benefit plans.
3. Tax fees consisted principally of assistance related to tax compliance and reporting.

Financial Information Systems Design and Implementation Fees: There were no fees billed by Tanner + Co. for services rendered in connection with financial information systems design and implementation services described in Paragraph (c)(4)(ii) of Rule 2-01 of Regulation S-X. during the fiscal year ended December 31, 2003.

Principal Accountant Independence: The Audit Committee has determined that the provision of all non-audit services performed by the principal accountant were compatible with maintaining their independence.

STOCK PERFORMANCE GRAPH

This graph compares our total stockholder returns, the Standard and Poor's 500 Composite Stock Index, the Standard and Poor's Small Cap Composite Environmental Services Stock Index, the Standard and Poor's 500 Composite Environmental Services Stock Index, and the Standard and Poor's 500 Super Composite Environmental Services Stock Index. The graph assumes \$100 invested at the per share closing price of the common stock of Commodore Applied Technologies, Inc. on the American Stock Exchange, from June 28, 1996 through March 6, 2003, and then on the Over the Counter Bulletin Board from that point forward.