

McGladrey & Pullen

Certified Public Accountants

Akers Biosciences, Inc. and Subsidiaries

Financial Report
December 31, 2004

Akers Biosciences, Inc. and Subsidiaries

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors and
Stockholders of Akers Biosciences, Inc.
Thorofare, New Jersey

We have audited the accompanying consolidated balance sheets of Akers Biosciences, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Akers Biosciences, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 10 to the financial statements, the Company has had no significant operating results to date, has suffered recurring losses and is experiencing difficulty in generating sufficient cash to meet its obligations and sustain its operations, all of which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
February 26, 2005, except for
Note 10, which is dated May 5, 2005

Akers Biosciences, Inc. and Subsidiaries

**Consolidated Balance Sheets
December 31, 2004 and 2003**

	2004	2003
Assets		
Current Assets		
Cash	\$ 182,454	\$ 593,394
Trade receivables, net of allowance for doubtful accounts of \$963,630 and \$154,747 in 2004 and 2003, respectively	105,982	481,850
Inventories	619,646	450,151
Prepaid and other current assets	217,109	71,390
Total current assets	1,125,191	1,596,785
Property and Equipment, net	221,371	270,857
Other Assets		
Patent costs, net of accumulated amortization	117,930	132,242
Deferred financing costs, net of accumulated amortization	4,825	7,719
Deposits and other assets	12,632	10,767
	135,387	150,728
	\$ 1,481,949	\$ 2,018,370

(Continued)

Akers Biosciences, Inc. and Subsidiaries

**Consolidated Balance Sheets (Continued)
December 31, 2004 and 2003**

	2004	2003
Liabilities and Stockholders' Deficiency		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,601,114	\$ 1,762,744
Accrued interest payable	191,336	114,746
Notes payable	1,919,746	1,851,478
Current portion of long-term debt	105,715	158,288
Current portion of obligations under capital leases	5,974	945
Total current liabilities	3,823,885	3,888,201
Long-Term Debt		
Long-term debt, net of current portion	442,394	517,478
Obligations under capital leases, net of current portion	10,154	-
	452,548	517,478
Commitments (Note 6)		
Stockholders' Deficiency		
Preferred stock, no par value		
Authorized 15,000,000 shares, no shares issued and outstanding at December 31, 2004 and 2003	-	-
Common stock, no par value		
Authorized 60,000,000 shares issued and outstanding 46,955,614 and 42,674,564 shares at December 31, 2004 and 2003	48,366,016	44,353,221
Accumulated deficiency	(51,160,500)	(46,740,530)
	(2,794,484)	(2,387,309)
	\$ 1,481,949	\$ 2,018,370

See Notes to Consolidated Financial Statements.

Akers Biosciences, Inc. and Subsidiaries

**Consolidated Statements of Operations
Years Ended December 31, 2004 and 2003**

	2004	2003
Revenues	\$ 1,325,022	\$ 1,114,980
Cost of production	1,495,763	1,119,653
Gross profit (loss)	<u>(170,741)</u>	<u>(4,673)</u>
Sales and general and administrative expenses	3,245,980	2,099,998
Research and development expenses	1,107,628	729,940
	<u>4,353,608</u>	<u>2,829,938</u>
Loss from operations	<u>(4,524,349)</u>	<u>(2,834,611)</u>
Other income (expense)		
Interest income	1,333	97
Forgiveness of trade payables	-	4,253
Sale of New Jersey NOL's	323,896	224,259
Foreign currency transactions (loss)	(377)	(389)
Interest expense	(220,473)	(285,247)
	<u>104,379</u>	<u>(57,027)</u>
Net loss	<u>\$ (4,419,970)</u>	<u>\$ (2,891,638)</u>

See Notes to Consolidated Financial Statements.

Akers Biosciences, Inc. and Subsidiaries

**Consolidated Statements of Changes in Stockholders' Deficiency
Years Ended December 31, 2004 and 2003**

	Preferred Stock		Common Stock		Accumulated Deficiency	Total
	Shares	Amount	Shares	Amount		
Balance, December 31, 2002	-	\$ -	39,618,395	\$ 42,178,577	\$ (43,848,892)	\$ (1,670,315)
Issuance of stock for cash	-	-	2,708,531	1,814,630	-	1,814,630
Issuance of warrants for products and services	-	-	-	39,688	-	39,688
Exercise of options and warrants	-	-	80,156	60,117	-	60,117
Issuance of common stock in exchange of debt	-	-	75,000	75,000	-	75,000
Issuance of common stock in exchange of trade payables	-	-	192,482	185,209	-	185,209
Net loss for the year ended December 31, 2003	-	-	-	-	(2,891,638)	(2,891,638)
Balance, December 31, 2003	-	-	42,674,564	44,353,221	(46,740,530)	(2,387,309)
Issuance of stock for cash	-	-	2,632,722	3,281,965	-	3,281,965
Issuance of warrants for products and services	-	-	-	40,000	-	40,000
Issuance of common stock in exchange of debt	-	-	1,455,000	501,419	-	501,419
Issuance of common stock in exchange of trade payables	-	-	193,328	189,411	-	189,411
Net loss for the year ended December 31, 2004	-	-	-	-	(4,419,970)	(4,419,970)
Balance, December 31, 2004	-	\$ -	46,955,614	\$ 48,366,016	\$ (51,160,500)	\$ (2,794,484)

See Notes to Consolidated Financial Statements.

Akers Biosciences, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended December 31, 2004 and 2003**

	2004	2003
Cash Flows from Operating Activities		
Net loss	\$ (4,419,970)	\$ (2,891,638)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	100,732	110,371
Amortization of deferred finance costs	2,894	2,895
Stock, stock options and warrants issued to employees and non-employees	40,000	39,688
Provisions for bad debts	808,883	154,748
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade receivables	(433,016)	(366,407)
Inventories	(169,495)	(249,389)
Prepays and other current assets	(145,718)	64,774
Deposits and other assets	(1,865)	-
Increase in:		
Accounts payable and accrued expenses	104,370	661,074
Net cash used in operating activities	(4,113,185)	(2,473,884)
Cash Flows from Investing Activities		
Purchase of property and equipment	(17,434)	-
Net cash used in investing activities	(17,434)	-
Cash Flows from Financing Activities		
Proceeds from issuance of stock, net	3,281,965	1,814,630
Proceeds from warrants exercised	-	60,117
Proceeds from borrowings	1,120,000	1,575,279
Repayments on officers' and stockholders' borrowings	(31,232)	(105,385)
Repayments of capital lease obligations	(4,317)	(9,899)
Repayments on borrowings	(646,737)	(269,422)
Net cash provided by financing activities	3,719,679	3,065,320
Increase (decrease) in cash	(410,940)	591,436
Cash, beginning of year	593,394	1,958
Cash, end of year	\$ 182,454	\$ 593,394

(Continued)

Akers Biosciences, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2004 and 2003

	2004	2003
Supplemental Disclosures of Cash Flow Information:		
Non-cash investing and financing activities are as follows:		
Conversion of debt and accrued interest payable to common stock	<u>\$ 501,419</u>	<u>\$ 75,000</u>
Conversion of trade payable to common stock	<u>\$ 189,411</u>	<u>\$ 185,209</u>
Equipment purchased under capital lease	<u>\$ 19,500</u>	<u>\$ -</u>
Cash Paid During the Period for Interest	<u>\$ 73,441</u>	<u>\$ 211,010</u>

See Notes to Consolidated Financial Statements.

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

The summary of significant accounting policies below and the other notes to the consolidated financial statements on the following pages are integral parts of the accompanying consolidated financial statements.

Description of Business: Akers Biosciences, Inc. and its subsidiaries (the "Company" or "Akers") is a New Jersey Corporation, which was incorporated on March 8, 1989. The Company commenced research and development operations in September 1989, and until 2003 had devoted substantially all its efforts to establish the new business.

Patents and Trade Secrets: The Company has developed several diagnostic tests that can detect the presence of various substances in a person's blood, urine and saliva. Proprietary protection for the Company's products, technology and process is important to its competitive position. To date, the Company has received three patents from the United States Patent Office (5,565,366, 5,231,035, and 5,827,749). Other patents have been granted through the World Patent Cooperation Treaty ("PCT") (WO 92/05440), European Patent Convention (EP 0 556 202 B1), and in Japan (516757/91). Patents are in the national phase of prosecution in many PCT-participating countries. Additional proprietary technology consists of eleven different inventions. The Company intends to file additional patent applications, where appropriate, relating to new products, technologies and their use in the US, European and Asian markets. Management intends to protect all other intellectual property (e.g., copyrights, trademarks and trade secrets) using all legal remedies available to the Company.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company. All significant intercompany balances and transactions are eliminated. The subsidiaries have been inactive since December 31, 1996 and have no assets or liabilities.

Revenue Recognition: The Company recognizes sales at the time goods are shipped.

Trade Receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectable. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Management may elect to charge interest on past due trade receivables.

Inventories: Inventories are stated at the lower of cost (first-in, first-out) or market, and primarily consist of raw materials used for research and development and manufacturing.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization are computed over the estimated useful lives of the respective assets using straight-line and accelerated methods. Upon sale or retirement of assets, the related costs and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in operations. Expenditures for repairs and maintenance that do not increase the useful lives of the assets are charged to operations as incurred.

Patent Costs: Costs associated with applying for patents are capitalized as patent costs. Once the patents are approved, the respective costs are amortized over a period of twelve to seventeen years on a straight-line basis. Patent pending costs for patents that are not approved are charged to operations the year the patent is rejected. Accumulated amortization related to patents was \$113,555 and \$99,243 as of December 31, 2004 and 2003, respectively. Amortization expense amounted to \$14,312 for each of the years ended December 31, 2004 and 2003.

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred Financing Costs: Costs incurred in connection with long-term financing have been capitalized and are being amortized on the straight-line basis over the term of the related debt. As of December 31, 2004 and 2003, accumulated amortization was \$24,123 and \$21,228, respectively. Amortization expense for each of the years ended December 31, 2004 and 2003 was \$2,895.

Research and Development Costs: Research and development costs are charged to operations when incurred.

Advertising and Promotion: Advertising and promotion costs are charged to current operations when incurred. Advertising and promotion costs for the years ended December 31, 2004 and 2003 were \$7,685 and \$1,210, respectively.

Stock-Based Compensation: The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 "*Accounting for Stock-Based Compensation*," but elected to continue to utilize the "*intrinsic value*" method of accounting for recording stock-based compensation expense for employees, as provided for in Accounting Principles Board No. 25 "*Accounting for Stock Issued to Employees*" ("APB No. 25").

Income Taxes: Deferred income taxes are provided on a liability method. Whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Stock Options and Warrants: The Company's intention is to issue stock options and warrants at no less than fair market value on the date of grant. On infrequent occasions, stock options and warrants have been issued at less than fair market value for services and in connection with financings, and the effect of these issuances has been recorded as an expense in the period of issuance of the option or warrant. Previously, the fair market value of common stock had been determined based on the price that the Company has received for the issuance of stock to investors during a comparable time period. Since May 22, 2002, fair market value is deemed to be the price of the Company's shares as quoted on the Alternative Investment Market of the London Stock Exchange.

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

Reclassification: Certain items in the 2003 financial statements have been reclassified to conform with the 2004 financial statement presentation.

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and accounts receivable.

The Company's policy is to limit the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy, which are exposed to minimal interest rate and credit risk. From time to time the Company had bank deposits that exceeded federally insured limits. Concentration of credit risk, with respect to accounts receivable, is limited due to the Company's credit evaluation process. The Company does not require collateral from its customers. Historically, the Company has not incurred any significant credit related losses.

The Company derived over 90% of its sales from four customers during each of the years ended December 31, 2004 and 2003, respectively. For the year ended December 31, 2004, 98% of the net outstanding accounts receivables represented balances due from these four customers.

Note 3. Property and Equipment

Property and equipment consists of the following:

	Estimated Useful Lives in Years	2004	2003
Machinery and equipment	5 - 15	\$ 1,042,543	\$ 1,025,109
Office furniture and equipment	5 - 7	66,702	66,702
Leasehold improvements	6	89,900	89,900
Transportation equipment	3 - 5	3,850	3,850
Assets held under capital lease	5	59,800	40,300
		<u>1,262,795</u>	<u>1,225,861</u>
Less: accumulated depreciation and amortization		1,041,424	955,004
		<u>\$ 221,371</u>	<u>\$ 270,857</u>

Depreciation and amortization expense for the years ended December 31, 2004 and 2003 amounted to \$86,420 and \$96,060, respectively.

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Notes Payable

	<u>2004</u>	<u>2003</u>
Note payable, stockholder, unsecured, payable upon demand with interest at 4%.	100,000	100,000
Note payable, stockholder, unsecured, including interest at prime plus 1.0% (6.25% at December 31, 2004), due on demand.	14,072	45,304
Convertible notes payable, stockholders, interest at 18% annually, payable monthly. The principal amounts of the notes were due June 30, 2003 and subsequently extended to April 30, 2004. The notes were converted to the Company's common stock in January 2004.	-	414,000
Loans payable, individuals, unsecured.	140,000	140,000
Note payable, bank, interest at prime plus 2% (7.25% at December 31, 2004). Up to \$600,000 working capital to be provided against eligible Accounts Receivable and Inventory. One year initial term was extended to June 2006.	250,000	500,000
Note payable, finance company, initially due July 2004, with interest at 8% annually and secured by shares of the Company's common stock. The lender breached its agreement with the Company resulting in the Company's cancellation of the shares issued to the lender as collateral (see note 11 Subsequent Events).	652,174	652,174
Convertible note payable, finance company, with an interest rate of 8% annually, originally due May 1, 2005 and the balance was paid in full during March 2005 (see Note 11, Subsequent Events).	763,500	-
	<u>\$ 1,919,746</u>	<u>\$ 1,851,478</u>

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Long-Term Debt

	2004	2003
Note payable, Small Business Administration, due in monthly installments of \$5,364, including fixed interest of 7.77%. The loan is collateralized by a second lien on the Company's equipment, and is guaranteed by the Company's President and CEO. The loan is due September 2016.	\$ 470,109	\$ 493,709
Note payable, individual, unsecured, in connection with the Company's repurchase of preferred stock. This portion of the obligation was being amortized to the future payment of \$60,000, imputed at 6% and was due February 2009. The note was converted into 75,000 shares of the Company's common stock in February 2004.	-	49,419
Note payable, vendor, as payment for trade debt, payable in monthly installments of \$6,000 including interest at 7%, commencing March 1, 2003 through August 1, 2005.	78,000	132,638
Total long term debt	548,109	675,766
Less: current maturities	105,715	158,288
Long-term debt	\$ 442,394	\$ 517,478

Annual maturities on long-term debt are as follows:

Years Ending December 31,	
2005	\$ 105,715
2006	27,731
2007	29,964
2008	32,378
2009	34,984
Thereafter	317,337
	\$ 548,109

Note 6. Commitments

Capital Leases: The Company leases certain equipment with a cost of \$59,800 under capital leases expiring through May 2007. The assets under capital leases are recorded at lower of the present value of the future minimum lease payments or the fair value of the assets.

At December 31, 2004, total minimum future obligations under capital leases is \$16,128 through 2007.

Amortization of \$3,900 and \$4,642 related to the assets under capital leases is included in depreciation and amortization expense in the accompanying financial statements for the years ended December 31, 2004 and 2003, respectively.

Interest expense related to capital lease obligations was \$1,316 and \$1,509 for the years ended December 31, 2004 and 2003, respectively.

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Commitments (Continued)

Operating Leases: The Company leases office space in Thorofare, New Jersey under a noncancellable-operating lease with annual rentals of \$141,000 plus common area maintenance (CAM) charges. The Company's lease term expires May 31, 2007.

In addition, the Company leases certain equipment under noncancellable operating leases, which expire at various dates through May 2006. Minimum future rental payments under all noncancellable operating equipment leases are as follows:

Years Ending December 31,	
2005	\$ 7,849
2006	190
Total	<u>\$ 8,039</u>

Rent expense including related CAM charges for the years ended December 31, 2004 and 2003 was \$238,045 and \$251,702, respectively.

Note 7. Income Taxes

The Company has deferred tax assets of approximately \$18,500,000 and \$16,900,000 as of December 31, 2004 and 2003, respectively, primarily related to net operating loss carryforwards, which have yet to be utilized. At December 31, 2004 and 2003, the Company established a 100% valuation allowance against the deferred tax assets as the likelihood of recognizing this benefit is not certain. The utilization of these losses to reduce future income taxes will depend upon the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards. In addition, based on ownership changes resulting from the private placements of stock, as well as historical issuances of common stock, the annual utilization of the otherwise available net operating loss carryforward may be limited by the provisions of Section 382 of the Internal Revenue Code, as amended.

At December 31, 2004, the Company has federal and state loss carryforwards available totaling \$44,100,000 and \$20,685,000, respectively. The loss carryforwards are available to offset future taxable income liabilities at December 31, 2004 and expire at various dates through the year 2020.

In each of the years ended December 31, 2004 and 2003, the Company sold New Jersey State operating loss carryforwards, which resulted in proceeds of \$323,896 and \$224,259, respectively.

Note 8. Capital

During May 2002, the Company's shares of common stock were admitted to trading on the London Stock Exchange ("Alternative Investment Market"). The offering placed 2,525,000 shares at a price of \$2 (U.S. dollars) per share. Net proceeds, representing gross proceeds less stock offering costs, totaled \$3,818,068.

As noted in the statement of stockholders' deficiency, the Company issued certain warrants and shares of stock in lieu of cash payment for certain products and services received. These transactions were accounted in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation". The basis of assigning value of the stock issued was the fair market value of the related products or services received.

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Capital (Continued)

The Company has been able to avail itself of a facility provided by a private equity agreement between the Company and Brittany Capital Management LTD ("Brittany"). The facility, established in July 2003, allows Brittany to purchase up to \$10 million of the Company's common stock over a term of 24 months. The timing and amounts of the purchases ("Puts") shall be at the discretion of the Company subject to certain conditions including, but not limited to, the admission to trading on the Alternative Investment Market of the shares purchased by Brittany in the case of each put. During the years ended December 31, 2004 and 2003, the Company sold 1,377,241 and 826,582 shares for net proceeds to the Company of \$1,650,000 and \$550,000, respectively.

In November 2003, the Company completed a follow-on placing of 1,361,500 shares of common stock on the Alternative Investment Market of the London Stock Exchange. Net proceeds, representing gross proceeds less stock offering costs, totaled \$1,014,000.

In June 2004, the Company completed another follow-on placing of 1,114,430 shares of common stock on the Alternative Investment Market. Net proceeds of that placing, after offering costs, were \$1,497,212.

On December 1, 2004, the Company received \$750,000 resulting from the execution of a Convertible Promissory Note, due May 1, 2005, payable to Brittany. Under the terms of the note, Brittany could have converted any or all of the note into common shares of the Company any time after February 1, 2005. In fact, in February 2005, Brittany did elect to convert \$300,000 of the note in return for 280,729 shares of the Company's common stock. The Company, on the other hand, had the right to redeem the note at anytime by providing written notice to the holder and by making a cash payment to the holder in the amount of 115% of the then outstanding principal amount of the note. On March 11, 2005, with the outstanding principal balance at \$450,000, the Company fully paid that outstanding balance by remitting \$517,500 (115% x \$450,000).

Net loss per common share, calculated on the basic method (net loss divided by the weighted number of outstanding common shares), was \$0.10 and \$0.07 for the years ended December 31, 2004 and 2003, respectively.

Note 9. Stock Warrants and Options and Related Party Transactions

Stock Warrants: The Company has issued warrants to various employees and consultants of the Company for their services either in connection with the Company's ongoing efforts to raise capital or the development of the Company's products. Each warrant granted may be exchanged for a prescribed number of shares of common stock. The warrants expire at various dates through July 2010.

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2002	3,559,331	1.55
Warrants granted	401,156	1.16
Warrants exercised	(80,156)	0.75
Warrants expired/terminated	(745,281)	1.91
Balance, December 31, 2003	3,135,050	1.43
Warrants granted	345,000	1.09
Warrants exercised	(100,000)	0.38
Warrants expired/terminated	(30,000)	1.75
Balance, December 31, 2004	3,350,050	1.42

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Stock Warrants and Options and Related Party Transactions (Continued)

Stock Options: The Company has adopted two option plans that permit the granting of options to purchase shares of common stock. The plans provide for the granting of both incentive stock options (“Incentive Stock Plan”), as defined in Section 422 of the Internal Revenue Code (the “Code”), and options defined by Section 422 of the Code (“Non-qualified options”).

The plans are administered by a Compensation Committee, which is appointed by the Board of Directors, who grants all options and determines their terms. Options are non-transferable and are only granted to employees, officers and directors, and advisors or consultants who agree to be employed or to provide services to the Company for a period of at least one year after the grant date. The maximum term of any option under the plans is ten years.

Qualified option holders may exercise their options at their discretion through various dates ending November 2013. Each option granted may be exchanged for a prescribed number of shares of common stock.

Employee Plan - Qualified Options	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2002	2,129,915	1.06
Options granted	225,000	1.47
Options exercised	-	-
Options expired/terminated	(2,000)	1.00
Balance, December 31, 2003	2,352,915	1.10
Options granted	481,600	1.37
Options exercised	-	-
Options expired/terminated	(431,600)	1.45
Balance, December 31, 2004	2,402,915	1.09
Directors' Plan	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2002	546,500	1.75
Options granted	495,000	1.74
Options exercised	-	-
Options expired/terminated	(70,000)	2.00
Balance, December 31, 2003	971,500	1.73
Options granted	-	-
Options exercised	-	-
Options expired/terminated	-	-
Balance, December 31, 2004	971,500	1.73

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Stock Warrants and Options and Related Party Transactions (Continued)

Non-qualified option holders may exercise their options at their discretion through various dates ending December 2006. The Company has granted non-qualified options as follows:

Non-Qualified Options	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2002	150,000	1.00
Options granted	-	-
Options exercised	-	-
Options expired/terminated	-	-
Balance, December 31, 2003	150,000	1.00
Options granted	-	-
Options exercised	-	-
Options expired/terminated	-	-
Balance, December 31, 2004	150,000	1.00

The following table summarizes information concerning outstanding exercisable warrants and options at December 31, 2004:

Range of Exercise Prices	Options and Warrants Outstanding			Options and Warrants Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted- Exercise	Number Exercisable	Weighted- Exercise
\$ 0.10 – 0.99	790,000	3.50	\$ 0.69	790,000	\$ 0.69
1.00 – 1.49	3,833,200	3.76	1.01	3,833,200	1.01
1.50 – 1.99	750,000	1.50	1.51	750,000	1.51
2.00	1,501,265	4.71	2.00	1,501,265	2.00
	6,874,465			6,874,465	

Options and warrants exercisable at December 31, 2004 and 2003 were 6,874,465 and 6,496,965, respectively.

The weighted-average per share fair value of warrants and options on grant date was approximately \$0.25 and \$0.25 for 2004 and 2003, respectively.

With respect to stock options granted to employees, the Company has adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," but applies APB Opinion No. 25 "Accounting for Stock Issued to Employees" in accounting for its stock compensation plan. Accordingly, no compensation costs have been recognized with respect to stock options granted to employees, officers and directors in 2004 and 2003. Additional compensation cost that would have been recognized in accordance with the basis of fair value pursuant to SFAS No. 123 that would have increased the Company's net loss for 2004 and 2003 would be minimal. The method of determining proforma compensation costs for 2004 and 2003 was based on certain assumptions, including expected volatility of 5%, a risk free interest rate between 5%-6%, expected life of options of 5 years and no expected payment of dividends.

Note 9. Stock Warrants and Options and Related Party Transactions (Continued)

With respect to stock options and warrants granted to non-employees, the Company records the appropriate expense as required by SFAS No. 123. During 2004 and 2003, the Company incurred approximately \$40,000 and \$39,688, respectively of expense as a result of issuing common stock to service providers some of which were issued below the Company's fair market value.

The Company values stock issued for services at its fair market value at the date of issuance.

In December 2004, the Financial Accounting Standards Board ("FASB") published FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123(R)" or the "Statement"). FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. FAS 123(R) is a replacement of FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretive guidance (APB 25).

The effect of the Statement will be to require entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement.

The Company will be required to apply FAS 123(R) as of the beginning of its first interim period that begins after December 15, 2005, which will be the year ending December 31, 2006.

FAS 123(R) allows two methods for determining the effects of the transition: the modified prospective transition method and the modified retrospective method of transition. Under the modified prospective transition method, an entity would use the fair value based accounting method for all employee awards granted, modified, or settled after the effective date. As of the effective date, compensation cost related to the nonvested portion of awards outstanding as of that date would be based on the grant-date fair value of those awards as calculated under the original provisions of Statement No. 123; that is, an entity would not remeasure the grant-date fair value estimate of the unvested portion of awards granted prior to the effective date. An entity will have the further option to either apply the Statement to only the quarters in the period of adoption and subsequent periods, or apply the Statement to all quarters in the fiscal year of adoption. Under the modified retrospective method of transition, an entity would revise its previously issued financial statements to recognize employee compensation cost for prior periods presented in accordance with the original provisions of Statement No. 123.

The Company has not yet completed its study of the transition methods or made any decisions about how it will adopt FAS 123(R). Under this method, and noting options are normally issued at fair market value and vested upon issuance, the Company estimates that the adoption of FAS 123(R) will have minimal impact, if any, to stock compensation expense in the year ended December 31, 2006 related to employee options issued and outstanding at December 31, 2004. The impact of this Statement on the Company in fiscal 2006 and beyond will depend upon various factors, among them being our future compensation strategy. The pro forma compensation costs presented in the table above and in prior filings for the Company have been calculated using a Black-Scholes option pricing model and may not be indicative of amounts which should be expected in future years. No decisions have been made as to which option-pricing model is most appropriate for the Company for future awards.

Note 10. Business Operations

The Company has incurred substantial losses since its inception. While the Company has received several FDA approvals, the Company has not yet begun mass distribution of these products. Sales since inception have primarily been to several international customers. Accordingly, the Company has a limited operating history upon which an evaluation of its future performance and prospects can be made. The Company's plan of operation and prospects must be considered in light of the risks, expenses, difficulties and problems frequently encountered in the establishment of a new business. Additionally, the Company intends to market its products through corporate partnerships and a network of carefully selected international distributors. No assurance can be given that the Company will be able to develop a distribution network or successfully manage such distributors or that existing or future distributors will be able to sell the Company's products in a satisfactory manner or in sufficient quantities, or that its sales and marketing efforts will be successful.

The Company believes that it has available sources of financing to fully develop its technologies into commercially viable products and services. However, to the extent that funds generated from operations and existing capital resources are insufficient, the Company will have to raise additional funds. While there can be no assurance that future equity fundings or other sources of financing will be successful, the Company believes that the proceeds from future offerings will be sufficient to fund its operations and anticipated growth for at least the next 12 months following the report date. If adequate funds are not available, the Company may be required to curtail its operations.

Note 11. Subsequent Events

Within the footnotes to the financial statements for the year ended December 31, 2003, the Company described a matter of litigation which it had commenced against Tundra Management LTD. ("Tundra") and Alliance Investment Management LTD. ("Alliance"). On February 18, 2005, the United States District Judge presiding over this matter signed a Default Final Judgment against Tundra in the amount of \$980,635. This judgment provides for set-off of the damage amount against the loan from Tundra, thereby satisfying in full the debt under the loan agreements. Accordingly, all of the agreements which evidence the original loan are therefore paid, fully satisfied and fully performed by the Company, who has been released of any and all further obligations to Tundra. The Company chooses not to recognize any net realizable value in connection with the amount of the judgment which exceeds the recorded obligation. As to defendant, Alliance discovery has just recently commenced. No provision for any damages to be recovered from or paid to Alliance has been provided within the accompanying financial statements.

On March 11, 2005, the Company completed a placement of \$2,500,000 of principle amount of promissory notes to an investment group. The notes, which are convertible into shares of the Company's common stock, have an 18-month maturity, and bear simple interest at the annual rate of 6%. The notes may be repaid by the Company or converted into the Company's common stock under certain terms and conditions. Along with the placement of the notes, the Company has issued to the investors two different classes of warrants to purchase additional shares of the Company's common stock at specified prices. As of May 24, 2005, a total of \$1,056,009 plus accrued interest of \$7,052 have been converted into 1,470,871 shares of the Company's stock.

On April 28, 2005, the Company received a letter from a law firm representing a former distributor of the Company. While the letter and its accompanying petition to the District Court of Harris County, Texas implies the possibility of litigation against the Company, no formal service process has yet occurred. While a comprehensive review of the claims contained within the letter and petition has not begun, the Company believes the results of this matter will have no material impact on its financial condition.

At the annual general meeting of shareholders, held on May 4, 2005, the shareholders approved an increase in the number of authorized common shares from 60,000,000 to 80,000,000.