

**McGladrey & Pullen**  
Certified Public Accountants

## **Akers Biosciences, Inc. and Subsidiaries**

Financial Report  
December 31, 2005

## Akers Biosciences, Inc. and Subsidiaries

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# McGladrey & Pullen

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, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity (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, 2005 and 2004, 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 positive 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 28, 2006

Akers Biosciences, Inc. and Subsidiaries

Consolidated Balance Sheets  
December 31, 2005 and 2004

	2005	2004
<b>Assets</b>		
Current Assets		
Cash	\$ 3,173,017	\$ 182,454
Trade receivables, net of allowance for doubtful accounts of \$452,916 and \$963,630 in 2005 and 2004, respectively	3,203,777	105,982
Inventories	1,219,275	619,646
Prepaid and other current assets	147,333	217,109
<b>Total current assets</b>	<b>7,743,402</b>	<b>1,125,191</b>
Property and Equipment, net	246,580	221,371
Other Assets		
Patent costs, net of accumulated amortization	97,119	117,930
Deferred financing costs, net of accumulated amortization	135,456	4,825
Deposits and other assets	12,632	12,632
	<b>245,207</b>	<b>135,387</b>
	<b>\$ 8,235,189</b>	<b>\$ 1,481,949</b>

(Continued)

Akers Biosciences, Inc. and Subsidiaries

Consolidated Balance Sheets (Continued)  
December 31, 2005 and 2004

	2005	2004
<b>Liabilities and Stockholders' Equity (Deficiency)</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,611,122	\$ 1,601,114
Accrued interest payable	117,547	191,336
Notes payable	2,903,478	1,919,746
Current portion of long-term debt	38,731	105,715
Current portion of obligations under capital leases	12,829	5,974
<b>Total current liabilities</b>	<b>4,683,707</b>	<b>3,823,885</b>
Long-Term Debt		
Long-term debt, net of current portion	414,663	442,394
Obligations under capital leases, net of current portion	13,080	10,154
	<b>427,743</b>	<b>452,548</b>
Commitments (Note 6)		
Stockholders' Equity (Deficiency)		
Preferred stock, no par value		
Authorized 15,000,000 shares, no shares issued and outstanding at December 31, 2005 and 2004	-	-
Common stock, no par value		
Authorized 80,000,000 shares issued and outstanding 55,762,885 and 46,955,614 shares at December 31, 2005 and 2004	58,790,850	48,366,016
Accumulated deficiency	(55,667,111)	(51,160,500)
	<b>3,123,739</b>	<b>(2,794,484)</b>
	<b>\$ 8,235,189</b>	<b>\$ 1,481,949</b>

See Notes to Consolidated Financial Statements.

Akers Biosciences, Inc. and Subsidiaries

Consolidated Statements of Operations  
Years Ended December 31, 2005 and 2004

	2005	2004
Revenues	\$ 4,610,567	\$ 1,325,022
Cost of production	2,939,836	1,495,763
Gross profit (loss)	<u>1,670,731</u>	<u>(170,741)</u>
Sales and general and administrative expenses	3,087,316	3,245,980
Research and development expenses	<u>789,750</u>	<u>1,107,628</u>
	<u>3,877,066</u>	<u>4,353,608</u>
Loss from operations	<u>(2,206,335)</u>	<u>(4,524,349)</u>
Other income (expense)		
Litigation recovery	713,046	-
Interest income	10,529	1,333
Forgiveness of trade payables	9,472	-
Sale of New Jersey NOL's	304,533	323,896
Foreign currency transactions (loss)	1,240	(377)
Interest expense	(650,009)	(220,473)
Loss on disposal of property and equipment	<u>(328)</u>	<u>-</u>
	<u>388,483</u>	<u>104,379</u>
Net loss before US GAAP adjustment	<u>(1,817,852)</u>	<u>(4,419,970)</u>
US GAAP adjustment		
Equity compensation for warrants issued	<u>(2,688,759)</u>	<u>-</u>
Net loss	<u>\$ (4,506,611)</u>	<u>\$ (4,419,970)</u>

See Notes to Consolidated Financial Statements.

Akers Biosciences, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Deficiency)  
Years Ended December 31, 2005 and 2004

	Preferred Stock		Common Stock		Accumulated Deficiency	Total
	Shares	Amount	Shares	Amount		
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)
Issuance of stock for cash	-	-	2,627,306	2,291,750	-	2,291,750
Issuance of warrants for products and services	-	-	-	2,688,759	-	2,688,759
Issuance of common stock in exchange of debt	-	-	5,931,746	5,207,000	-	5,207,000
Issuance of common stock in exchange of trade payables	-	-	248,219	237,325	-	237,325
Net loss for the year ended December 31, 2005	-	-	-	-	(4,506,611)	(4,506,611)
Balance, December 31, 2005	-	\$ -	55,762,885	\$ 58,790,850	\$ (55,667,111)	\$ 3,123,739

See Notes to Consolidated Financial Statements.

Akers Biosciences, Inc. and Subsidiaries

Consolidated Statements of Cash Flows  
Years Ended December 31, 2005 and 2004

	2005	2004
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (4,506,611)	\$ (4,419,970)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	101,139	100,732
Amortization of deferred finance costs	209,369	2,894
Stock, stock options and warrants issued to employees and non-employees	2,688,759	40,000
Litigation recovery	(713,046)	-
Provisions for bad debts	182,267	808,883
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade receivables	(3,280,062)	(433,016)
Inventories	(599,629)	(169,495)
Prepays and other current assets	69,776	(145,718)
Deposits and other assets	-	(1,865)
Increase in:		
Accounts payable and accrued expenses	234,416	104,370
<b>Net cash used in operating activities</b>	<b>(5,613,622)</b>	<b>(4,113,185)</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(87,968)	(17,434)
<b>Net cash used in investing activities</b>	<b>(87,968)</b>	<b>(17,434)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of stock, net	10,000	3,281,965
Proceeds from warrants exercised	2,543,750	-
Proceeds from borrowings	10,039,043	1,120,000
Repayments on officers' and stockholders' borrowings	(30,000)	(31,232)
Repayments of capital lease obligations	(7,788)	(4,317)
Repayments on borrowings	(3,522,852)	(646,737)
Deferred financing costs	(340,000)	-
<b>Net cash provided by financing activities</b>	<b>8,692,153</b>	<b>3,719,679</b>
<b>Increase (decrease) in cash</b>	<b>2,990,563</b>	<b>(410,940)</b>
Cash, beginning of year	182,454	593,394
Cash, end of year	<b>\$ 3,173,017</b>	<b>\$ 182,454</b>

(Continued)

Akers Biosciences, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)  
Years Ended December 31, 2005 and 2004

	2005	2004
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>\$ 5,108,989</u>	<u>\$ 501,419</u>
Conversion of trade payable to common stock	<u>\$ 73,336</u>	<u>\$ 189,411</u>
Equipment purchased under capital lease	<u>\$ 17,569</u>	<u>\$ 19,500</u>
Cash paid during the period for interest	<u>\$ 66,933</u>	<u>\$ 73,441</u>

See 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 establishing 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 \$134,366 and \$113,555 as of December 31, 2005 and 2004, respectively. Amortization expense amounted to \$20,811 and 14,312 for the years ended December 31, 2005 and 2004, respectively.

**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, 2005 and 2004, accumulated amortization was \$27,018 and \$24,123, respectively. Amortization expense for each of the years ended December 31, 2005 and 2004 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, 2005 and 2004 were \$11,422 and \$7,685, 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 2004 financial statements have been reclassified to conform with the 2005 financial statement presentation.

## Akers Biosciences, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### 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.

The Company derived over 77% of its sales from two customers during 2005 and 90% of its sales from four customers during 2004. As of December 31, 2005 and 2004, 81% and 98% of the net outstanding accounts receivables represented balances due from these customers, respectively.

#### Note 3. Property and Equipment

Property and equipment consists of the following:

	Estimated Useful Lives in Years	2005	2004
Machinery and equipment	5 - 15	\$ 1,118,917	\$ 1,042,543
Office furniture and equipment	5 - 7	69,364	66,702
Leasehold improvements	6	95,978	89,900
Transportation equipment	3 - 5	-	3,850
Assets held under capital lease	5	77,369	59,800
		<u>1,361,628</u>	<u>1,262,795</u>
Less: accumulated depreciation and amortization		<u>1,115,048</u>	<u>1,041,424</u>
		<u>\$ 246,580</u>	<u>\$ 221,371</u>

Depreciation and amortization expense for the years ended December 31, 2005 and 2004 amounted to \$79,999 and \$86,420, respectively.

## Akers Biosciences, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 4. Notes Payable

	2005	2004
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% due on demand	-	14,072
Loans payable, individuals, unsecured.	-	140,000
Note payable, bank, interest at prime plus 2% (9.25% at December 31, 2005). Up to \$1,000,000 commercial line of credit. One year initial term was extended to June 1, 2007.	-	250,000
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 Litigation).	-	652,174
Convertible note payable, finance company, with an interest rate of 8% annually, originally due May 1, 2005. \$300,000 of the note along with the related interest has been converted to common stock in February 2005, with the balance having been paid in full during March 2005.	-	763,500
Note payable, insurance premiums financed, due August 2006	33,478	-
Secured 9% convertible debenture issued September 15, 2005, due June 30, 2006, secured by all Company assets. *	270,000	-
Secured 9% convertible debenture issued December 22, 2005, due June 30, 2006. Amount borrowed was \$2,500,000, with \$2,910,000 due at maturity. The related original issue discount will be amortized over the term of the loan. Secured by all Company assets. **	2,500,000	-
	\$ 2,903,478	\$ 1,919,746

\* Debenture holder is entitled to convert all or a portion of the principal amount plus accrued interest into shares of Akers' common stock at a conversion price for each share of common stock equal to one British pound. Beginning the 15th calendar day after the issuance date, the holder, at its option, shall be entitled to convert at a conversion price equal to the lesser of one British pound or the current market price multiplied by 88%.

\*\* Debenture holder is entitled to convert the principal amount plus accrued interest into shares of Akers' common stock at a conversion price per share equal to the average of the closing bid prices for the stock on the AIM exchange for the five trading days ending the day the holder communicates their election to convert.

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Long-Term Debt

	2005	2004
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.	\$ 442,394	\$ 470,109
Note payable, vendor, as payment for trade debt, payable in monthly installments of \$6,000 including interest at 7%, the balance of the loan was converted to 11,000 shares of common stock in February, 2006	11,000	78,000
Total long term debt	453,394	548,109
Less: current maturities	38,731	105,715
Long-term debt	<u>\$ 414,663</u>	<u>\$ 442,394</u>

Annual maturities on long-term debt are as follows:

Years Ending December 31,	
2006	\$ 38,731
2007	29,964
2008	32,377
2009	34,984
2010	37,802
Thereafter	279,536
	<u>\$ 453,394</u>

Capital Leases: The Company leases certain equipment with a cost of \$77,369 under capital leases expiring through May 2008. 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, 2005, total minimum future obligations under capital leases is \$29,526 through 2008.

Amortization of \$7,219 and \$3,900 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, 2005 and 2004, respectively.

Interest expense related to capital lease obligations was \$2,364 and \$1,316 for the years ended December 31, 2005 and 2004, respectively.

Note 6. Commitments

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.

**Note 6. Commitments (Continued)**

Operating Leases (Continued): Rent expense including related CAM charges for the years ended December 31, 2005 and 2004 was \$250,855 and \$238,045, respectively.

**Note 7. Income Taxes**

The Company has deferred tax assets of approximately \$19,300,000 and \$18,500,000 as of December 31, 2005 and 2004, respectively, primarily related to net operating loss carryforwards, which have yet to be utilized. At December 31, 2005 and 2004, 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, 2005, the Company has federal and state loss carryforwards available totaling \$45,967,000 and \$18,612,000, respectively. Loss carryforwards are available to offset future taxable income liabilities at December 31, 2005 and expire at various dates through the year 2020.

In each of the years ended December 31, 2005 and 2004, the Company sold New Jersey State operating loss carryforwards, which resulted in proceeds of \$304,533 and \$323,896, respectively.

**Note 8. Capital**

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.

The Company had 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, allowed Brittany to purchase up to \$10 million of the Company's common stock over a term of 24 months, and terminated in July 2005. The timing and amounts of the purchases ("Puts") were 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 year ended December 31, 2004, the Company sold 1,619,441 shares for net proceeds to the Company of \$1,950,000. There were no such transactions in 2005.

In June 2004, the Company completed a 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).

## Akers Biosciences, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 8. Capital (Continued)

On March 11, 2005, the Company received \$2,500,000, net of related costs and placement fees, resulting from the execution of Convertible Notes, due September 11, 2006, payable to two investors led by Platinum Partners Value Arbitrage Fund LP. By June 27, 2005, the investors had completely converted all of the principal and accrued interest related to those notes for a total of 3,264,689 shares of the Company's common stock.

On September 15, 2005, the Company received \$2,500,000, net of related costs and fees, resulting from the execution of a convertible Note, due June 30, 2006 payable to Brittany. By December 31, 2005, \$2,230,000 of the principal of the note and the related accrued interest had been converted into 2,252,855 shares of the Company's common stock.

On October 6, 2005, the two investors led by Platinum Partners Value Arbitrage Fund LP elected to exercise warrants they had received in conjunction with the Convertible Note Financing of March 11, 2005. The total number of shares represented by the warrants was 2,604,167. The exercise price was \$1.056 per share, which provided the Company \$2,750,000 in permanent capital, net of investment banking fees of \$206,250.

Net loss per common share, calculated on the basic method (net loss divided by the weighted number of outstanding common shares), was \$0.09 and \$0.10 for the years ended December 31, 2005 and 2004, respectively.

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.

#### 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, 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
Warrants granted	9,775,001	1.16
Warrants exercised	(2,604,167)	1.11
Warrants expired/terminated	(2,110,800)	1.10
Balance, December 31, 2005	8,410,084	1.20

## 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, 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
Options granted	340,000	1.00
Options exercised	-	-
Options expired/terminated	(256,750)	1.50
Balance, December 31, 2005	2,486,165	0.99
Directors' Plan	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2003	971,500	1.73
Options granted	-	-
Options exercised	-	-
Options expired/terminated	-	-
Balance, December 31, 2004	971,500	1.73
Options granted	-	-
Options exercised	-	-
Options expired/terminated	(6,000)	1.00
Balance, December 31, 2005	965,500	1.61

Akers Biosciences, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Stock Options (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, 2003	150,000	1.00
Options granted	-	-
Options exercised	-	-
Options expired/terminated	-	-
Balance, December 31, 2004	150,000	1.00
Options granted	-	-
Options exercised	-	-
Options expired/terminated	-	-
Balance, December 31, 2005	150,000	1.00

The following table summarizes information concerning outstanding exercisable warrants and options at December 31, 2005:

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	990,000	2.879	\$0.73	990,000	\$0.73
1.00 – 1.49	8,990,034	2.915	1.12	8,990,034	1.12
1.50 – 1.99	545,000	4.636	1.53	545,000	1.53
2.00	1,486,715	10.235	2.00	1,486,715	2.00
	12,011,749			12,011,749	

Options and warrants exercisable at December 31, 2005 and 2004 were 12,011,749 and 6,874,465, respectively.

The weighted-average per share fair value of warrants and options on grant date was approximately \$0.25 for 2005 and 2004, 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 2005 and 2004. 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 2005 and 2004 by approximately \$825,000 and \$0, respectively. The method of determining proforma compensation costs for 2005 and 2004 was based on certain assumptions, including expected volatility of 40%, 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)**

Stock Options (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 2005 and 2004, the Company incurred approximately \$13,000 and \$40,000, 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 annual period that begins after December 15, 2005, which will be the year ending December 31, 2006. All awards outstanding at the date of adoption will continue to be subject to APB 25. All awards granted, modified, repurchased or cancelled after the date of adoption will be accounted for under FAS 123(R).

The effects of the adoption of FAS 123(R) on the Company's results of operations and financial position are dependent upon a number of factors, including the number of employee stock options outstanding and unvested, the number of stock-based awards which may be granted in the future, the life and vesting features of stock-based awards which may be granted in the future, the future market value and volatility of the Company's stock, movements in the risk free rate of interest, award exercise and forfeiture patterns, and the valuation model used to estimate the fair market value of each award. Management is currently evaluating these variables in the design of its stock-based compensation program as well as the accounting requirements under FAS 123(R).

**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.

**Note 10. Business Operations (Continued)**

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. Litigation**

In the matter of Akers Biosciences, Inc. (the "Company"), Tundra Management LTD ("Tundra") and Alliance Investment Management LTD ("Alliance"), the case has been decided, with the following results. 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. That judgment provided for set-off of the damage amount against the loan from Tundra, thereby satisfying, in full, the debt under the loan agreements. Accordingly the Company has recognized as income \$713,000, which represents the entire unpaid amount of the loan principal and interest. On September 1, 2005, following a six-day trial in the United States District Court for the Southern District of Florida, the jury ruled that Alliance shall receive no damages from Akers, and a Final Judgment reflecting that verdict was entered by the Court. Alliance has recently appealed the verdict and it will be several months before the Appellate Court decides on the matter.

On April 11, 2005, CTS Distributing, Inc. ("CTS"), a former distributor for the Company, commenced an action against the Company in the District Court of Harris County, Texas. CTS's claims include breach of contract and fraud. The Company and its counsel believe these claims to be completely without merit. Discovery in this matter has not yet begun and the Company has not provided for any contingent liability within these financial statements.

**Note 12. Subsequent Event**

On February 27, 2006, the Company completed the acquisition of certain assets of the largest distributor of its disposable alcohol breathalyzers. The total consideration for the transaction was \$563,000, consisting of \$410,000 in cash and other consideration and through the issuance of 125,000 shares of the Company's common stock.