

PERMA FIX ENVIRONMENTAL SERVICES INC  
Form 10-Q  
August 07, 2009

---

---

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

Form 10-Q

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

For the quarterly period ended June 30, 2009

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 111596

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

58-1954497  
(IRS Employer Identification Number)

8302 Dunwoody Place, Suite 250, Atlanta, GA  
(Address of principal executive offices)

30350  
(Zip Code)

(770) 587-9898  
(Registrant's telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated Filer  Non-accelerated Filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the close of the latest practical date.

Class	Outstanding at August 3, 2009
Common Stock, \$.001 Par Value	54,243,704 shares of registrant's Common Stock

---

## PERMA-FIX ENVIRONMENTAL SERVICES, INC.

## INDEX

Page No.

**PART I FINANCIAL INFORMATION**

Item 1.	Condensed Financial Statements	
	Consolidated Balance Sheets – June 30, 2009 (unaudited) and December 31, 2008	1
	Consolidated Statements of Operations - Three and Six Months Ended June 30, 2009 and 2008 (unaudited)	3
	Consolidated Statements of Cash Flows - Six Months Ended June 30, 2009 and 2008 (unaudited)	4
	Consolidated Statement of Stockholders' Equity - Six Months Ended June 30, 2009 (unaudited)	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	51
Item 4.	Controls and Procedures	52
<b>PART II OTHER INFORMATION</b>		
Item 1.	Legal Proceedings	54
Item 1A.	Risk Factors	54
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 4.	Submission of Matters to a Vote of Security Holders	55
Item 6.	Exhibits	56

---

PART I - FINANCIAL INFORMATION  
ITEM 1. - FINANCIAL STATEMENTS

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
CONSOLIDATED BALANCE SHEETS

(Amount in Thousands, Except for Share Amounts)	June 30, 2009 (Unaudited)	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash	\$ 59	\$ 129
Restricted cash	55	55
Accounts receivable, net of allowance for doubtful accounts of \$516 and \$333, respectively	13,037	13,416
Unbilled receivables - current	10,947	13,104
Inventories	259	344
Prepaid and other assets	2,283	2,565
Current assets related to discontinued operations	73	110
Total current assets	26,713	29,723
Property and equipment:		
Buildings and land	26,718	24,726
Equipment	31,549	31,315
Vehicles	628	637
Leasehold improvements	11,455	11,455
Office furniture and equipment	1,917	1,904
Construction-in-progress	1,466	1,159
	73,733	71,196
Less accumulated depreciation and amortization	(26,125)	(23,762)
Net property and equipment	47,608	47,434
Property and equipment related to discontinued operations	651	651
Intangibles and other long term assets:		
Permits	17,295	17,125
Goodwill	12,054	11,320
Unbilled receivables – non-current	3,119	3,858
Finite Risk Sinking Fund	14,083	11,345
Other assets	2,327	2,256
Total assets	\$ 123,850	\$ 123,712

The accompanying notes are an integral part of these consolidated financial statements.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
CONSOLIDATED BALANCE SHEETS, CONTINUED

(Amount in Thousands, Except for Share Amounts)	June 30, 2009 (Unaudited)	December 31, 2008
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,483	\$ 11,076
Current environmental accrual	199	186
Accrued expenses	6,187	8,896
Disposal/transportation accrual	4,337	5,847
Unearned revenue	3,995	4,371
Current liabilities related to discontinued operations	1,391	1,211
Current portion of long-term debt	3,056	2,022
Total current liabilities	26,648	33,609
Environmental accruals	511	620
Accrued closure costs	12,131	10,141
Other long-term liabilities	476	457
Long-term liabilities related to discontinued operations	1,138	1,783
Long-term debt, less current portion	17,707	14,181
Total long-term liabilities	31,963	27,182
Total liabilities	58,611	60,791
Commitments and Contingencies		
Preferred Stock of subsidiary, \$1.00 par value; 1,467,396 shares authorized, 1,284,730 shares issued and outstanding, liquidation value \$1.00 per share	1,285	1,285
Stockholders' equity:		
Preferred Stock, \$.001 par value; 2,000,000 shares authorized, no shares issued and outstanding	$\frac{3}{4}$	$\frac{3}{4}$
Common Stock, \$.001 par value; 75,000,000 shares authorized, 54,219,324 and 53,934,560 shares issued and outstanding, respectively	54	54
Additional paid-in capital	98,400	97,381
Accumulated deficit	(34,500)	(35,799)
Total stockholders' equity	63,954	61,636
Total liabilities and stockholders' equity	\$ 123,850	\$ 123,712

The accompanying notes are an integral part of these consolidated financial statements.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net revenues	\$ 23,698	\$ 18,502	\$ 45,700	\$ 35,972
Cost of goods sold	17,673	12,628	34,587	25,651
Gross profit	6,025	5,874	11,113	10,321
Selling, general and administrative expenses	4,465	4,596	8,805	9,056
Loss (gain) on disposal of property and equipment	¾	141	(12)	141
Income from operations	1,560	1,137	2,320	1,124
Other income (expense):				
Interest income	41	49	93	117
Interest expense	(468)	(367)	(1,015)	(738)
Interest expense-financing fees	(63)	(57)	(76)	(110)
Other	9	(12)	10	(6)
Income from continuing operations before taxes	1,079	750	1,332	387
Income tax expense	91	17	100	16
Income from continuing operations	988	733	1,232	371
(Loss) income from discontinued operations, net of taxes	(237)	(383)	67	(1,060)
Gain on disposal of discontinued operations, net of taxes	¾	108	¾	2,216
Net income applicable to Common Stockholders	\$ 751	\$ 458	\$ 1,299	\$ 1,527
Net income (loss) per common share – basic				
Continuing operations	\$ .02	\$ .02	\$ .02	\$ .01
Discontinued operations	(.01)	(.01)	¾	(.02)
Disposal of discontinued operations	¾	¾	¾	.04
Net income per common share	\$ .01	\$ .01	\$ .02	\$ .03
Net income (loss) per common share – diluted				
Continuing operations	\$ .02	\$ .02	\$ .02	\$ .01
Discontinued operations	(.01)	(.01)	¾	(.02)
Disposal of discontinued operations	¾	¾	¾	.04
Net income per common share	\$ .01	\$ .01	\$ .02	\$ .03
Number of common shares used in computing net income (loss) per share:				
Basic	54,124	53,729	54,054	53,717
Diluted	54,537	54,173	54,189	54,035

The accompanying notes are an integral part of these consolidated financial statements.



PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(Amounts in Thousands)	Six Months Ended June 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,299	\$ 1,527
Less: Income on discontinued operations	67	1,156
<b>Income from continuing operations</b>	<b>1,232</b>	<b>371</b>
<b>Adjustments to reconcile net income to cash provided by operations:</b>		
Depreciation and amortization	2,381	2,238
Non-cash financing costs	49	
Provision for bad debt and other reserves	212	3
(Gain) loss on disposal of plant, property and equipment	(12)	141
Issuance of common stock for services	129	28
Share based compensation	224	184
<b>Changes in operating assets and liabilities of continuing operations, net of effect from business acquisitions:</b>		
Accounts receivable	168	4,197
Unbilled receivables	2,896	1,354
Prepaid expenses, inventories and other assets	297	1,874
Accounts payable, accrued expenses and unearned revenue	(9,167)	(3,639)
Cash (used in) provided by continuing operations	(1,591)	6,751
Cash used in discontinued operations	(371)	(3,023)
Cash (used in) provided by operating activities	(1,962)	3,728
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(552)	(611)
Proceeds from sale of plant, property and equipment	12	27
Payment to finite risk sinking fund	(2,738)	(2,757)
Cash used for acquisition considerations, net of cash acquired		(14)
Cash used in investing activities of continuing operations	(3,278)	(3,355)
Proceeds from sale of discontinued operations		7,131
Cash provided by discontinued operations	11	42
Net cash (used in) provided by investing activities	(3,267)	3,818
<b>Cash flows from financing activities:</b>		
Net borrowing (repayments) of revolving credit	3,691	(1,435)
Principal repayments of long term debt	(1,514)	(6,052)
Proceeds from issuance of long term debt	2,982	
Proceeds from issuance of stock		95
Repayment of stock subscription receivable		25
Cash provided by (used in) financing activities of continuing operations	5,159	(7,367)
Principal repayment of long-term debt for discontinued operations		(238)
Cash provided by (used in) financing activities	5,159	(7,605)



Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

Decrease in cash	(70)	(59)
Cash at beginning of period	129	118
Cash at end of period	\$ 59	\$ 59
Supplemental disclosure:		
Interest paid, net of amounts capitalized	\$ 3,628	\$ 768
Income taxes paid	57	3
Non-cash investing and financing activities:		
Long-term debt incurred for purchase of property and equipment		
Issuance of Common Stock for debt	476	
Issuance of Warrants for debt	190	

The accompanying notes are an integral part of these consolidated financial statements.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(Unaudited, for the six months ended June 30, 2009)

(Amounts in thousands, except for share amounts)	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-In Capital	Deficit	Stockholders' Equity
Balance at December 31, 2008	53,934,560	\$ 54	\$ 97,381	\$ (35,799)	\$ 61,636
Net income	¾	¾	¾	1,299	1,299
Issuance of Common Stock for debt	200,000	¾	476	¾	476
Issuance of Warrants for debt	¾	¾	190	¾	190
Issuance of Common Stock for services	84,764	¾	129	¾	129
Share Based Compensation	¾	¾	224	¾	224
Balance at June 30, 2009	54,219,324	\$ 54	\$ 98,400	\$ (34,500)	\$ 63,954

The accompanying notes are an integral part of these consolidated financial statements.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009  
(Unaudited)

Reference is made herein to the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by the Company (which may be referred to as we, us or our), without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures which are made are adequate to make the information presented not misleading. Further, the consolidated financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations as of and for the periods indicated. The results of operations for the six months ended June 30, 2009, are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2009.

It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

As previously disclosed, in May 2007, as result of the Company’s decision to divest the facilities within our Industrial Segment, our Industrial Segment facilities were reclassified in the second quarter of 2007 (with the exception of Perma-Fix of Michigan, Inc. (“PFMI”) and Perma-Fix of Pittsburgh, Inc. (“PFP”), two non-operational facilities which were already reclassified as discontinued operations in 2004 and 2005, respectively) as discontinued operations, in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS No. 144”). In 2008, we sold substantially all of the assets of Perma-Fix of Maryland, Inc. (“PFMD”), Perma-Fix of Dayton, Inc. (“PFD”), and Perma-Fix Treatment Services, Inc. (“PFTS”) within our Industrial Segment on January 8, 2008, March 14, 2008, and May 30, 2008, respectively. The respective buyer of each facility’s assets also assumed certain liabilities/obligations of the facility (see “ – Discontinued Operations and Divestitures” in this section for accounting treatment of the divested facilities). In September 2008, the Company’s Board of Directors approved the retention of Perma-Fix of Fort Lauderdale, Inc. (“PFFL”), Perma-Fix of Orlando, Inc. (“PFO”), and Perma-Fix of South Georgia, Inc. (“PFSG”) within our Industrial Segment. As the result of this decision and in accordance with SFAS No. 144, the accompanying condensed financial statements have been restated for all periods presented to reflect the reclassification of these three facilities back into our continuing operations.

The Company evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q on August 7, 2009. We are not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our Condensed Consolidated Financial Statements.

2. Summary of Significant Accounting Policies

Our accounting policies are as set forth in the notes to consolidated financial statements referred to above.



#### Recently Adopted Accounting Pronouncements

In April 2009, the Financial Accounting Standard Board (“FASB”) issued three related FASB Staff Positions (“FSPs”) intended to provide additional application guidance and enhanced disclosures regarding fair value measurement and other-than-temporary impairments of securities.

- FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly” (“FSP FAS 157-4”), provides guidance for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, “Fair Value Measurement”. FSP FAS 157-4 must be applied prospectively and retrospective application is not permitted. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity adopting FSP FAS 157-4 early must also adopt FSP FAS 115-2 and FAS 124-2 early.
- FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (“FSP FAS 115-2 and FSP 124-2”), provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on debt securities. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual period ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may adopt this FSP early only if it also elects to adopt FSP FAS 157-4 early.
- FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS 107-1 and APB 28-1”), enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. However, an entity may adopt these interim fair value disclosure requirements early only if it also elects to adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2 early.

The above standards did not materially impact the Company’s financial position, results of operations, or its disclosure requirements.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS 165”), which modifies the definition of what qualifies as a subsequent event, those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued, and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. This standard is effective for interim and annual financial period ending after June 15, 2009. This standard did not have a material effect on our results of operations or financial position.

#### Recently Issue Accounting Standards

In April 2009, the FASB issued FSP No. 141R-1 “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” (“FSP 141R-1”). FSP 141R-1 amends the provisions in Statement 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in Statement 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company expects FSP 141R-1 may have an impact on its consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquired contingencies.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140” (“SFAS 166”). SFAS 166 eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information

reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company does not expect SFAS 166 to materially impact its operations or financial position.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. SFAS 167 is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. The Company is currently evaluating the impact of this standard on its consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS 168"). SFAS 168 replaces FASB Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles", and establishes the FASB Accounting Standards Codification TM (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ("GAAP"). SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Company will begin to use the new Codification beginning with the Form 10-Q for the quarter ending September 30, 2009.

#### Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

### 3. Stock Based Compensation

We follow the provisions of SFAS 123R, "Share-Based Payment" ("SFAS 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), superseding APB Opinion No. 25, "Accounting for Stock Issued to Employees", and its related implementation guidance. This Statement establishes accounting standards for entity exchanges of equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

The Company has certain stock option plans under which it awards incentive and non-qualified stock options to employees, officers, and outside directors. Stock options granted to employees have either a ten year contractual term with one-fifth yearly vesting over a five year period or a six year contractual term with one-third yearly vesting over a three year period. Stock options granted to outside directors have a ten year contractual term with vesting period of six months. As of June 30, 2009, we had 2,913,347 employee stock options outstanding, of which 1,777,847 are vested. The weighted average exercise price of the 1,777,847 outstanding and fully vested employee stock option is \$1.85 with a remaining weighted contractual life of 2.56 years. Additionally, we had 630,000 outstanding and fully vested director stock options with a weighted average exercise price and remaining contractual life of \$2.21 and 5.83 years, respectively.

The Company did not grant any stock options for the quarter ended June 30, 2009 and the corresponding period of 2008. For the six months ended June 30, 2009, the Company granted a total of 145,000 Incentive Stock Options ("ISO") to our Chief Financial Officer ("CFO") and certain employees of the Company which allows for the purchase of 145,000 shares of Common Stock from the Company's 2004 Stock Option Plan. The options granted were for a contractual term of six years with vesting period over a three year period at one-third increments per year. The exercise price of the options granted was \$1.42 per share which was based on our closing stock price on the date of grant. No stock options were granted for the six months ended June 30, 2008.





The Company estimates fair value of stock options using the Black-Scholes valuation model. Assumptions used to estimate the fair value of stock options granted include the exercise price of the award, the expected term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the expected annual dividend yield. The fair value of the options granted to our CFO and certain employees noted above and the related assumptions used in the Black-Scholes option pricing model used to value the options granted as of June 30, 2009 were as follows.

	Employee Stock Options Granted as of June 30, 2009
Weighted-average fair value per share	\$ 1.42
Risk -free interest rate (1)	2.07% - 2.40%
Expected volatility of stock (2)	59.16% - 60.38%
Dividend yield	None
Expected option life (3)	4.6 years - 5.8 years

(1) The risk-free interest rate is based on the U.S. Treasury yield in effect at the grant date over the expected term of the option.

(2) The expected volatility is based on historical volatility from our traded Common Stock over the expected term of the option.

(3) The expected option life is based on historical exercises and post-vesting data.

The following table summarizes stock-based compensation recognized for the three and six months ended June 30, 2009 and 2008 for our employee and director stock options.

Stock Options	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Employee Stock Options	\$ 89,000	\$ 59,000	\$ 194,000	\$ 141,000
Director Stock Options	¾	¾	30,000	43,000
Total	\$ 89,000	\$ 59,000	\$ 224,000	\$ 184,000

We recognized share based compensation expense using a straight-line amortization method over the requisite period, which is the vesting period of the stock option grant. SFAS 123R requires that stock based compensation expense be based on options that are ultimately expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. When actual forfeitures vary from our estimates, we recognize the difference in compensation expense in the period the actual forfeitures occur or when options vest. We have generally estimated forfeiture rate based on historical trends of actual forfeitures. As of June 30, 2009, we have approximately \$813,000 of total unrecognized compensation cost related to unvested options, of which \$178,000 is expected to be recognized in remaining 2009, \$355,000 in 2010, \$275,000 in 2011, and \$5,000 in 2012.

## 4. Capital Stock, Stock Plans, and Warrants

During the six months ended June 30, 2009, No options were exercised. We issued 84,764 shares of our Common Stock under our 2003 Outside Directors Stock Plan to our outside directors as compensation for serving on our Board of Directors, with 50,559 shares and 34,205 shares issued in the first and second quarter of 2009, respectively. We pay each of our outside directors \$2,167 monthly in fees for serving as a member of our Board of Directors. The Audit Committee Chairman receives an additional monthly fee of \$1,833 due to the position's additional responsibility. In addition, each board member is paid \$1,000 for each board meeting attended as well as \$500 for each telephonic conference call. As a member of the Board of Directors, each director elects to receive either 65% or 100% of the director's fee in shares of our Common Stock based on 75% of the fair market value of our Common Stock determined on the business day immediately preceding the date that the quarterly fee is due. The balance of each director's fee, if any, is payable in cash.

The summary of the Company's total Plans as of June 30, 2009 as compared to June 30, 2008, and changes during the period then ended are presented as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding January 1, 2009	3,417,347	\$ 2.03		
Granted	145,000	1.42		
Exercised	—	—		\$ —
Forfeited	(19,000)	1.38		
Options outstanding End of Period (1)	3,543,347	2.01	4.0	\$ 1,524,369
Options Exercisable at June 30, 2009 (1)	2,407,847	\$ 1.95	3.4	\$ 1,209,349
Options Vested and expected to be vested at June 30, 2009	3,501,989	\$ 1.95	4.0	\$ 1,518,579

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding January 1, 2008	2,590,026	\$ 1.91		
Granted	—	—		
Exercised	(58,334)	1.64		\$ 46,167
Forfeited	(76,834)	1.78		
Options outstanding End of Period (2)	2,454,858	1.92	4.1	\$ 2,384,309
Options Exercisable at June 30, 2008 (2)	2,190,858	\$ 1.93	4.2	\$ 2,112,056
Options Vested and expected to be vested at June 30, 2008	2,437,097	\$ 1.92	4.1	\$ 2,366,015

(1) Option with exercise price ranging from \$1.25 to \$2.98

(2) Option with exercise price ranging from \$1.22 to \$2.98

On July 28, 2006, our Board of Directors authorized a common stock repurchase program to purchase up to \$2,000,000 of our Common Stock, through open market and privately negotiated transactions, with the timing, the amount of repurchase transactions, and the prices paid under the program as deemed appropriate by management and dependent on market conditions and corporate and regulatory considerations. As of the date of this report, we have

not repurchased any of our Common Stock under the program as we continue to evaluate this repurchase program within our internal cash flow and/or borrowings under our line of credit.

On May 8, 2009, the Company entered into a Loan and Securities Purchase Agreement (“Agreement”) with Mr. William N. Lampson and Mr. Diehl Rettig (collectively, the “Lenders”). Mr. Lampson was formerly a major shareholder of Nuvotec USA, Inc. (n/k/a Perma-Fix Northwest, Inc. (“PFNW”)) and its wholly owned subsidiary, Pacific EcoSolution, Inc. (n/k/a Perma-Fix Northwest Richland, Inc. (“PFNWR”)) prior to our acquisition of PFNW and PFNWR, and Mr. Rettig was formerly a shareholder of, and counsel for, Nuvotec USA, Inc. and its subsidiaries at the time of our acquisition and after our acquisition has continued to perform certain legal services for PFNWR. Both of the Lenders are also stockholders of the Company having received shares of our Common Stock in connection with our acquisition of PFNW and PFNWR. Under the Agreement, we entered into a Promissory Note (“Note”) with the Lenders in the amount of \$3,000,000 (see note 6 - “Long Term Debt” for information regarding terms of the Promissory Note). As consideration of the Company receiving the loan pursuant to the Agreement, we issued to Messrs. Lampson and Rettig, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended (the “Act”), and/or Rule 506 of Regulation D promulgated under the Act, an aggregate of 200,000 shares of the Company’s Common Stock (“Shares”) and two Warrants to purchase up to an aggregate 150,000 shares of the Company’s Common Stock (“Warrant Shares”) at an exercise price of \$1.50 per share, with Mr. Lampson receiving 180,000 Shares and a Warrant to purchase up to an aggregate of 135,000 Warrant Shares and Mr. Rettig receiving 20,000 Shares and a Warrant to purchase up to an aggregate of 15,000 Warrant Shares. The Warrants are exercisable six months from May 8, 2009 and expire two years from May 8, 2009. We determined the fair value of the 200,000 shares of Common Stock to be \$476,000 which was based on the closing price of the stock of \$2.38 per share on May 8, 2009. We estimated the fair value of the Warrants using the Black-Scholes option pricing model. The fair value of the Common Stock and Warrants was recorded as a debt discount to the loan and is being amortized over the term of the loan as interest expense – financing fees. (See Note 6 – “Long Term Debt – Promissory Note and Installment Agreement” for valuation and accounting treatment of the Common Stock and Warrants).

Under the terms of the Agreement and Note, if the Company defaults in the payment of any principal or interest under the Note and such default continues for 30 days, the Lenders shall have the right to declare the Note immediately due and payable and to have payment of the remaining unpaid principal amount and accrued interest (“Payoff Amount”) in one of the two methods, at their option:

- in cash, or
- subject to certain limitations and pursuant to an exemption from registration under Section 4(2) of the Act and/or Rule 506 of Regulation D, in shares of Company Common Stock, with the number of shares to be issued determined by dividing the unpaid principal balance as of the date of default, plus accrued interest, by a dollar amount equal to the closing bid price of the Company’s Common Stock on the date of default as reported on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”) (“Payoff Shares”). The Payoff Amount is to be paid as follows: 90% to Mr. Lampson and 10% to Mr. Rettig.

The aggregate number of Shares, Warrant Shares, and Payoff Shares that are to be issued to the Lenders under the Agreement and Note, together with the aggregate shares of the Company’s Common Stock and other Company voting securities owned by the Lenders as of the date of issuance of the Payoff Shares, if any, shall not exceed:

- the number of shares equal to 19.9% of the number of shares of the Company’s Common Stock issued and outstanding as of the date of the Agreement, or
- 19.9% of the voting power of all of the Company’s voting securities issued and outstanding as of the date of the Agreement.



## 5. Earnings (Loss) Per Share

Basic earning per share excludes any dilutive effects of stock options, warrants, and convertible preferred stock. In periods where they are anti-dilutive, such amounts are excluded from the calculations of dilutive earnings per share.

The following is a reconciliation of basic net income (loss) per share to diluted net income (loss) per share for the three and six months ended June 30, 2009 and 2008:

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2009	2008	2009	2008
<b>Earnings per share from continuing operations</b>				
Income from continuing operations applicable to				
Common Stockholders	\$ 988	\$ 733	1,232	\$ 371
Basic income per share	\$ .02	\$ .02	.02	\$ .01
Diluted income per share	\$ .02	\$ .02	.02	\$ .01
<b>(Loss) income per share from discontinued operations</b>				
(Loss) income from discontinued operations				
Basic loss per share	\$ (.01)	\$ (.01)	—	\$ (.02)
Diluted loss per share	\$ (.01)	\$ (.01)	—	\$ (.02)
Income per share from disposal of discontinued operations				
Gain on disposal of discontinued operations	\$ —	108	—	\$ 2,216
Basic income per share	\$ —	—	—	\$ .04
Diluted income per share	\$ —	—	—	\$ .04
Weighted average common shares outstanding – basic	54,124	53,729	54,053	53,717
Potential shares exercisable under stock option plans	367	444	111	318
Potential shares upon exercise of Warrants	46	$\frac{3}{4}$	25	$\frac{3}{4}$
Weighted average shares outstanding – diluted	54,537	54,173	54,189	54,035
Potential shares excluded from above weighted average share calculations due to their anti-dilutive effect include:				
Upon exercise of options	1,546	172	2,645	740
Upon exercise of Warrants	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$

## 6. Long Term Debt

Long-term debt consists of the following at June 30, 2009 and December 31, 2008:

(Amounts in Thousands)	June 30, 2009	December 31, 2008
Revolving Credit facility dated December 22, 2000, borrowings based upon eligible accounts receivable, subject to monthly borrowing base calculation, variable interest paid monthly at option of prime rate (3.25% at June 30, 2009) plus 2.0% or minimum floor base London InterBank Offer Rate ("LIBOR") of 2.5% plus 3.0%, balance due in July 2012. (1) (3)	\$ 10,207	\$ 6,516
Term Loan dated December 22, 2000, payable in equal monthly installments of principal of \$83, balance due in July 2012, variable interest paid monthly at option of prime rate plus 2.5% or minimum floor base LIBOR of 2.5% plus 3.5%. (1) (3)	6,167	6,667
Installment Agreement in the Agreement and Plan of Merger with Nuvotec and PEcoS, dated April 27, 2007, payable in three equal yearly installment of principal of \$833 beginning June 2009. Interest accrues at annual rate of 8.25% on outstanding principal balance starting June 2007 and payable yearly starting June 2008	1,667	2,500
Promissory Note dated May 8, 2009, payable in monthly installments of principal of \$87 starting June 8, 2009, balance due May 8, 2011, variable interest paid monthly at LIBOR plus 4.5%, with LIBOR at least 1.5%.(2)	2,296	
Various capital lease and promissory note obligations, payable 2009 to 2013, interest at rates ranging from 5.0% to 12.6%.	426	520
	20,763	16,203
Less current portion of long-term debt	3,056	2,022
	\$ 17,707	\$ 14,181

(1) Prior to March 5, 2009, variable interest was paid monthly at prime plus 1/2% for our Revolving Credit and prime plus 1.0% for our Term Loan.

(2) Net of debt discount recorded (\$666,000) and amortized (\$49,000) based on the estimated fair value of two Warrants and 200,000 shares of the Company's Common Stock issued on May 8, 2009 in connection with a \$3,000,000 promissory note entered into by the Company and Mr. William Lampson and Mr. Diehl Rettig. See "Promissory Note and Installment Agreement" below for additional information.

(3) Our Revolving Credit is collateralized by our account receivables and our Term Loan is collateralized by our property, plant, and equipment.

#### Revolving Credit and Term Loan Agreement

On December 22, 2000, we entered into a Revolving Credit, Term Loan and Security Agreement ("Agreement") with PNC Bank, National Association, a national banking association ("PNC") acting as agent ("Agent") for lenders, and as issuing bank, as amended. The Agreement provided for a term loan ("Term Loan") in the amount of \$7,000,000, which requires monthly installments of \$83,000. The Agreement also provided for a revolving line of credit ("Revolving Credit") with a maximum principal amount outstanding at any one time of \$18,000,000, as amended. The Revolving Credit advances are subject to limitations of an amount up to the sum of (a) up to 85% of Commercial Receivables aged 90 days or less from invoice date, (b) up to 85% of Commercial Broker Receivables

aged up to 120 days from invoice date, (c) up to 85% of acceptable Government Agency Receivables aged up to 150 days from invoice date, and (d) up to 50% of acceptable unbilled amounts aged up to 60 days, less (e) reserves the Agent reasonably deems proper and necessary. As of June 30, 2009, the excess availability under our Revolving Credit was \$4,446,000 based on our eligible receivables.



Pursuant to the Agreement, as amended, we may terminate the Agreement upon 90 days' prior written notice upon payment in full of the obligation. We agreed to pay PNC 1% of the total financing in the event we pay off our obligations on or prior to August 4, 2009 and 1/2 % of the total financing if we pay off our obligations on or after August 5, 2009, but prior to August 4, 2010. No early termination fee shall apply if we pay off our obligations after August 5, 2010.

On March 5, 2009, we entered into an Amendment to our PNC Agreement. This Amendment increased our borrowing availability by approximately an additional \$2,200,000. In addition, pursuant to the Amendment, monthly interest due on our revolving line of credit was amended from prime plus 1/2% to prime plus 2.0% and monthly interest due on our Term Loan was amended from prime plus 1.0% to prime plus 2.5%. The Company also has the option to pay monthly interest due on the revolving line of credit by using the LIBOR, with the minimum floor base LIBOR rate of 2.5%, plus 3.0% and to pay monthly interest due on the Term Loan using the minimum floor base LIBOR of 2.5%, plus 3.5%. In addition, pursuant to the Amendment, the fixed charge coverage ratio was amended to reduce the availability monthly by \$48,000. The Amendment also allowed us to retain funds received from the sale of our PFO property which was completed in the fourth quarter of 2008. All other terms and conditions to the credit facility remain principally unchanged. As a condition of this Amendment, we paid PNC a fee of \$25,000. Funds made available under this Amendment were used to secure the additional financial assurance coverage needed by our DSSI subsidiary to operate under the PCB permit issued by the EPA on November 26, 2008.

#### Promissory Note and Installment Agreement

In acquiring our Material & Energy Corporation ("M&EC") subsidiary, M&EC issued a promissory note in the principal amount of \$3,700,000, together with interest at an annual rate equal to the applicable law rate pursuant to Section 6621 of the Internal Revenue Code, to Performance Development Corporation ("PDC"), dated June 25, 2001, for monies advanced to M&EC by PDC and certain services performed by PDC on behalf of M&EC prior to our acquisition of M&EC. The principal amount of the promissory note was payable over eight years on a semiannual basis on June 30 and December 31, with a final principal payment to be made by December 31, 2008. All accrued and unpaid interest on the promissory note was payable in one lump sum on December 31, 2008. PDC directed M&EC to make all payments under the promissory note directly to the IRS to be applied to PDC's obligations to the IRS. On December 29, 2008, M&EC and PDC entered into an amendment to the promissory note, whereby the outstanding principal and accrued interest due under the promissory note totaling approximately \$3,066,000 was to be paid in the following installments: \$500,000 payment to be made by December 31, 2008 and five monthly payment of \$100,000 to be made starting January 27, 2009, with the balance consisting of accrued and unpaid interest due on June 30, 2009. We were directed by PDC to continue to make all payments under the promissory note, as amended, directly to the IRS to be applied to PDC's obligations under its obligations with the IRS. On May 13, 2009, we paid the outstanding balance of approximately \$2,225,000, which consists of interest only, on the PDC promissory note directly to the IRS which satisfied M&EC's obligations to PDC in full.

In acquiring Perma-Fix Northwest, Inc. ("PFNW"- f/k/a Nuvotec) and Perma-Fix Northwest Richland, Inc. ("PFNWR" – f/k/a Pacific EcoSolutions, Inc. ("PEcoS")), we agreed to pay former shareholders of Nuvotec who qualified as accredited investors pursuant to Rule 501 of Regulation D promulgated under the Securities Act of 1933 (which includes Mr. Robert L. Ferguson, a current member of our Board of Directors) \$2,500,000, with principal payable in equal installment of \$833,333 on June 30, 2009, June 30, 2010, and June 30, 2011. Interest is accrued on outstanding principal balance at 8.25% starting in June 2007 and is payable on June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011. In June 2009, we paid the first principal installment of \$833,333, along with accrued interest. As of June 30, 2009, interest paid totaled approximately \$422,000, of which \$206,000 was paid in the second quarter of 2009 and \$216,000 was paid in the second quarter of 2008. See Note 11 - "Related Party Transaction" in this section for information regarding Mr. Robert L. Ferguson.



On May 8, 2009, the Company entered into a promissory note with William N. Lampson and Mr. Diehl Rettig (collectively, the “Lenders”) for \$3,000,000. Mr. Lampson was formerly a major shareholder of Nuvotec USA, Inc. (n/k/a Perma-Fix Northwest, Inc. (“PFNW”)) and its wholly owned subsidiary, Pacific EcoSolution, Inc. (n/k/a Perma-Fix Northwest Richland, Inc. (“PFNWR”)) prior to our acquisition of PFNW and PFNWR, and Mr. Rettig was formerly a shareholder of, and counsel for, Nuvotec USA, Inc. and its subsidiaries at the time of our acquisition and after our acquisition has continued to perform certain legal services for PFNWR. Both of the Lenders are also stockholders of the Company having received shares of our Common Stock in connection with our acquisition of PFNW and PFNWR. The proceeds of the loan were used primarily to pay off the promissory note, dated June 25, 2001, as amended on December 28, 2008, entered into by our M&EC subsidiary with PDC as mentioned above, with the remaining funds used for working capital purposes. The promissory note provides for monthly principal repayment of approximately \$87,000 plus accrued interest, starting June 8, 2009, and on the 8th day of each month thereafter, with interest payable at LIBOR plus 4.5%, with LIBOR at least 1.5%. Any unpaid principal balance along with accrued interest is due May 8, 2011. We paid approximately \$22,000 in closing costs for the promissory note which will be amortized over the terms of the note. The promissory note may be prepaid at anytime by the Company without penalty. As consideration of the Company receiving this loan, we issued a Warrant to Mr. Lampson and a Warrant to Mr. Diehl to purchase up to 135,000 and 15,000 shares, respectively, of the Company’s Common Stock at an exercise price of \$1.50 per share. The Warrants are exercisable six months from May 8, 2009 and expire two years from May 8, 2009. We estimated the fair value of the Warrants to be approximately \$190,000 using the Black-Scholes option pricing model with the following assumption: 70.47% volatility, risk free interest rate of 1.0%, an expected life of two years and no dividends. We also issued an aggregate of 200,000 shares of the Company’s Common Stock with Mr. Lampson receiving 180,000 shares and Mr. Rettig receiving 20,000 shares of the Company’s Common Stock. We determined the fair value of the 200,000 shares of Common Stock to be \$476,000 which was based on the closing price of the stock of \$2.38 per share on May 8, 2009. The fair value of the Warrants and Common Stock was recorded as a debt discount and is being amortized over the term of the loan as interest expense – financing fees. Debt discount amortized as of June 30, 2009 totaled approximately \$49,000.

The promissory note includes an embedded Put Option (“Put”) that can be exercised upon default. We have concluded that the Put should be bifurcated; however, the Put has nominal value as of June 30, 2009. We will continue to monitor the fair value of the Put on a quarterly basis.

## 7. Commitments and Contingencies

### Hazardous Waste

In connection with our waste management services, we handle both hazardous and non-hazardous waste, which we transport to our own, or other facilities for destruction or disposal. As a result of disposing of hazardous substances, in the event any cleanup is required, we could be a potentially responsible party for the costs of the cleanup notwithstanding any absence of fault on our part.

### Legal

In the normal course of conducting our business, we are involved in various litigations.

Perma-Fix of Dayton (“PFD”), Perma-Fix of Florida (“PFF”), Perma-Fix of Orlando (“PFO”), Perma-Fix of South Georgia (“PFSG”), and Perma-Fix of Memphis (“PFM”)

In May 2007, the above facilities were named Potentially Responsible Parties (“PRPs”) at the Marine Shale Superfund site in St. Mary Parish, Louisiana (“Site”). Information provided by the EPA indicates that, from 1985 through 1996, the Perma-Fix facilities above were responsible for shipping 2.8% of the total waste volume received by Marine Shale. Subject to finalization of this estimate by the PRP group, PFF, PFO and PFD could be considered de-minimus at .06%, .07% and .28% respectively. PFSG and PFM would be major at 1.12% and 1.27% respectively. However, at this time the contributions of all facilities are consolidated.



As of the date of this report, the Louisiana Department of Environmental Quality (“LDEQ”) has collected approximately \$8,400,000 for the remediation of the site and has completed removal of above ground waste from the site. The EPA’s unofficial estimate to complete remediation of the site is between \$9,000,000 and \$12,000,000; however, based on preliminary outside consulting work hired by the PRP group, which we are a party to, the remediation costs could be below EPA’s estimation. The PRP Group has established a cooperative relationship with LDEQ and EPA, and is working closely with these agencies to assure that the funds held by LDEQ are used cost-effectively. As a result of negotiations with LDEQ and EPA, further remediation work by LDEQ has been put on hold pending completion of a site assessment by the PRP Group. This site assessment could result in remediation activities to be completed within the funds held by LDEQ. As part of the PRP Group, we have paid an initial assessment of \$10,000 in the fourth quarter of 2007, which was allocated among the facilities. In addition, we accrued approximately \$27,000 in the third quarter of 2008 for our estimated portion of the cost of the site assessment, which was allocated among the facilities. As of June 30, 2009, \$18,000 of the accrued amount has been paid, of which \$9,000 was paid in the fourth quarter of 2008 and \$9,000 was paid in the second quarter of 2009. We anticipate paying the remaining \$9,000 in the fourth quarter of 2009. As of the date of this report, we cannot accurately access our ultimate liability. The Company records its environmental liabilities when they are probable of payment and can be estimated within a reasonable range. Since this contingency currently does not meet this criteria, a liability has not been established.

#### Notice of Violation - Perma-Fix Treatment Services, Inc. (“PFTS”)

In July 2008, PFTS received a notice of violation (“NOV”) from the Oklahoma Department of Environmental Quality (“ODEQ”) alleging that eight loads of waste materials received by PFTS between January 2007 and July 2007 were improperly analyzed to assure that the treatment process rendered the waste non-hazardous before disposition in PFTS’ non-hazardous injection well. The ODEQ alleges the handling of these waste materials violated regulations regarding hazardous waste. On May 18, 2009, ODEQ and PFTS finalized a settlement agreement which resulted in funding of a supplemental environmental project (“SEP”) in the amount of \$5,000 in lieu of a civil penalty. PFTS sold most all of its assets to a non-affiliated third party on May 30, 2008.

#### Industrial Segment Divested Facilities/Operations

We sold substantially all of the assets of PFTS pursuant to an Asset Purchase Agreement on May 30, 2008. Under this Agreement the buyer assumed certain debts and obligations of PFTS, including, but not limited to, certain debts and obligations of PFTS to regulatory authorities under certain consent agreements entered into by PFTS with the appropriate regulatory authority to remediate portions of the facility sold to the buyer. If any of these liabilities/obligations are not paid or performed by the buyer, the buyer would be in breach of the Asset Purchase Agreement and we may assert claims against the buyer for such breach. We have sued the buyer of the PFTS’ assets regarding certain liabilities which we believe the buyer assumed and agreed to pay under the Asset Purchase Agreement but which the buyer has refused to satisfy as of the date of this report.

#### Earn-Out Amount – Perma-Fix Northwest, Inc. (“PFNW”) and Perma-Fix Northwest Richland, Inc. (“PFNWR”)

In connection with the acquisition of PFWN (f/n/a “Nuvotec”) and PFNWR (f/k/a Pacific EcoSolutions, Inc. (“PEcoS”)) in June 2007, we are required, if certain revenue targets are met, to pay to the former shareholders of Nuvotec an earn-out amount for each twelve months ending June 30, 2008, to June 30, 2011, with the aggregate of the full earn-out amount not to exceed \$4,552,000, pursuant to the Merger Agreement, as amended, with the first \$1,000,000 of the earn-out amount to be placed into an escrow account to satisfy any indemnification obligations to us of Nuvotec, PEcoS, and the former shareholders of Nuvotec. The earn-out amounts will be earned if certain annual revenue targets for each such twelve month period are met by the Company’s consolidated Nuclear Segment. No earn-out amounts were required to be paid for the twelve month period ended June 30, 2008. For the twelve month period ended June 30, 2009, we have calculated that we are required to pay approximately \$734,000 in earn-out amount, all of which is to be paid into the escrow account during the quarter ending September 30, 2009. The earn-out amount was recorded as an increase to goodwill for PFNWR. Any remaining earn-out amount earned after placing the first \$1,000,000 into the escrow account will be allocated to the former shareholders of Nuvotec (which

includes Mr. Robert L. Ferguson, a current member of our Board of Director). The first \$1,000,000 in earn-out amount will remain in the escrow account to satisfy any indemnification obligations to us of Nuvotec, PEcoS, and the former shareholders of Nuvotec until the end of a two year period from the date the first full \$1,000,000 is placed into the escrow account, at which time any remaining amount in the escrow account will be allocated to the former shareholders of Nuvotec. See Note 11 - "Related Party Transaction" in this section for information regarding Mr. Robert L. Ferguson.

## Insurance

We believe we maintain insurance coverage adequate for our needs and which is similar to, or greater than, the coverage maintained by other companies of our size in the industry. There can be no assurances, however, those liabilities, which may be incurred by us, will be covered by our insurance or that the dollar amount of such liabilities, which are covered, will not exceed our policy limits. Under our insurance contracts, we usually accept self-insured retentions, which we believe is appropriate for our specific business risks. We are required by EPA regulations to carry environmental impairment liability insurance providing coverage for damages on a claims-made basis in amounts of at least \$1,000,000 per occurrence and \$2,000,000 per year in the aggregate. To meet the requirements of customers, we have exceeded these coverage amounts.

In June 2003, we entered into a 25-year finite risk insurance policy with American International Group, Inc. ("AIG"), which provides financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure. Prior to obtaining or renewing operating permits, we are required to provide financial assurance that guarantees to the states that in the event of closure, our permitted facilities will be closed in accordance with the regulations. The policy provided an initial maximum \$35,000,000 of financial assurance coverage and has available capacity to allow for annual inflation and other performance and surety bond requirements. Our initial finite risk insurance policy required an upfront payment of \$4,000,000, of which \$2,766,000 represented the full premium for the 25-year term of the policy, and the remaining \$1,234,000, was deposited in a sinking fund account representing a restricted cash account. We are required to make seven annual installments, as amended, of \$1,004,000, of which \$991,000 is to be deposited in the sinking fund account, with the remaining \$13,000 represents a terrorism premium. In addition, we are required to make a final payment of \$2,008,000, of which \$1,982,000 is to be deposited in the sinking fund account, with the remaining \$26,000 represents a terrorism premium. In March 2009, we paid our sixth of the eight required remaining payments. In March 2009, we secured additional financial assurance coverage of approximately \$5,421,000 with AIG which enabled our Diversified Scientific Services, Inc. ("DSSI") facility to receive and process wastes under a permit issued by the U.S. Environment Protection Agency ("EPA") Region 4 on November 26, 2008 to commercially store and dispose of Polychlorinated Biphenyls ("PCBs"). We secured this additional financial assurance coverage requirement by increasing our initial 25-year finite risk insurance policy with AIG from maximum policy coverage of \$35,000,000 to \$39,000,000, of which our total financial coverage amounts to \$35,871,000 as of June 30, 2009. Payment for this additional financial assurance coverage requires a total payment of approximately \$5,219,000, consisting of an upfront payment of \$2,000,000 made on March 6, 2009, of which approximately \$1,655,000 was deposited into a sinking fund account, with the remaining representing fee payable to AIG. In addition, we are required to make three yearly payments of approximately \$1,073,000 starting December 31, 2009, of which \$888,000 will be deposited into a sinking fund account, with the remaining to represent fee payable to AIG.

As of June 30, 2009, we have recorded \$9,607,000 in our sinking fund related to the policy noted above on the balance sheet, which includes interest earned of \$773,000 on the sinking fund as of June 30, 2009. Interest income for the three and six months ended June 30, 2009 was \$16,000 and \$42,000, respectively. On the fourth and subsequent anniversaries of the contract inception, we may elect to terminate this contract. If we so elect, the Insurer is obligated to pay us an amount equal to 100% of the sinking fund account balance in return for complete releases of liability from both us and any applicable regulatory agency using this policy as an instrument to comply with financial assurance requirements.

In August 2007, we entered into a second finite risk insurance policy for our PFNWR facility, which we acquired in June 2007, with AIG. The policy provides an initial \$7,800,000 of financial assurance coverage with annual growth rate of 1.5%, which at the end of the four year term policy, will provide maximum coverage of \$8,200,000. The policy will renew automatically on an annual basis at the end of the four year term and will not be subject to any renewal fees. The policy requires total payment of \$7,158,000, consisting of an annual payment of \$1,363,000 and two annual payments of \$1,520,000, starting July 31, 2008 and an additional \$2,755,000 payment to be made in five quarterly payments of \$551,000 beginning September 2007. In July 2007, we paid the \$1,363,000, of which \$1,106,000 represented premium on the policy and the remaining was deposited into a sinking fund account. In July 2008, we paid the first of the two \$1,520,000 payments, with \$1,344,000 deposited into a sinking fund account and the remaining representing premium. We have made all of the five quarterly payments which were deposited into a sinking fund. As of June 30, 2009, we have recorded \$4,476,000 in our sinking fund related to this policy on the balance sheet, which includes interest earned of \$121,000 on the sinking fund as of June 30, 2009. Interest income for the three months and six months ended June 30, 2009 totaled \$24,000 and \$50,000, respectively.

#### 8. Discontinued Operations and Divestitures

Our discontinued operations encompass our PFMD, PFD, and PFTS facilities within our Industrial Segment as well as two previously shut down locations, PFP and PFMI, two facilities which were approved as discontinued operations by our Board of Directors effective November 8, 2005, and October 4, 2004, respectively. As discussed in “Note 1 – Basis of Presentation”, in May 2007, PFMD, PFD, and PFTS met the held for sale criteria under SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, and therefore, certain assets and liabilities of these facilities were classified as discontinued operations in the Consolidated Balance Sheet, and we ceased depreciation of these facilities’ long-lived assets classified as held for sale in May 2007.

On January 8, 2008, we sold substantially all of the assets of PFMD, pursuant to the terms of an Asset Purchase Agreement, dated January 8, 2008. In consideration for such assets, the buyer paid us \$3,811,000 (purchase price of \$3,825,000 less closing costs) in cash at the closing and assumed certain liabilities of PFMD. The cash consideration was subject to certain working capital adjustments after closing. Proceeds received from the sale were used to pay down our term loan, with the remaining funds used to pay down our revolver. We recorded \$1,786,000 (net of taxes of \$71,000) in final gain on the sale of PFMD which was recorded separately on the Consolidated Statement of Operations as “Gain on disposal of discontinued operations, net of taxes” for the year ended December 31, 2008.

On March 14, 2008, we completed the sale of substantially all of the assets of PFD, pursuant to the terms of an Asset Purchase Agreement, dated March 14, 2008, for approximately \$2,143,000 in cash, subject to certain working capital adjustments after the closing, plus the assumption by the buyer of certain of PFD’s liabilities and obligations. We received cash of approximately \$2,139,000 at closing, which was net of certain closing costs. The proceeds received were used to pay down our term loan. Our final gain on the sale PFD totaled \$256,000, net of taxes of \$0, which was recorded on the Consolidated Statement of Operations as “Gain on disposal of discontinued operations, net of taxes”, for the year ended December 31, 2008.

On May 30, 2008, we completed the sale of substantially all of the assets of PFTS, pursuant to the terms of an Asset Purchase Agreement, dated May 14, 2008 as amended by a First Amendment dated May 30, 2008. In consideration for such assets, the buyer paid us \$1,468,000 (purchase price of \$1,503,000 less certain closing/settlement costs) in cash at closing and assumed certain liabilities of PFTS. The cash consideration was subject to certain working capital adjustments after closing. Pursuant to the terms of our credit facility, the proceeds received were used to pay down our term loan with the remaining funds used to pay down our revolver. We recorded a final gain on the sale of PFTS of \$281,000, net of taxes of \$0, which was recorded on the Consolidated Statement of Operations as “Gain on disposal of discontinued operations, net of taxes”, for the year ended December 31, 2008. We have sued the buyer of the PFTS’ assets regarding certain liabilities which we believe that the buyer assumed and agreed to pay under the Asset



Purchase Agreement but which the buyer has refused to satisfy as of the date of this report.

18

---

The following table summarizes the results of discontinued operations for the three and six months ended June 30, 2009 and 2008. The gains on disposals of discontinued operations, net of taxes, were reported separately on our Consolidated Statements of Operations as “Gain on disposal of discontinued operations, net of taxes”. The operating results of discontinued operations are included in our Consolidated Statements of Operations as part of our “Income (loss) from discontinued operations, net of taxes”.

(Amounts in Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net revenues	\$ —	\$ 808	\$ —	\$ 3,195
Interest expense	\$ (139)	\$ (32)	\$ (159)	\$ (72)
Operating (loss) income from discontinued operations (1)	\$ (237)	\$ (383)	\$ 67	\$ (1,060)
Gain on disposal of discontinued operations (2)	\$ —	\$ 108	\$ —	\$ 2,216
Income (loss) from discontinued operations	\$ (237)	\$ (275)	\$ 67	\$ 1,156

(1) Net of taxes of \$0 for all periods noted.

(2) Net of taxes of \$0 and \$43,000 for three and six months ended June 30, 2008, respectively.

Our “income from discontinued operations, net of taxes” on the Consolidated Statement of Operations for the six months ended June 30, 2009 included a recovery of approximately \$400,000 in closure costs for PFTS recorded in the first quarter of 2009. In connection with the divestiture of PFTS above, the buyer of PFTS’s assets was required to replace our financial assurance bond with its own financial assurance mechanism for facility closures. Our financial assurance bond for PFTS was required to remain in place until the buyer has provided replacement coverage. On March 24, 2009, the appropriate regulatory authority authorized the release of our financial assurance bond for PFTS which resulted in this recovery of closure costs of approximately \$400,000. In the second quarter of 2009, we recorded approximately \$119,000 in interests related to a certain excise tax audit for fiscal years 1999 to 2005 for PFTS.

Assets and liabilities related to discontinued operations total \$724,000 and \$2,529,000 as of June 30, 2009, respectively and \$761,000 and \$2,994,000 as of December 31, 2008, respectively.

The following table presents the Industrial Segment’s major classes of assets and liabilities of discontinued operations that are classified as held for sale as of June 30, 2009 and December 31, 2008. The held for sale asset and liabilities balances as of December 31, 2008 may differ from the respective balances at closing:

(Amounts in Thousands)	June 30, 2009	December 31, 2008
Account receivable, net	\$ —	\$ —
Inventories	—	—
Other assets	—	22
Property, plant and equipment, net (1)	651	651
Total assets held for sale	\$ 651	\$ 673
Account payable	\$ —	—
Accrued expenses and other liabilities	44	5
Note payable	—	—
Environmental liabilities	—	—
Total liabilities held for sale	\$ 44	\$ 5

(1) net of accumulated depreciation of \$13 for as June 30, 2009 and December 31, 2008.

The following table presents the Industrial Segment's major classes of assets and liabilities of discontinued operations that are not held for sale as of June 30, 2009 and December 31, 2008:

(Amounts in Thousands)	June 30, 2009	December 31, 2008
Other assets	\$ 73	\$ 88
Total assets of discontinued operations	\$ 73	\$ 88
Account payable	\$ 2	\$ 15
Accrued expenses and other liabilities	1,536	1,947
Deferred revenue	—	—
Environmental liabilities	947	1,027
Total liabilities of discontinued operations	\$ 2,485	\$ 2,989

The Industrial Segment includes two previously shut-down facilities which were presented as discontinued operations in prior years. These facilities include Perma-Fix of Pittsburgh ("PFP") and Perma-Fix of Michigan ("PFMI"). Our decision to discontinue operations at PFP was due to our reevaluation of the facility and our inability to achieve profitability at the facility. During February 2006, we completed the remediation of the leased property and the equipment at PFP, and released the property back to the owner. Our decision to discontinue operations at PFMI was principally a result of two fires that significantly disrupted operations at the facility in 2003, and the facility's continued drain on the financial resources of our Industrial Segment. As a result of the discontinued operations at the PFMI facility, we were required to complete certain closure and remediation activities pursuant to our RCRA permit, which were completed in January 2006. In September 2006, PFMI signed a Corrective Action Consent Order with the State of Michigan, requiring performance of studies and development and execution of plans related to the potential clean-up of soils in portions of the property. The level and cost of the clean-up and remediation are determined by state mandated requirements. During 2006, based on state-mandated criteria, we began implementing the modified methodology to remediate the facility. We have spent approximately \$771,000 for closure costs since discontinuation of PFMI in October 2004, of which approximately \$26,000 was spent during the six months ended June 30, 2009 and \$26,000 was spent during 2008. We have \$511,000 accrued for the closure, as of June 30, 2009, and we anticipate spending \$3,000 in the remaining six months of 2009, with the remainder over the next five years. Based on the current status of the Corrective Action, we believe that the remaining reserve is adequate to cover the liability.



As of June 30, 2009, PFMI has a pension payable of \$1,001,000. The pension plan withdrawal liability is a result of the termination of the union employees of PFMI. The PFMI union employees participate in the Central States Teamsters Pension Fund ("CST"), which provides that a partial or full termination of union employees may result in a withdrawal liability, due from PFMI to CST. The recorded liability is based upon a demand letter received from CST in August 2005 that provided for the payment of \$22,000 per month over an eight year period. This obligation is recorded as a long-term liability, with a current portion of \$184,000 that we expect to pay over the next year.

9. Operating Segments

Pursuant to FAS 131, we define an operating segment as a business activity:

- from which we may earn revenue and incur expenses;
- whose operating results are regularly reviewed by the segment president to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

We currently have three operating segments, which are defined as each business line that we operate. This however, excludes corporate headquarters, which does not generate revenue, and our discontinued operations, which include certain facilities within our Industrial Segment (See "Note 8 – Discontinued Operations and Divestitures" to "Notes to Consolidated Financial Statements").

Our operating segments are defined as follows:

The Nuclear Waste Management Services Segment ("Nuclear Segment") provides treatment, storage, processing and disposal of nuclear, low-level radioactive, mixed (waste containing both hazardous and non-hazardous constituents), hazardous and non-hazardous waste through our four facilities: Perma-Fix of Florida, Inc., Diversified Scientific Services, Inc., East Tennessee Materials and Energy Corporation, and Perma-Fix of Northwest Richland, Inc.

The Consulting Engineering Services Segment ("Engineering Segment") provides environmental engineering and regulatory compliance services through Schreiber, Yonley & Associates, Inc. which includes oversight management of environmental restoration projects, air, soil, and water sampling, compliance reporting, emission reduction strategies, compliance auditing, and various compliance and training activities to industrial and government customers, as well as, engineering and compliance support needed by our other segments.

The Industrial Waste Management Services Segment ("Industrial Segment") provides on-and-off site treatment, storage, processing and disposal of hazardous and non-hazardous industrial waste, and wastewater through our three facilities: Perma-Fix of Ft. Lauderdale, Inc., Perma-Fix of Orlando, Inc., and Perma-Fix of South Georgia, Inc.

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

The table below presents certain financial information of our operating segment as of and for the three and six months ended June 30, 2009 and 2008 (in thousands).

Segment Reporting for the Quarter Ended June 30, 2009

	Nuclear	Industrial	Engineering	Segments Total	Corporate (2)	Consolidated Total
Revenue from external customers	\$ 20,732(3)	\$ 1,962	\$ 1,004	\$ 23,698	\$ —	\$ 23,698
Intercompany revenues	690	187	52	929	—	929
Gross profit	5,300	411	314	6,025	—	6,025
Interest income	—	—	—	—	41	41
Interest expense	165	34	1	200	268	468
Interest expense-financing fees	—	—	—	—	63	63
Depreciation and amortization	1,073	110	9	1,192	9	1,201
Segment profit (loss)	2,713	(141)	159	2,731	(1,743)	988
Segment assets(1)	97,508	5,246	2,221	104,975	18,875(4)	123,850
Expenditures for segment assets	176	64	2	242	6	248
Total long-term debt	1,938	130	25	2,093	18,670(5)	20,763

Segment Reporting for the Quarter Ended June 30, 2008

	Nuclear	Industrial	Engineering	Segments Total	Corporate (2)	Consolidated Total
Revenue from external customers	\$ 15,009(3)	\$ 2,704	\$ 789	\$ 18,502	\$ —	\$ 18,502
Intercompany revenues	673	247	168	1,088	—	1,088
Gross profit	4,557	989	328	5,874	—	5,874
Interest income	—	—	—	—	49	49
Interest expense	229	4	1	234	133	367
Interest expense-financing fees	—	—	—	—	57	57
Depreciation and amortization	1,099	—	8	1,107	10	1,117
Segment profit (loss)	1,763	334	134	2,231	(1,498)	733
Segment assets(1)	92,241	5,962	2,008	100,211	13,487(4)	113,698
Expenditures for segment assets	33	4	8	45	2	47
Total long-term debt	5,143	186	1	5,330	5,415	10,745

Segment Reporting for the Six Months Ended June 30, 2009

	Nuclear	Industrial	Engineering	Segments Total	Corporate (2)	Consolidated Total
Revenue from external customers	\$ 39,846(3)	\$ 4,071	\$ 1,783	\$ 45,700	\$ —	\$ 45,700
Intercompany revenues	1,441	374	223	2,038	—	2,038
Gross profit	9,592	981	540	11,113	—	11,113
Interest income	1	—	—	1	92	93

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

Interest expense	525	38	3	566	449	1,015
Interest expense-financing fees	—	—	—	—	76	76
Depreciation and amortization	2,129	213	19	2,361	20	2,381
Segment profit (loss)	4,462	(87)	245	4,620	(3,388)	1,232
Segment assets(1)	97,508	5,246	2,221	104,975	18,875(4)	123,850
Expenditures for segment assets	428	113	2	543	9	552
Total long-term debt	1,938	130	25	2,093	18,670(5)	20,763

Segment Reporting for the Six Months Ended June 30, 2008

	Nuclear	Industrial	Engineering	Segments Total	Corporate (2)	Consolidated Total
Revenue from external customers	\$ 28,991(3)	\$ 5,290	\$ 1,691	\$ 35,972	\$ —	\$ 35,972
Intercompany revenues	1,284	444	266	1,994	—	1,994
Gross profit	8,112	1,625	584	10,321	—	10,321
Interest income	2	—	—	2	115	117
Interest expense	436	10	1	447	291	738
Interest expense-financing fees	1	—	—	1	109	110
Depreciation and amortization	2,203	—	15	2,218	20	2,238
Segment profit (loss)	2,739	300	262	3,301	(2,930)	371
Segment assets(1)	92,241	5,962	2,008	100,211	13,487(4)	113,698
Expenditures for segment assets	545	49	8	602	9	611
Total long-term debt	5,143	186	1	5,330	5,415	10,745

(1) Segment assets have been adjusted for intercompany accounts to reflect actual assets for each segment.

- (2) Amounts reflect the activity for corporate headquarters not included in the segment information.
- (3) The consolidated revenues within the Nuclear Segment include the CH Plateau Remediation Company (“CHPRC”) revenue of \$11,624,000 or 49.1% and \$22,371,000 or 49.0% of our total consolidated revenue for the three and six months ended June 30, 2009, respectively. Our M&EC facility was awarded a subcontract by CHPRC, a general contractor to the Department of Energy (“DOE”), in the second quarter of 2008. Operations of this subcontract commenced at the DOE Hanford Site on October 1, 2008. The consolidated revenues within the Nuclear Segment also include the Fluor Hanford revenue of \$0 for both the three and six months ended June 30, 2009 as compared to \$2,110,000 or 11.4% and \$3,875,000 or 10.8% for the three and six months ended June 30, 2008, respectively. Effective October 1, 2008, CHPRC began management of waste activities previously under Fluor Hanford, DOE’s general contractor prior to CHPRC. See “Known Trends and Uncertainties – Significant Customers” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for the revenue transition discussion.
- (4) Amount includes assets from discontinued operations of \$724,000 and \$766,000 as of June 30, 2009 and 2008, respectively.
- (5) Net of debt discount recorded (\$666,000) and amortized (\$49,000) based on the estimated fair value of two Warrants and 200,000 shares of the Company’s Common Stock issued on May 8, 2009 in connection with a \$3,000,000 promissory note entered into by the Company and Mr. William Lampson and Mr. Diehl Rettig. See Note 6 - “Promissory Note and Installment Agreement” for additional information.

#### 10. Income Taxes

The provision for income taxes is determined in accordance with SFAS No. 109, “Accounting for Income Taxes”. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

SFAS No. 109 requires that deferred income tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred income tax assets will not be realized. We evaluate the realizability of our deferred income tax assets, primarily resulting from impairment loss and net operating loss carryforwards, and adjust our valuation allowance, if necessary. Once we utilize our net operating loss carryforwards, we would expect our provision for income tax expense in future periods to reflect an effective tax rate that will be significantly higher than past periods.

In July 2006, the FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes”, which attempts to set out a consistent framework for the recognition and measurement of uncertain tax positions. This interpretation of FASB Statement No. 109 uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit which is greater than 50% likely to be realized. FIN 48 also sets out disclosure requirements to enhance transparency of an entity’s tax reserves. The Company adopted this Interpretation as of January 1, 2007. The adoption of FIN 48 did not have a material impact on our financial statements.

We have not yet filed our income tax returns for the period ended December 31, 2008 tax year; however, we expect that the actual return will mirror tax positions taken within our income tax provision for 2008. As we believe that all



such positions are fully supportable by existing Federal law and related interpretations, there are no uncertain tax positions to consider in accordance with FIN 48. The impact of our reassessment of our tax positions in accordance with FIN 48 for the first and second quarters of 2009 did not have any impact on our result of operations, financial condition or liquidity.

## 11. Related Party Transaction

Mr. Robert L. Ferguson

Mr. Robert Ferguson, was nominated to serve as a Director in connection with the closing of the acquisition by the Company of Nuvotec (n/k/a Perma-Fix Northwest, Inc. ("PFNW")) and its wholly owned subsidiary, Pacific EcoSolutions, Inc. ("PEcoS") (n/k/a Perma-Fix Northwest Richland, Inc. ("PFNWR")) in June 2007 and subsequently elected as a Director at our Annual Meeting of Shareholders held in August 2007 and each Annual Meeting of Shareholders since August 2007. At the time of the acquisition, Mr. Ferguson was the Chairman, Chief Executive Officer, and individually or through entities controlled by him, the owner of approximately 21.29% of Nuvotec's outstanding Common Stock. In connection with the acquisition of PFNW and PFNWR in June 2007, we are required, if certain revenue targets are met, to pay to the former shareholders of Nuvotec an earn-out amount for each twelve month period ending June 30, 2008 to June 30, 2011, with the aggregate of the full earn-out amount not to exceed \$4,552,000, pursuant to the Merger Agreement, as amended, with the first \$1,000,000 of the earn-out amount to be placed into an escrow account to satisfy any indemnification obligations to us of Nuvotec, PEcoS, and the former shareholders of Nuvotec. The earn-out amounts will be earned if certain annual revenue targets for each such twelve month period are met by the Company's consolidated Nuclear Segment. No earn-out amounts were required to be paid for the twelve month period ended June 30, 2008. For the twelve month period ended June 30, 2009, we have calculated that we are required to pay \$734,000 in earn-out amount, all of which is to be paid into the escrow account during the quarter ending September 30, 2009. Any remaining earn-out amount earned after placing the first \$1,000,000 into the escrow account will be allocated to the former shareholders of Nuvotec. The first \$1,000,000 in earn-out amount will remain in the escrow account to satisfy any indemnification obligations to us of Nuvotec, PEcoS, and the former shareholders of Nuvotec until the end of a two year period from the date the first full \$1,000,000 is placed into the escrow account, at which time any remaining amount in the escrow account will be allocated to the former shareholders of Nuvotec. Mr. Ferguson, individually or through entities controlled by him, is entitled to receive 21.29% of the total earn-out amounts.

In connection with the acquisition of Nuvotec and PEcoS, we also agreed to pay former shareholders of Nuvotec who qualified as accredited investors pursuant to Rule 501 of Regulation D promulgated under the Securities Act of 1933 (which includes Mr. Robert L. Ferguson) \$2,500,000, with principal payable in equal installment of \$833,333 on June 30, 2009, June 30, 2010, and June 30, 2011. Interest is accrued on outstanding principal balance at 8.25% starting in June 2007 and is payable on June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011. In June 2009, we made our first principal installment payment of \$833,333, along with accrued interest. As of June 30, 2009, interest paid totaled approximately \$422,000, of which \$206,000 was paid in the second quarter of 2009 and \$216,000 was paid in the second quarter of 2008. Mr. Robert L. Ferguson is entitled to receive his proportionate share of 27.18% of the note payments.

## 12. Subsequent Event

In 2004, our Board of Directors adopted the 2004 Stock Option Plan (the "2004 Option Plan"), and the 2004 Option Plan was approved by our stockholders at the annual meeting held on July 28, 2004. The 2004 Option Plan authorizes the grant of non-qualified and incentive stock options to officers and employees (including an employee who is a member of the Board of Directors). The Board of Directors believes that the 2004 Option Plan serves to:

- (a) enhance the Company's ability to attract, retain, and reward qualified employees, and
- (b) to provide incentive for such employees to render outstanding service to the Company and its stockholders.

Currently, the maximum number of shares of our Common Stock that may be issued under the 2004 Option Plan is 2,000,000, of which 166,502 shares have previously been issued under the 2004 Option Plan and 1,832,499 shares are issuable under outstanding options granted under the 2004 Option Plan. As a result, an aggregate of 1,999,001 of the 2,000,000 shares authorized under the 2004 Option Plan have been previously issued or reserved for issuance, and only 999 shares remain available for issuance under the 2004 Option Plan. In order to continue the benefits that are derived through the 2004 Option Plan, on May 1, 2009, our Compensation Committee approved and recommended that our Board of Directors approved the First Amendment to the 2004 Option Plan (the "First Amendment") to increase from 2,000,000 to 3,000,000 the number of shares of our Common Stock reserved for issuance under the 2004 Option Plan. Our Board of Directors approved the First Amendment on May 1, 2009. Approval of the First Amendment was subject to the approval by our stockholders. On July 29, 2009, our shareholders did not approve the First Amendment to the 2004 Option Plan at our Annual Meeting of Stockholders.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
PART I, ITEM 2

Forward-looking Statements

Certain statements contained within this report may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (collectively, the "Private Securities Litigation Reform Act of 1995"). All statements in this report other than a statement of historical fact are forward-looking statements that are subject to known and unknown risks, uncertainties and other factors, which could cause actual results and performance of the Company to differ materially from such statements. The words "believe," "expect," "anticipate," "intend," "will," and similar expressions identify forward-looking statements. Forward-looking statements contained herein relate to, among other things,

- cash flow from operations and our available liquidity from our line of credit are sufficient to service our current obligations;
- government funding and economic stimulus package should positively impact our existing government contracts;
- demand for our service will continue to be subject to fluctuations;
- effect on us due to reductions in the level of government funding;
- we plan to fund any repurchases under the common stock repurchase plan through our internal cash flow and/or borrowing under our line of credit;
- the Company does not have any immediate plans or current commitments to issue shares under the registration statement;
- ability to generate sufficient cash flow from operations to fund all costs of operations;
- ability to remediate certain contaminated sites for projected amounts;
- ability to borrow under our credit facility;
- consideration of alternatives to our credit facility which could provide terms more favorable to us than under our existing credit facilities;
- no further impairment of intangible or tangible assets;
- despite our aggressive compliance and auditing procedures for disposal of wastes, we could, in the future, be notified that we are a Potentially Responsible Party ("PRP") at a remedial action site, which could have a material adverse effect;
- ability to generate funds internally to remediate sites;
- ability to fund budgeted capital expenditures of \$1,300,000 during 2009 through our operations or lease financing or a combination of both;
- growth of our Nuclear Segment;
- we believe full operations under the CHPRC subcontract will result in revenues for on-site and off-site work of approximately \$200,000,000 to \$250,000,000 over the five year base period;
- Our inability to continue under existing contracts that we have with the federal government (directly or indirectly as a subcontractor) could have a material adverse effect on our operations and financial condition;
- we believe that the higher federal government funding made available to remediate DOE sites than past years under the 2009 federal budget along with the economic stimulus package ("ARRA"), enacted by the Congress in February 2009, will provide substantial funds to remediate DOE sites and thus should positively impact our existing government contracts within our Nuclear Segment;
- although we have seen smaller fluctuation in government receipts between quarters in recent years, as government spending is contingent upon its annual budget and allocation of funding, we cannot provide assurance that we will not have larger fluctuations in the quarters in the near future;
- we anticipate spending \$3,000 in the remaining six months of 2009 to remediate the PFMI site, with the remainder over the next five years;

- based on the current status of Corrective Action for PFMI, we believe that the remaining reserve is adequate to cover the liability;

- we believe we maintain insurance coverage adequate for our needs and which is similar to, or greater than the coverage maintained by other companies of our size in the industry;
- implementation of controls which we believe will remediate material control weaknesses by the third quarter of 2009;
- we anticipate centralization of Accounts Payable for three remaining facilities by the third quarter of 2009;
- we plan to integrate a Purchase Order System to certain of our facilities by year end;
- our believe that the buyer of PFTS' assets assumed certain liabilities and agreed to pay under the Asset Purchase Agreement but which the buyer has refused to satisfy as of the date of this report;
- potential for fines and remediation of our waste management facilities;
- we will continue to monitor the fair value of the Put on a quarterly basis;
- In the event of failure of AIG, this could significantly impact our operations and our permits;
- the Company will begin to use the new Codification beginning with the Form 10-Q for the quarter ending September 30, 2009;
- the Company does not expect SFAS 166 to materially impact its operations or financial position;
- the Company expects FSP No. 141R-1 will have an impact on its consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of acquisitions it consummates after the effect date;
- payment of \$734,000 in earn-out amount into the escrow account is to be made during the quarter ending September 30, 2009; and
- the remaining amount of the earn-out that we may be required to pay in connection with the acquisition of PFNWR and PFNW.

While the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors, which could cause future outcomes to differ materially from those described in this report, including, but not limited to:

- general economic conditions;
- material reduction in revenues;
- ability to meet PNC covenant requirements;
- inability to collect in a timely manner a material amount of receivables;
- increased competitive pressures;
- the ability to maintain and obtain required permits and approvals to conduct operations;
- the ability to develop new and existing technologies in the conduct of operations;
- ability to retain or renew certain required permits;
- discovery of additional contamination or expanded contamination at any of the sites or facilities leased or owned by us or our subsidiaries which would result in a material increase in remediation expenditures;
- changes in federal, state and local laws and regulations, especially environmental laws and regulations, or in interpretation of such;
- potential increases in equipment, maintenance, operating or labor costs;
- management retention and development;
- financial valuation of intangible assets is substantially more/less than expected;
- the requirement to use internally generated funds for purposes not presently anticipated;
- inability to continue to be profitable on an annualized basis;
- the inability of the Company to maintain the listing of its Common Stock on the NASDAQ;
- terminations of contracts with federal agencies or subcontracts involving federal agencies, or reduction in amount of waste delivered to the Company under the contracts or subcontracts;
- renegotiation of contracts involving the federal government;
- disposal expense accrual could prove to be inadequate in the event the waste requires re-treatment; and
- Risk Factors contained in Item 1A of our 2008 Form 10-K.



The Company undertakes no obligations to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

#### Overview

We provide services through three reportable operating segments: Nuclear Waste Management Services Segment (“Nuclear Segment”), Industrial Waste Management Services Segment (“Industrial Segment”), and Consulting Engineering Services Segment (“Engineering Segment”). The Nuclear Segment provides treatment, storage, processing and disposal services of mixed waste (waste containing both hazardous and low-level radioactive materials) and low-level radioactive wastes, including research, development and on-site and off-site waste remediation. Our Industrial Segment provides on-and-off site treatment, storage, processing and disposal of hazardous and non-hazardous industrial waste and wastewater. Our Engineering Segment provides a wide variety of environmental related consulting and engineering services to both industry and government. These services include oversight management of environmental restoration projects, air, soil, and water sampling, compliance reporting, emission reduction strategies, compliance auditing, and various compliance and training activities.

The second quarter of 2009 reflected a revenue increase of \$5,196,000 to \$23,698,000 or 28.1% from revenue of \$18,502,000 for the same period of 2008. Within our Nuclear Segment, we generated revenue of \$20,732,000 in the second quarter of 2009, an increase of \$5,723,000 or 38.1% from the corresponding period of 2008. The increase in revenue within our Nuclear Segment was primarily due to revenue generated from the subcontract awarded to our M&EC subsidiary by CH Plateau Remediation Company (“CHPRC”), a general contractor to the Department of Energy (“DOE”), in the second quarter of 2008. This subcontract officially commenced on October 1, 2008. The increase was offset by lower revenue from remaining generators due to the impact of lower volume of waste. Our Industrial Segment generated \$1,962,000 in revenue in the second quarter of 2009, as compared to \$2,704,000 for the corresponding period of 2008, or 27.4% decrease. This decrease was primarily the result of lower oil sales revenue resulting from both decreased volume and a lower average price per gallon. In addition, we saw a decrease in revenue from government generators due to reduced volume as result of the slow down in the economy. Revenue in our Industrial Segment includes revenue of Perma-Fix of Fort Lauderdale, Inc. (“PFFL”), Perma-Fix of South Georgia, Inc. (“PFSG”), and Perma-Fix of Orlando, Inc. (“PFO”). In May 2007, our Board of Directors authorized the divestiture of our Industrial Segment. In September 2008, our Board of Directors approved retaining the three facilities/operations at PFFL, PFSG, and PFO, which resulted in the reclassification of these three facilities/operations back into our continuing operations. Revenue for the second quarter of 2009 from the Engineering Segment increased \$215,000 or 27.2% to \$1,004,000 from \$789,000 for the same period of 2008.

The second quarter 2009 gross profit increased \$151,000 or 2.6% from the corresponding period of 2008 due primarily to the CHPRC subcontract at M&EC.

SG&A for the second quarter of 2009 decreased 2.8% to \$4,465,000 from \$4,596,000 in the corresponding period of 2008.

Our working capital position at June 30, 2009 was \$65,000, which includes working capital of our discontinued operations, as compared to a negative working capital of \$3,886,000 as of December 31, 2008. The improvement in our working capital was attributed by the reduction of our account payables and current debts from funds generated by our operations.

#### Outlook

We believe that the increase in government funding made available to remediate DOE sites under the 2009 federal government budget along with the economic stimulus package (American Recovery and Reinvestment Act), enacted by the Congress in February 2009, will provide substantial funds to remediate DOE sites and thus should positively impact our existing government contracts within our Nuclear Segment. However, we expect that demand for our



services will continue to be subjected to fluctuations due to a variety of factors beyond our control, including the current economic recession and conditions, the federal deficit, and the manner in which the federal government will be required to spend funding to remediate federal sites. Our operations depend, in large part, upon governmental funding, particularly funding levels at the DOE. Significant reductions in the level of governmental funding or specifically mandated levels for different programs that are important to our business could have a material adverse impact on our business, financial position, results of operations and cash flows.

## Results of Operations

The reporting of financial results and pertinent discussions are tailored to three reportable segments: Nuclear, Industrial, and Engineering.

Consolidated (amounts in thousands)	Three Months Ending June 30,				Six Months Ending June 30,			
	2009	%	2008	%	2009	%	2008	%
Net revenues	\$ 23,698	100.0	\$ 18,502	100.0	\$ 45,700	100.0	\$ 35,972	100.0
Cost of goods sold	17,673	74.6	12,628	68.3	34,587	75.7	25,651	71.3
Gross profit	6,025	25.4	5,874	31.7	11,113	24.3	10,321	28.7
Selling, general and administrative	4,465	18.8	4,596	24.8	8,805	19.3	9,056	25.2
Loss (gain) on disposal of property and equipment			141	.8	(12)		141	.4
Income from operations	\$ 1,560	6.6	\$ 1,137	6.1	\$ 2,320	5.0	\$ 1,124	3.1
Interest income	41	.2	49	.3	93	.2	117	.3
Interest expense	(468)	(2.0)	(367)	(2.0)	(1,015)	(2.2)	(738)	(2.1)
Interest expense-financing fees	(63)	(.2)	(57)	(.3)	(76)	(.1)	(110)	(.3)
other	9		(12)		10		(6)	
Income from continuing operations before taxes	1,079	4.6	750	4.1	1,332	2.9	387	1.0
Income tax expense	91	.4	17	.1	100	.2	16	
Income from continuing operations	988	4.2	733	4.0	1,232	2.7	371	1.0
Preferred Stock dividends								

## Summary – Three and Six Months Ended June 30, 2009 and 2008

Consolidated revenues increased \$5,196,000 for the three months ended June 30, 2009, compared to the three months ended June 30, 2008, as follows:

(In thousands)	2009	% Revenue	2008	% Revenue	Change	% Change
<b>Nuclear</b>						
Government waste	\$ 5,198	21.9	\$ 9,181	49.6	\$ (3,983)	(43.4)
Hazardous/Non-hazardous	894	3.8	922	5.0	(28)	(3.0)
Other nuclear waste	3,016	12.7	2,796	15.1	220	7.9
Fluor Hanford	—	—	2,110	11.4	(2,110)	(100.0)
CHPRC	11,624	49.1	—	—	11,624	100.0
<b>Total</b>	<b>20,732</b>	<b>87.5</b>	<b>15,009</b>	<b>81.1</b>	<b>5,723</b>	<b>38.1</b>
<b>Industrial</b>						
Commercial	\$ 1,238	5.2	\$ 1,231	6.7	\$ 7	0.6
Government services	131	0.6	301	1.6	(170)	(56.5)
Oil Sales	593	2.5	1,172	6.3	(579)	(49.4)
<b>Total</b>	<b>1,962</b>	<b>8.3</b>	<b>2,704</b>	<b>14.6</b>	<b>(742)</b>	<b>(27.4)</b>
<b>Engineering</b>	<b>1,004</b>	<b>4.2</b>	<b>789</b>	<b>4.3</b>	<b>215</b>	<b>27.2</b>
<b>Total</b>	<b>\$ 23,698</b>	<b>100.0</b>	<b>\$ 18,502</b>	<b>100.0</b>	<b>\$ 5,196</b>	<b>28.1</b>

## Net Revenue

The Nuclear Segment realized revenue growth of \$5,723,000 or 38.1% for the three months ended June 30, 2009 over the same period in 2008. In the second quarter of 2008, our M&EC subsidiary was awarded a subcontract by CHPRC (“CHPRC subcontract”) to perform a portion of facility operations and waste management activities for the DOE Hanford, Washington Site. Operations under this subcontract commenced at the DOE Hanford Site on October 1, 2008. This is a cost plus award fee subcontract. Revenue from CHPRC totaled \$11,624,000 or 49.1% of our total revenue from continuing operations, and included approximately \$7,827,000 of revenue under the CHPRC subcontract at M&EC. Effective October 1, 2008, CHPRC also began management of waste activities previously under Fluor Hanford, DOE’s general contractor at the Hanford Site prior to CHPRC. Our Nuclear Segment had three previous subcontracts with Fluor Hanford. These three subcontracts have since been renegotiated by CHPRC to September 30, 2013. Revenue from government generators, excluding CHPRC and Fluor Hanford as discussed above, decreased \$3,983,000 or 43.4% due primarily to significant reduction in volume which more than offset pricing increases. Revenue from hazardous and non-hazardous waste was down \$28,000 or 3.0% due primarily to reduced average pricing which was partially offset by increase in remediation revenues. Revenue from our Industrial Segment decreased \$742,000 or 27.4% due to lower oil sales revenue resulting from both decreased volume and decreased average price per gallon of 11.9% and 42.6%, respectively. Government revenue was also down due to reduced volume received. Revenue in our Engineering Segment increased approximately \$215,000 or 27.2% due to increased billable hours of 18.9% and increased average billing rate of 7.6%.

Consolidated revenues increased \$9,728,000 for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, as follows:

(In thousands)	2009	% Revenue	2008	% Revenue	Change	% Change
<b>Nuclear</b>						
Government waste	\$ 9,876	21.6	\$ 15,517	43.1	\$ (5,641)	(36.4)
Hazardous/Non-hazardous	1,853	4.0	1,777	5.0	76	4.3
Other nuclear waste	5,746	12.6	7,822	21.7	(2,076)	(26.5)
Fluor Hanford	—	—	3,875	10.8	(3,875)	(100.0)
CHPRC	22,371	49.0	—	—	22,371	100.0
<b>Total</b>	<b>39,846</b>	<b>87.2</b>	<b>28,991</b>	<b>80.6</b>	<b>10,855</b>	<b>37.4</b>
<b>Industrial</b>						
Commercial	\$ 2,466	5.4	\$ 2,631	7.3	\$ (165)	(6.3)
Government services	258	0.6	540	1.5	(282)	(52.2)
Oil Sales	1,347	2.9	2,119	5.9	(772)	(36.4)
<b>Total</b>	<b>4,071</b>	<b>8.9</b>	<b>5,290</b>	<b>14.7</b>	<b>(1,219)</b>	<b>(23.0)</b>
<b>Engineering</b>	<b>1,783</b>	<b>3.9</b>	<b>1,691</b>	<b>4.7</b>	<b>92</b>	<b>5.4</b>
<b>Total</b>	<b>\$ 45,700</b>	<b>100.0</b>	<b>\$ 35,972</b>	<b>100.0</b>	<b>\$ 9,728</b>	<b>27.0</b>

The Nuclear Segment experienced approximately \$10,855,000 or 37.4% increase in revenue for the six months ended June 30, 2009 over the same period of 2008. Revenue from CHPRC totaled \$22,371,000 or 49.0% of our total revenue from continuing operations, including approximately \$15,365,000 of revenue under the CHPRC subcontract previously discussed. Revenue from CHPRC also included revenue from three subcontracts previously managed by Fluor Hanford, DOE general contractor at the Hanford Site prior to CHPRC. CHPRC has since renegotiated these three subcontracts to September 30, 2013. Revenue from government generators, excluding CHPRC and Fluor Hanford as discussed above, decreased \$5,641,000 or 36.4% due primarily to significant reduction in volume which more than offset increase in pricing. Revenue from hazardous and non-hazardous waste was up \$76,000 or 4.3% due primarily to higher remediation revenue. Other nuclear waste revenue decreased \$2,076,000 or 26.5% due primarily to a shipment of high activity and high margin waste of approximately \$2,700,000 received in the first quarter of 2008 which we did not repeat in the first six months of 2009. Revenue from our Industrial Segment decreased \$1,219,000 or 23.0% due primarily to significant reduction in oil sales revenue resulting from both decreased volume and decreased average price per gallon of 12.9% and 27.3%, respectively. Revenue from government generators was down primarily due to lower volume. Commercial revenue was down due to less field services work, which is impacted by the slow down in the economy. Revenue in our Engineering Segment increased approximately \$92,000 or 5.4% due primarily to increased average billing rate of 3.5% with billable hours remaining constant.

## Cost of Goods Sold

Cost of goods sold increased \$5,045,000 for the quarter ended June 30, 2009, as compared to the quarter ended June 30, 2008, as follows:

(In thousands)	2009	% Revenue	2008	% Revenue	Change
Nuclear	\$ 15,432	74.4	\$ 10,452	69.6	4,980
Industrial	1,551	79.1	1,715	63.4	(164)
Engineering	690	68.7	461	58.4	229
Total	\$ 17,673	74.6	\$ 12,628	68.3	5,045

The Nuclear Segment's cost of goods sold for the three months ended June 30, 2009 were up \$4,980,000 or 47.6%, which included the cost of goods sold of approximately \$6,276,000 related to the CHPRC subcontract. Costs as a percentage of revenue were up approximately 4.8% which reflected primarily the higher cost CHPRC subcontract. Excluding the cost of goods sold of CHPRC, remaining Nuclear Segment cost of goods sold decreased approximately \$1,296,000 due primarily to reduction in revenue. In the Industrial Segment, cost of goods sold decreased \$164,000 or 9.6%. However, cost as a percentage of revenue was up approximately 15.7% due to lower margin wastes processed and disposed of. In addition, we had approximately \$67,000 in depreciation expense in the quarter ended June 30, 2009 which did not exist in the corresponding period of 2008 as PFFL, PFO, and PFSG were in discontinued operations during the three months ended June 30, 2008. Engineering Segment costs increased approximately \$229,000 due primarily to higher revenue, higher bonus/commission, and higher payroll expenses. Included within cost of goods sold is depreciation and amortization expense of \$1,123,000 and \$1,092,000 for the three months ended June 30, 2009, and 2008, respectively.

Cost of goods sold increased \$8,936,000 for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, as follows:

(In thousands)	2009	% Revenue	2008	% Revenue	Change
Nuclear	\$ 30,254	75.9	\$ 20,879	72.0	9,375
Industrial	3,090	75.9	3,665	69.3	(575)
Engineering	1,243	69.7	1,107	65.5	136
Total	\$ 34,587	75.7	\$ 25,651	71.3	8,936

Cost of goods sold for the Nuclear Segment increased \$9,375,000 or 44.9%, which included the cost of goods sold of approximately \$12,302,000 related to the CHPRC subcontract. The increase in cost of goods sold for the six months ended June 30, 2009 was primarily the result of higher costs related to the CHPRC subcontract in addition to lower margin wastes which resulted in higher disposal costs. In the Industrial Segment, cost of goods sold decreased \$575,000 or 15.7% due to lower material, disposal, and payroll related expenses. Cost as a percentage of revenue increased due to revenue mix as we sold less used oil which has higher margin. In addition, we incurred depreciation expense of approximately \$137,000 which did not exist in the six months ended June 30, 2008 as PFFL, PFSG, and PFO were in discontinued operations. The Engineering Segment's cost of goods sold increased approximately \$136,000 due primarily to higher payroll expenses and increased revenue. Included within cost of goods sold is depreciation and amortization expense of \$2,246,000 and \$2,185,000 for the six months ended June 30, 2009, and 2008, respectively.

## Gross Profit

Gross profit for the quarter ended June 30, 2009, increased \$151,000 over 2008, as follows:

(In thousands)	2009	% Revenue	2008	% Revenue	Change
Nuclear	\$ 5,300	25.6	\$ 4,557	30.4	\$ 743
Industrial	411	20.9	989	36.6	(578)
Engineering	314	31.3	328	41.6	(14)
Total	\$ 6,025	25.4	\$ 5,874	31.7	151

The Nuclear Segment gross profit increased \$743,000, which included gross profit of approximately \$1,552,000 on the CHPRC subcontract at our M&EC facility. The decrease in gross margin was due primarily to revenue mix as our total Nuclear Segment revenue contained more revenue from the CHPRC subcontract, which carries a lower gross margin than our treatment revenue. In the Industrial Segment, gross profit decreased approximately \$578,000 or 58.4% due primarily to higher disposal costs and depreciation expense which did not exist in 2008 as PFFL, PFSG, and PFO were in discontinued operations. Gross margin decreased to 20.9% in the second quarter of 2009 as compared to 36.6% in the corresponding period of 2008 due to processing lower margin wastes instead of higher margin used oil sales. The decrease in gross profit in the Engineering Segment was due primarily to higher payroll related expenses and bonus/commission.

Gross profit for the six months ended June 30, 2009, increased \$792,000 over 2008, as follows:

(In thousands)	2009	% Revenue	2008	% Revenue	Change
Nuclear	\$ 9,592	24.1	\$ 8,112	28.0	\$ 1,480
Industrial	981	24.1	1,625	30.7	(644)
Engineering	540	30.3	584	34.5	(44)
Total	\$ 11,113	24.3	\$ 10,321	28.7	\$ 792

The Nuclear Segment gross profit increased \$1,480,000, which included gross profit of approximately \$3,063,000 related to the CHPRC subcontract. The decrease in gross margin was primarily due to the lower margin CHPRC subcontract in addition to low waste volume received. Gross profit for the Industrial Segment decreased \$644,000. The decrease in gross margin was attributed to increase in depreciation expense as mentioned above in addition to lower margin waste streams. The Engineering Segment gross profit decreased approximately \$44,000 or 7.5% primarily due to higher payroll expenses.

## Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses decreased \$131,000 for the three months ended June 30, 2009, as compared to the corresponding period for 2008, as follows:

(In thousands)	2009	% Revenue	2008	% Revenue	Change
Administrative	\$ 1,431	—	\$ 1,365	—	\$ 66
Nuclear	2,364	11.4	2,401	16.0	(37)
Industrial	516	26.3	637	23.6	(121)
Engineering	154	15.3	193	24.5	(39)
Total	\$ 4,465	18.8	\$ 4,596	24.8	\$ (131)



Our SG&A for the three months ended June 30, 2009 decreased \$131,000 or 2.8% over the corresponding period of 2008. The increase in administrative SG&A was primarily the result of higher salaries due to additional headcount at our corporate office as we continue to centralize accounting function. This increase was offset by decrease in payroll expenses in our segments. In addition, stock option expense was higher due to 1,228,000 options granted to certain company officers and employees since August 2008. Such options were not granted in 2007. Nuclear Segment SG&A was down approximately \$37,000 due mainly to lower salaries, payroll related expenses, and bonus/commission as we continue to streamline our costs. This decrease was partially offset by bad debt expense. Industrial Segment SG&A decreased approximately \$121,000 due primarily to lower payroll, bonus/incentive, and outside service expense as we had certain permit compliance and legal matters in 2008 which did not occur in 2009. This decrease was partially offset by higher bad debt expense and depreciation expense incurred in 2009 which did not exist in 2008 as the Industrial Segment was in discontinued operations. The Engineering Segment's SG&A expense decreased approximately \$39,000 primarily due to decrease in payroll expenses. Included in SG&A expenses is depreciation and amortization expense of \$78,000 and \$25,000 for the three months ended June 30, 2009, and 2008, respectively.

SG&A expenses decreased \$251,000 for the six months ended June 30, 2009, as compared to the corresponding period for 2008, as follows:

(In thousands)	2009	%	2008	%	Change
		Revenue		Revenue	
Administrative	\$ 2,934	—	\$ 2,653	—	\$ 281
Nuclear	4,542	11.4	4,780	16.5	(238)
Industrial	1,037	25.5	1,303	24.6	(266)
Engineering	292	16.4	320	18.9	(28)
Total	\$ 8,805	19.3	\$ 9,056	25.2	\$ (251)

SG&A decreased \$251,000 or 2.8% for the six months ended June 30, 2009 as compared to the corresponding period of 2008. The increase in administrative SG&A of approximately \$281,000 was primarily the result higher stock option expense as mentioned above and higher payroll expenses resulting from centralization of accounting function. 401k match expense was higher as certain Industrial Segment employees forfeited the Company's match portion following the divestures in 2008. We also incurred higher outside service expenses relating to daily corporate legal matters and information technology projects. Nuclear Segment SG&A was down approximately \$238,000 due mainly to lower salaries, other payroll related expenses, and bonus/commission as we continue to streamline our costs. The decrease was partially offset by bad debt expense and legal expense at certain of our facilities. SG&A for the Industrial Segment decreased for the same reason as the second quarter mentioned above with the exception of no significant change in bad debt expense. The Engineering Segment's SG&A expense decreased approximately \$28,000 primarily due to decrease in payroll and travel expenses. Included in SG&A expenses is depreciation and amortization expense of \$135,000 and \$53,000 for the six months ended June 30, 2009, and 2008, respectively.



## Interest Expense

Interest expense increased \$101,000 and \$277,000 for the three and six months ended June 30, 2009, respectively, as compared to the corresponding period of 2008.

(In thousands)	Three Months			Six Months		
	2009	2008	Change	2009	2008	Change
PNC interest	\$ 221	\$ 98	\$ 123	\$ 383	\$ 221	\$ 162
Other	247	269	(22)	632	517	115
Total	\$ 468	\$ 367	\$ 101	\$ 1,015	\$ 738	\$ 277

The increase in interest expense for both the three and six months ended June 30, 2009 as compared to the corresponding period of 2008 was due primarily to higher interest on our revolver and term note resulting from higher balances in addition to higher interest expense relating to certain vendor invoices. During the first six months of 2008, our term loan balance was paid off, the result of proceeds received from the sale of certain of our Industrial Segment facilities. Our term loan balance was significantly higher in the first six months of 2009 resulting from the reload of our term note in August 2008 to \$7,000,000. In addition, our revolver balance was higher throughout the first six months of 2009 as compared to 2008 due to funding of our finite insurance policies. The increase in interest expense for both the three and six months was partially offset by lower interest resulting from payoff of the KeyBank note in December 2008 at our PFNWR facility as well as lower interest resulting from decreasing and paying off of our loan balance for the PDC note at our M&EC facility during the first six months of 2009.

## Interest Expense - Financing Fees

Interest expense-financing fees increased approximately \$8,000 and decreased \$34,000 for the three and six months ended June 30, 2009, respectively, as compared to the corresponding period of 2008. The increase for the three months was due primarily to debt discount amortized as financing fees in connection with the issuance of 200,000 shares of the Company's Common Stock and two Warrants for purchase up to 150,000 shares of the Company's Common Stock as consideration for the Company receiving a \$3,000,000 loan from Mr. William Lampson and Mr. Diehl Rettig in May 2009. The decrease for the six months was due primarily to monthly amortized financing fees associated with our original credit facility and subsequent amendments which became fully amortized in May 2008. The decrease was partially offset by the debt discount amortized as financing fees mentioned above.

## Interest Income

Interest income decreased approximately \$8,000 and \$24,000 for the three and six months ended June 30, 2009, as compared to the corresponding period of 2008, respectively. The decrease for the three and six months is primarily the result of lower interest earned on the finite risk sinking fund due to lower interest rates.

## Loss (gain) on disposal of Property and Equipment

The loss on disposal of fixed assets for the three and six months ended June 30, 2008 was primarily due to disposal of idle equipment at our DSSI facility.

## Discontinued Operations and Divestitures

Our discontinued operations encompass our Perma-Fix of Maryland, Inc. ("PFMD"), Perma-Fix of Dayton, Inc. ("PFD"), and Perma-Fix Treatment Services, Inc. ("PFTS") facilities within our Industrial Segment, as well as two previously shut down locations, Perma-Fix of Pittsburgh, Inc. ("PFP"), and Perma-Fix of Michigan, Inc. ("PFMI"), two facilities which were approved as discontinued operations by our Board of Directors effective November 8, 2005, and October 4, 2004, respectively.

We completed the sale of substantially all of the assets of PFMD, PFD, and PFTS on January 8, 2008, March 14, 2008, and May 30, 2008, respectively.



Our discontinued operations had no revenues in 2009. Revenues for the three and six months ended June 2008 were \$808,000 and \$3,195,000, respectively. The Industrial Segment had net operating loss of \$237,000 and net operating income of \$67,000 for the three and six months ended June 30, 2009, respectively, as compared to net operating loss of \$383,000 and \$1,060,000 for the corresponding period of 2008. The net operating income for the six months ended June 30, 2009 included a recovery of approximately \$400,000 in closure costs recorded in the first quarter of 2009 resulting from the authorized release of PFTS's financial assurance bond from the appropriate regulatory authority as result of the divestiture of the PFTS facility. In the second quarter of 2009, we recorded approximately \$119,000 in interests related to a certain excise tax audit for fiscal years 1999 to 2005 for PFTS.

We had a 'gain on disposal of discontinued operations, net of taxes' of \$108,000 and \$2,216,000 for the three and six months ended June 30, 2008.

Assets and liabilities related to discontinued operations total \$724,000 and \$2,529,000 as of June 30, 2009, respectively and \$761,000 and \$2,994,000 as of December 31, 2008, respectively.

#### Non Operational Facilities

The Industrial Segment includes two previously shut-down facilities which were presented as discontinued operations in prior years. These facilities include Perma-Fix of Pittsburgh ("PFP") and Perma-Fix of Michigan ("PFMI"). Our decision to discontinue operations at PFP was due to our reevaluation of the facility and our inability to achieve profitability at the facility. During February 2006, we completed the remediation of the leased property and the equipment at PFP, and released the property back to the owner. Our decision to discontinue operations at PFMI was principally a result of two fires that significantly disrupted operations at the facility in 2003, and the facility's continued drain on the financial resources of our Industrial Segment. As a result of the discontinued operations at the PFMI facility, we were required to complete certain closure and remediation activities pursuant to our RCRA permit, which were completed in January 2006. In September 2006, PFMI signed a Corrective Action Consent Order with the State of Michigan, requiring performance of studies and development and execution of plans related to the potential clean-up of soils in portions of the property. The level and cost of the clean-up and remediation are determined by state mandated requirements. During 2006, based on state-mandated criteria, we began implementing the modified methodology to remediate the facility. We have spent approximately \$771,000 for closure costs since discontinuation of PFMI in October 2004, of which approximately \$26,000 was spent during the six months ended June 30, 2009 and \$26,000 was spent during 2008. We have \$511,000 accrued for the closure, as of June 30, 2009, and we anticipate spending \$3,000 in the remaining six months of 2009, with the remainder over the next five years. Based on the current status of the Corrective Action, we believe that the remaining reserve is adequate to cover the liability.

As of June 30, 2009, PFMI has a pension payable of \$1,001,000. The pension plan withdrawal liability is a result of the termination of the union employees of PFMI. The PFMI union employees participate in the Central States Teamsters Pension Fund ("CST"), which provides that a partial or full termination of union employees may result in a withdrawal liability, due from PFMI to CST. The recorded liability is based upon a demand letter received from CST in August 2005 that provided for the payment of \$22,000 per month over an eight year period. This obligation is recorded as a long-term liability, with a current portion of \$184,000 that we expect to pay over the next year.

#### Liquidity and Capital Resources of the Company

Our capital requirements consist of general working capital needs, scheduled principal payments on our debt obligations and capital leases, remediation projects, and planned capital expenditures. Our capital resources consist primarily of cash generated from operations, funds available under our revolving credit facility and proceeds from issuance of our Common Stock. Our capital resources are impacted by changes in accounts receivable as a result of revenue fluctuation, economic trends, collection activities, and the profitability of the segments.



At June 30, 2009, we had cash of \$59,000. The following table reflects the cash flow activities during the first six months of 2009.

(In thousands)	2009
Cash used in continuing operations	\$ (1,591)
Cash used in discontinued operations	(371)
Cash used in investing activities of continuing operations	(3,278)
Cash provided by investing activities of discontinued operations	11
Cash provided by financing activities of continuing operations	5,159
Decrease in cash	\$ (70)

We are in a net borrowing position and therefore attempt to move all excess cash balances immediately to the revolving credit facility, so as to reduce debt and interest expense. We utilize a centralized cash management system, which includes remittance lock boxes and is structured to accelerate collection activities and reduce cash balances, as idle cash is moved without delay to the revolving credit facility or the Money Market account, if applicable. The cash balance at June 30, 2009, primarily represents minor petty cash and local account balances used for miscellaneous services and supplies.

#### Operating Activities

Accounts Receivable, net of allowances for doubtful accounts, totaled \$13,037,000, a decrease of \$379,000 over the December 31, 2008, balance of \$13,416,000. The Nuclear Segment experienced an increase of approximately \$199,000 due primarily to increased invoicing as the Segment continues to work toward reducing its unbilled revenue targets. This increase was partially offset by improved collection efforts. The Industrial Segment experienced a decrease of approximately \$797,000 due primarily to a decrease in revenue. The Engineering Segment experienced an increase of approximately \$219,000 due mainly to increases in revenue.

Unbilled receivables are generated by differences between invoicing timing and the percentage of completion methodology used for revenue recognition purposes. As major processing phases are completed and the costs incurred, we recognize the corresponding percentage of revenue. We experience delays in processing invoices due to the complexity of the documentation that is required for invoicing, as well as the difference between completion of revenue recognition milestones and agreed upon invoicing terms, which results in unbilled receivables. The timing differences occur for several reasons: partially from delays in the final processing of all wastes associated with certain work orders and partially from delays for analytical testing that is required after we have processed waste but prior to our release of waste for disposal. The difference also occurs due to our end disposal sites requirement of pre-approval prior to our shipping waste for disposal and our contract terms with the customer that we dispose of the waste prior to invoicing. These delays usually take several months to complete. As of June 30, 2009, unbilled receivables totaled \$14,066,000, a decrease of \$2,896,000 from the December 31, 2008, balance of \$16,962,000, which reflects our continued efforts to reduce this balance. The delays in processing invoices, as mentioned above, usually take several months to complete but are normally considered collectible within twelve months. However, as we now have historical data to review the timing of these delays, we realize that certain issues, including but not limited to delays at our third party disposal site, can exacerbate collection of some of these receivables greater than twelve months. Therefore, we have segregated the unbilled receivables between current and long term. The current portion of the unbilled receivables as of June 30, 2009 is \$10,947,000, a decrease of \$2,157,000 from the balance of \$13,104,000 as of December 31, 2008. The long term portion as of June 30, 2009 is \$3,119,000, a decrease of \$739,000 from the balance of \$3,858,000 as of December 31, 2008.

As of June 30, 2009, total consolidated accounts payable was \$7,483,000, a decrease of \$3,593,000 from the December 31, 2008, balance of \$11,076,000. The decrease was due primarily to payment of our outstanding vendor invoices using cash generated from our operations. We continue to increase our invoicing as we work toward reducing our unbilled revenue targets to pay down our accounts payable, in addition to manage payment terms with our vendors to maximize our cash position throughout all segments.

Accrued Expenses as of June 30, 2009, totaled \$6,187,000, a decrease of \$2,709,000 over the December 31, 2008, balance of \$8,896,000. Accrued expenses are made up of accrued compensation, interest payable, insurance payable, certain tax accruals, and other miscellaneous accruals. The decrease was primarily due to monthly payments for the Company's general insurance policies and closure policy for PFNWR facility, payoff of approximately \$2,225,000 in interests on the PDC note in May 2009, and payment of interest on the shareholder note in June 2009 for our PFNWR facility. This decrease was offset by the earn-out amount of approximately \$734,000 that we are required to pay to an escrow account in connection with the acquisition of our PFNWR facility in June 2007.

Disposal/transportation accrual as of June 30, 2009, totaled \$4,337,000, a decrease of \$1,510,000 over the December 31, 2008 balance of \$5,847,000. The decrease was mainly attributed to the reduction of the legacy waste accrual at PFNWR facility.

Our working capital position at June 30, 2009 was \$65,000, which includes working capital of our discontinued operations, as compared to a negative working capital of \$3,886,000 as of December 31, 2008. The improvement in our working capital was attributed by the reduction of our account payables and current debts from funds generated by our operations.

#### Investing Activities

Our purchases of capital equipment for the six months ended June 30, 2009, totaled approximately \$552,000. These expenditures were for improvements to operations primarily within the Nuclear and Industrial Segments. These capital expenditures were funded by the cash provided by operations. We have budgeted capital expenditures of approximately \$1,300,000 for fiscal year 2009 for our operating segments to reduce the cost of waste processing and handling, expand the range of wastes that can be accepted for treatment and processing, and to maintain permit compliance requirements. Certain of these budgeted projects are discretionary and may either be delayed until later in the year or deferred altogether. We have traditionally incurred actual capital spending totals for a given year less than the initial budget amount. The initiation and timing of projects are also determined by financing alternatives or funds available for such capital projects. We anticipate funding these capital expenditures by a combination of lease financing and internally generated funds.

In June 2003, we entered into a 25-year finite risk insurance policy with American International Group, Inc. ("AIG"), which provides financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure. Prior to obtaining or renewing operating permits, we are required to provide financial assurance that guarantees to the states that in the event of closure, our permitted facilities will be closed in accordance with the regulations. The policy provided an initial maximum \$35,000,000 of financial assurance coverage and has available capacity to allow for annual inflation and other performance and surety bond requirements. Our initial finite risk insurance policy required an upfront payment of \$4,000,000, of which \$2,766,000 represented the full premium for the 25-year term of the policy, and the remaining \$1,234,000, was deposited in a sinking fund account representing a restricted cash account. We are required to make seven annual installments, as amended, of \$1,004,000, of which \$991,000 is to be deposited in the sinking fund account, with the remaining \$13,000 represents a terrorism premium. In addition, we are required to make a final payment of \$2,008,000, of which \$1,982,000 is to be deposited in the sinking fund account, with the remaining \$26,000 represents a terrorism premium. In March 2009, we paid our sixth of the eight required remaining payments. In March 2009, we secured additional financial assurance coverage of approximately \$5,421,000 with AIG which enabled our Diversified Scientific Services, Inc. ("DSSI") facility to receive

and process wastes under a permit issued by the U.S. Environment Protection Agency (“EPA”) Region 4 on November 26, 2008 to commercially store and dispose of Polychlorinated Biphenyls (“PCBs”). We secured this additional financial assurance coverage requirement by increasing our initial 25-year finite risk insurance policy with AIG from maximum policy coverage of \$35,000,000 to \$39,000,000, of which our total financial coverage amounts to \$35,871,000 as of June 30, 2009. Payment for this additional financial assurance coverage requires a total payment of approximately \$5,219,000, consisting of an upfront payment of \$2,000,000 made on March 6, 2009, of which approximately \$1,655,000 was deposited into a sinking fund account, with the remaining representing fee payable to AIG. In addition, we are required to make three yearly payments of approximately \$1,073,000 starting December 31, 2009, of which \$888,000 will be deposited into a sinking fund account, with the remaining to represent fee payable to AIG.

As of June 30, 2009, we have recorded \$9,607,000 in our sinking fund related to the policy noted above on the balance sheet, which includes interest earned of \$773,000 on the sinking fund as of June 30, 2009. Interest income for the three and six months ended June 30, 2009 was \$16,000 and \$42,000, respectively. On the fourth and subsequent anniversaries of the contract inception, we may elect to terminate this contract. If we so elect, the Insurer is obligated to pay us an amount equal to 100% of the sinking fund account balance in return for complete releases of liability from both us and any applicable regulatory agency using this policy as an instrument to comply with financial assurance requirements.

In August 2007, we entered into a second finite risk insurance policy for our PFNWR facility, which we acquired in June 2007, with AIG. The policy provides an initial \$7,800,000 of financial assurance coverage with annual growth rate of 1.5%, which at the end of the four year term policy, will provide maximum coverage of \$8,200,000. The policy will renew automatically on an annual basis at the end of the four year term and will not be subject to any renewal fees. The policy requires total payment of \$7,158,000, consisting of an annual payment of \$1,363,000 and two annual payments of \$1,520,000, starting July 31, 2008 and an additional \$2,755,000 payment to be made in five quarterly payments of \$551,000 beginning September 2007. In July 2007, we paid the \$1,363,000, of which \$1,106,000 represented premium on the policy and the remaining was deposited into a sinking fund account. In July 2008, we paid the first of the two \$1,520,000 payments, with \$1,344,000 deposited into a sinking fund account and the remaining representing premium. We have made all of the five quarterly payments which were deposited into a sinking fund. As of June 30, 2009, we have recorded \$4,476,000 in our sinking fund related to this policy on the balance sheet, which includes interest earned of \$121,000 on the sinking fund as of June 30, 2009. Interest income for the three months and six months ended June 30, 2009 totaled \$24,000 and \$50,000, respectively.

It has been previously reported that AIG has experienced financial difficulties and is continuing to experience financial difficulties. In the event of failure of AIG, this could significantly impact our operations and our permits.

On July 28, 2006, our Board of Directors has authorized a common stock repurchase program to purchase up to \$2,000,000 of our Common Stock, through open market and privately negotiated transactions, with the timing, the amount of repurchase transactions and the prices paid under the program as deemed appropriate by management and dependent on market conditions and corporate and regulatory considerations. We plan to fund any repurchases under this program through our internal cash flow and/or borrowing under our line of credit. As of the date of this report, we have not repurchased any of our Common Stock under the program as we continue to evaluate this repurchase program within our internal cash flow and/or borrowings under our line of credit.

#### Financing Activities

On December 22, 2000, we entered into a Revolving Credit, Term Loan and Security Agreement ("Agreement") with PNC Bank, National Association, a national banking association ("PNC") acting as agent ("Agent") for lenders, and as issuing bank, as amended. The Agreement provided for a term loan ("Term Loan") in the amount of \$7,000,000, which required monthly installments of \$83,000. The Agreement also provided for a revolving line of credit ("Revolving Credit") with a maximum principal amount outstanding at any one time of \$18,000,000, as amended. The Term Loan and Revolving Credit matures in July, 2012. The Revolving Credit advances are subject to limitations of an amount up to the sum of (a) up to 85% of Commercial Receivables aged 90 days or less from invoice date, (b) up to 85% of Commercial Broker Receivables aged up to 120 days from invoice date, (c) up to 85% of acceptable Government Agency Receivables aged up to 150 days from invoice date, and (d) up to 50% of acceptable unbilled amounts aged up to 60 days, less (e) reserves the Agent reasonably deems proper and necessary. As of June 30, 2009, the excess availability under our Revolving Credit was \$4,446,000 based on our eligible receivables.



Pursuant to the Agreement, as amended, we may terminate the Agreement upon 90 days' prior written notice upon payment in full of the obligation. We agreed to pay PNC 1% of the total financing in the event we pay off our obligations on or prior to August 4, 2009 and 1/2 % of the total financing if we pay off our obligations on or after August 5, 2009, but prior to August 4, 2010. No early termination fee shall apply if we pay off our obligations after August 5, 2010.

On March 5, 2009, we entered into an Amendment with PNC Bank to our Agreement. This Amendment increased our borrowing availability by approximately an additional \$2,200,000. In addition, pursuant to the Amendment, monthly interest due on our revolving line of credit was amended from prime plus 1/2% to prime plus 2.0% and monthly interest due on our Term Loan was amended from prime plus 1.0% to prime plus 2.5%. The Company also has the option to pay monthly interest due on the revolving line of credit by using the LIBOR, with the minimum floor base LIBOR rate of 2.5%, plus 3.0% and to pay monthly interest due on the Term Loan using the minimum floor base LIBOR of 2.5%, plus 3.5%. In addition, pursuant to the Amendment, the fixed charge coverage ratio was amended to reduce the availability monthly by \$48,000. The Amendment also allowed us to retain funds received from the sale of our PFO property which was completed in the fourth quarter of 2008. All other terms and conditions to the credit facility remain principally unchanged. As a condition of this Amendment, we paid PNC a fee of \$25,000. Funds made available under this Amendment were used to secure the additional financial assurance coverage needed by our DSSI subsidiary to operate under the PCB permit issued by the EPA on November 26, 2008.

In connection with our review of our financing activities, from time to time we consider alternatives that could provide terms more favorable to us than under our existing credit facilities, including increasing the amount of our existing credit facilities to provide us with additional liquidity. We are considering a proposal from a commercial lender (the "Potential Lender"), which is non-binding and subject to customary contingencies.

In acquiring our Material &Energy Corporation ("M&EC") subsidiary, M&EC issued a promissory note in the principal amount of \$3,700,000, together with interest at an annual rate equal to the applicable law rate pursuant to Section 6621 of the Internal Revenue Code, to Performance Development Corporation ("PDC"), dated June 25, 2001, for monies advanced to M&EC by PDC and certain services performed by PDC on behalf of M&EC prior to our acquisition of M&EC. The principal amount of the promissory note was payable over eight years on a semiannual basis on June 30 and December 31, with a final principal payment to be made by December 31, 2008. All accrued and unpaid interest on the promissory note was payable in one lump sum on December 31, 2008. PDC directed M&EC to make all payments under the promissory note directly to the IRS to be applied to PDC's obligations to the IRS. On December 29, 2008, M&EC and PDC entered into an amendment to the promissory note, whereby the outstanding principal and accrued interest due under the promissory note totaling approximately \$3,066,000 was to be paid in the following installments: \$500,000 payment to be made by December 31, 2008 and five monthly payment of \$100,000 to be made starting January 27, 2009, with the balance consisting of accrued and unpaid interest due on June 30, 2009. We were directed by PDC to continue to make all payments under the promissory note, as amended, directly to the IRS to be applied to PDC's obligations under its obligations with the IRS. On May 13, 2009, we paid the outstanding balance of approximately \$2,225,000, which consists of interest only, on the PDC promissory note directly to the IRS which satisfied M&EC's obligations to PDC in full. Fund used to pay off the note was from a \$3,000,000 promissory note that the Company entered into with Mr. William Lampson and Mr. Diehl Rettig as discussed below.

In acquiring Perma-Fix Northwest, Inc. (“PFNW”- f/k/a Nuvotec) and Perma-Fix Northwest Richland, Inc. (“PFNWR” – f/k/a Pacific EcoSolutions, Inc. (“PEcoS”)), we agreed to pay former shareholders of Nuvotec who qualified as accredited investors pursuant to Rule 501 of Regulation D promulgated under the Securities Act of 1933 (which includes Mr. Robert L. Ferguson, a current member of our Board of Directors) \$2,500,000, with principal payable in equal installment of \$833,333 on June 30, 2009, June 30, 2010, and June 30, 2011. Interest is accrued on outstanding principal balance at 8.25% starting in June 2007 and is payable on June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011. In June 2009, we paid our first principal installment of \$833,333, along with accrued interest. As of June 30, 2009, interest paid totaled approximately \$422,000, of which \$206,000 was paid in the second quarter of 2009 and \$216,000 was paid in the second quarter of 2008. See “Related Party Transaction” in this section regarding Mr. Robert Ferguson.

In connection with the acquisition of PFNW (f/n/a “Nuvotec”) and PFNWR (f/k/a Pacific EcoSolutions, Inc. (“PEcoS”)) in June 2007, we are required, if certain revenue targets are met, to pay to the former shareholders of Nuvotec (which includes Mr. Robert L. Ferguson, a current member of our Board of Director) an earn-out amount for twelve months period ending June 30, 2008, to June 30, 2011, with the aggregate of the full earn-out amount not to exceed \$4,552,000, pursuant to the Merger Agreement, as amended, with the first \$1,000,000 of the earn-out amount to be placed into an escrow account to satisfy any indemnification obligations to us of Nuvotec, PEcoS, and the former shareholders of Nuvotec. The earn-out amounts will be earned if certain annual revenue targets for each such twelve month period are met by the Company’s consolidated Nuclear Segment. No earn-out amounts were required to be paid for the twelve month period ended June 30, 2008. For the twelve month period ended June 30, 2009, we have calculated that we are required to pay \$734,000 in earn-out amount, all of which is to be paid into the escrow account during the quarter ending September 30, 2009. The earn-out amount was recorded as an increase to goodwill for PFNWR. Any remaining earn-out amount earned after placing the first \$1,000,000 into the escrow account will be allocated to the former shareholders of Nuvotec. The first \$1,000,000 in earn-out amount will remain in the escrow account to satisfy any indemnification obligations to us of Nuvotec, PEcoS, and the former shareholders of Nuvotec until the end of a two year period from the date the first full \$1,000,000 is placed into the escrow account, at which time any remaining amount in the escrow account will be allocated to the former shareholders of Nuvotec. See “Related Party Transaction” in this section for information regarding Mr. Robert L. Ferguson.

On April 8 2009, the Company filed a shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission (“SEC”), which was declared effective by the SEC on June 26, 2009. The shelf registration statement gives the Company the ability to sell up to 5,000,000 shares of its Common Stock from time to time and through one or more methods of distribution, subject to market conditions and the Company’s capital needs at that time. The terms of any offering under the registration statement will be established at the time of the offering. The Company does not have any immediate plans or current commitments to issue shares under the registration statement.

On May 8, 2009, the Company entered into a Loan and Securities Purchase Agreement (“Agreement”) with Mr. William N. Lampson and Mr. Diehl Rettig (collectively, the “Lenders”). Mr. Lampson was formerly a major shareholder of Nuvotec USA, Inc. (n/k/a Perma-Fix Northwest, Inc. (“PFNW”)) and its wholly owned subsidiary, Pacific EcoSolution, Inc. (n/k/a Perma-Fix Northwest Richland, Inc. (“PFNWR”)) prior to our acquisition of PFNW and PFNWR, and Mr. Rettig was formerly a shareholder of, and counsel for, Nuvotec USA, Inc. and its subsidiaries at the time of our acquisition and after our acquisition has continued to perform certain legal services for PFNWR. Both of the Lenders are also stockholders of the Company having received shares of our Common Stock in connection with our acquisition of PFNW and PFNWR. Under the Agreement, we entered into a Promissory Note (“Note”) with the Lenders in the amount of \$3,000,000. The Note provides for monthly principal repayment of approximately \$87,000 plus accrued interest, starting June 8, 2009, and on the 8th day of each month thereafter, with interest payable at LIBOR plus 4.5%, with LIBOR at least 1.5%. Any unpaid principal balance along with accrued interest is due May 8, 2011. We paid approximately \$22,000 in closing costs for the Note which will be amortized over the terms of the Note. The Note may be prepaid at anytime by the Company without penalty. The proceeds of the loan were used primarily to pay off

the promissory note, dated June 25, 2001, as amended on December 28, 2008, entered into by our M&EC subsidiary with PDC as mentioned above, with the remaining funds used for working capital purposes.

As consideration of the Company receiving the loan pursuant to the Agreement, we issued to Messrs. Lampson and Rettig, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended (the "Act"), and/or Rule 506 of Regulation D promulgated under the Act, an aggregate of 200,000 shares of the Company's Common Stock ("Shares") and two Warrants to purchase up to an aggregate 150,000 shares of the Company's Common Stock ("Warrant Shares") at an exercise price of \$1.50 per share, with Mr. Lampson receiving 180,000 Shares and a Warrant to purchase up to an aggregate of 135,000 Warrant Shares and Mr. Rettig receiving 20,000 Shares and a Warrant to purchase up to an aggregate of 15,000 Warrant Shares. The Warrants are exercisable six months from May 8, 2009 and expire two years from May 8, 2009. We determined the fair value of the 200,000 shares of Common Stock to be \$476,000 which was based on the closing price of the stock of \$2.38 per share on May 8, 2009. We estimated the fair value of the Warrants to be approximately \$190,000 using the Black-Scholes option pricing model with the following assumption: 70.47% volatility, risk free interest rate of 1.0%, an expected life of two years and no dividends. The fair value of the Common Stock and Warrants was recorded as a debt discount to the loan and is being amortized over the term of the Note as interest expense – financing fees. Debt discount amortized as of June 30, 2009 totaled approximately \$49,000.

Under the terms of the Agreement and Note, if the Company defaults in payment of any principal or interest under the Note and such default continues for 30 days, the Lenders shall have the right to declare the Note immediately due and payable and to have payment of the remaining unpaid principal amount and accrued interest ("Payoff Amount") in one of the two methods, at their option:

- in cash, or
- subject to certain limitations and pursuant to an exemption from registration under Section 4(2) of the Act and/or Rule 506 of Regulation D, in shares of Company Common Stock, with the number of shares to be issued determined by dividing the unpaid principal balance as of the date of default, plus accrued interest, by a dollar amount equal to the closing bid price of the Company's Common Stock on the date of default as reported on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") ("Payoff Shares"). The Payoff Amount is to be paid as follows: 90% to Mr. Lampson and 10% to Mr. Rettig.

The aggregate number of Shares, Warrant Shares, and Payoff Shares that are to be issued to the Lenders under the Agreement and Note, together with the aggregate shares of the Company's Common Stock and other Company voting securities owned by the Lenders as of the date of issuance of the Payoff Shares, if any, shall not exceed:

- the number of shares equal to 19.9% of the number of shares of the Company's Common Stock issued and outstanding as of the date of the Agreement, or
- 19.9% of the voting power of all of the Company's voting securities issued and outstanding as of the date of the Agreement.

In summary, funds generated from our operations have positively impacted our working capital in the first six months of 2009. We continue to take steps to improve our operations and liquidity and to invest working capital into our facilities to fund capital additions for our Segments. Although there are no assurances, we believe that our cash flows from operations and our available liquidity from our line of credit are sufficient to service the Company's current obligations.

## Contractual Obligations

The following table summarizes our contractual obligations at June 30, 2009, and the effect such obligations are expected to have on our liquidity and cash flow in future periods, (in thousands):

Contractual Obligations	Total	Payments due by period			
		2009	2010-2012	2013 - 2014	After 2014
Long-term debt (1)	\$ 21,380	\$ 1,119	\$ 20,252	\$ 9	\$—
Interest on long-term debt (2)	206	—	206	—	—
Interest on variable rate debt (3)	2,591	574	2,017	—	—
Operating leases	2,263	450	1,519	294	—
Finite risk policy (4)	7,752	2,594	5,158	—	—
Pension withdrawal liability (5)	1,001	43	635	323	—
Environmental contingencies (6)	1,657	151	1,070	326	110
Earn Out Amount - PFNWR (7)	—	—	—	—	—
Purchase obligations (8)	—	—	—	—	—
Total contractual obligations	\$ 36,850	\$ 4,931	\$ 30,857	\$ 952	\$ 110

- (1) Amount excludes debt discount recorded and amortized of approximately \$176,000 for the two Warrants and \$441,000 for the 200,000 shares of the Company Stock issued in connection with the \$3,000,000 loan between the Company and Mr. William Lampson and Mr. Diehl Rettig. See Liquidity and Capital Resources – Financing activities earlier in this Management’s Discussion and Analysis for further discussion on the debt discount.
- (2) In conjunction with our acquisition of PFNWR and PFNW, which was completed on June 13, 2007, we agreed to pay shareholders of Nuvotec that qualified as accredited investors pursuant to Rule 501 of Regulation D promulgated under the Securities Act of 1933, \$2,500,000, with principal payable in equal installment of \$833,333 on June 30, 2009, June 30, 2010, and June 30, 2011. Interest is accrued on outstanding principal balance at 8.25% starting in June 2007 and is payable on June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011.
- (3) We have variable interest rates on our Term Loan and Revolving Credit of 2.5% and 2.0% over the prime rate of interest, respectively, as amended, or variable interest rates on our Term Loan and Revolving Credit of 3.5% and 3.0%, respectively over the minimum floor base LIBOR of 2.5%, and as such we have made certain assumptions in estimating future interest payments on this variable interest rate debt. Our calculation of interests on our Term Loan and Revolving Credit was estimated using the more current favorable prime rate method and we assumed an increase in prime rate of 1/2% in each of the years 2009 through July 2012. In addition, we have a \$3,000,000 promissory note with Mr. William Lampson and Mr. Diehl Rettig which pays interest at LIBOR plus 4.5%, with LIBOR of at least 1.5%. We also assumed an increase of 1/2% over the minimum LIBOR of 1.5% in calculating interests on the loan.
- (4) Our finite risk insurance policy provides financial assurance guarantees to the states in the event of unforeseen closure of our permitted facilities. See Liquidity and Capital Resources – Investing activities earlier in this Management’s Discussion and Analysis for further discussion on our finite risk policy.
- (5) The pension withdrawal liability is the estimated liability to us upon termination of our union employees at our discontinued operation, PFMI. See Discontinued Operations earlier in this section for discussion on our discontinued operation.



- (6) The environmental contingencies and related assumptions are discussed further in the Environmental Contingencies section of this Management's Discussion and Analysis, and are based on estimated cash flow spending for these liabilities. The environmental contingencies noted are for PFMI, PFM, PFSG, and PFD, which are the financial obligations of the Company. The environmental liability, as it relates to the remediation of the EPS site assumed by the Company as a result of the original acquisition of the PFD facility, was retained by the Company upon the sale of PFD in March 2008.
- (7) In connection with the acquisition of PFNW and PFNWR in June 2007, we are required, if certain revenue targets are met, to pay to the former shareholders of Nuvotec an earn-out amount for each twelve months period ending June 30, 2008, to June 30, 2011, with the aggregate of the full earn-out amount not to exceed \$4,552,000, pursuant to the Merger Agreement, as amended, with the first \$1,000,000 of the earn-out amount to be placed into an escrow account to satisfy any indemnification obligations to us of Nuvotec, PEcoS, and the former shareholders of Nuvotec. The earn-out amounts will be earned if certain annual revenue targets for each such twelve month period are met by the Company's consolidated Nuclear Segment. No earn-out amounts were required to be paid for the twelve month period ended June 30, 2008. For fiscal year ended June 30, 2009, we have calculated that we are required to pay \$734,000 in earn-out amount, all of which is to be paid into the escrow account during the quarter ending September 30, 2009.
- (8) We are not a party to any significant long-term service or supply contracts with respect to our processes. We refrain from entering into any long-term purchase commitments in the ordinary course of business.

#### Critical Accounting Estimates

In preparing the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as, the reported amounts of revenues and expenses during the reporting period. We believe the following critical accounting policies affect the more significant estimates used in preparation of the consolidated financial statements:

**Revenue Recognition Estimates.** We utilize a percentage of completion methodology for purposes of revenue recognition in our Nuclear Segment. As we accept more complex waste streams in this segment, the treatment of those waste streams becomes more complicated and time consuming. We have continued to enhance our waste tracking capabilities and systems, which has enabled us to better match the revenue earned to the processing phases achieved. The major processing phases are receipt, treatment/processing and shipment/final disposition. Upon receiving mixed waste we recognize a certain percentage (ranging from 20% to 33%) of revenue as we incur costs for transportation, analytical and labor associated with the receipt of mixed wastes. As the waste is processed, shipped and disposed of we recognize the remaining revenue and the associated costs of transportation and burial. The waste streams in our Industrial Segment are much less complicated, and services are rendered shortly after receipt, as such we do not use percentage of completion estimates in our Industrial segment. We review and evaluate our revenue recognition estimates and policies on a quarterly basis. Under our subcontract awarded by CHPRC in 2008, we are reimbursed for costs incurred plus a certain percentage markup for indirect costs, in accordance with contract provision. Costs incurred on excess of contract funding may be renegotiated for reimbursement. We also earn a fee based on the approved costs to complete the contract. We recognize this fee using the proportion of costs incurred to total estimated contract costs.

**Allowance for Doubtful Accounts.** The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts, which is a valuation allowance that reflects management's best estimate of the amounts that are uncollectible. We regularly review all accounts receivable balances that exceed 60 days from the invoice date and based on an assessment of current credit worthiness, estimate the portion, if any, of the balances that are uncollectible. Specific accounts that are deemed to be uncollectible are reserved at 100% of their outstanding

balance. The remaining balances aged over 60 days have a percentage applied by aging category (5% for balances 61-90 days, 20% for balances 91-120 days and 40% for balances over 120 days aged), based on a historical valuation, that allows us to calculate the total reserve required. This allowance was approximately 0.4% of revenue for 2008 and 2.4%, of accounts receivable as of December 31, 2008. Additionally, this allowance was approximately 0.3% of revenue for 2007 and 1.3% of accounts receivable as of December 31, 2007.



**Intangible Assets.** Intangible assets relating to acquired businesses consist primarily of the cost of purchased businesses in excess of the estimated fair value of net identifiable assets acquired or goodwill and the recognized value of the permits required to operate the business. We continually reevaluate the propriety of the carrying amount of permits and goodwill to determine whether current events and circumstances warrant adjustments to the carrying value. We test each Segment's (or Reporting Unit's) goodwill and permits, separately, for impairment, annually as of October 1. Our annual impairment test as of October 1, 2008 and 2007 resulted in no impairment of goodwill and permits. The methodology utilized in performing this test estimates the fair value of our operating segments using a discounted cash flow valuation approach. Those cash flow estimates incorporate assumptions that marketplace participants would use in their estimates of fair value. The most significant assumptions used in the discounted cash flow valuation regarding each of the Segment's fair value in connection with goodwill valuations are: (1) detailed five year cash flow projections, (2) the risk adjusted discount rate, and (3) the expected long-term growth rate. The primary drivers of the cash flow projection in 2008 included sales revenue and projected margin which are based on our current revenue, projected government funding as it relates to our existing government contracts and future revenue expected as part of the government stimulus plan. The risk adjusted discount rate represents the weighted average cost of capital and is established based on (1) the 20 year risk-free rate, which is impacted by events external to our business, such as investor expectation regarding economic activity (2) our required rate of return on equity, and (3) the current after tax rate of return on debt. In valuing our goodwill for 2008, risk adjusted discount rate of 18% was used for the Nuclear and Industrial Segment and 16% for our Engineering Segment. As of December 31, 2008, the fair value of our reporting units exceeds carrying value by approximately \$6,616,000, \$616,000, and \$3,329,000 above its carrying value for the Nuclear, Engineering, and Industrial Segment, respectively.

#### Property and Equipment

Property and equipment expenditures are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets for financial statement purposes, while accelerated depreciation methods are principally used for income tax purposes. Generally, annual depreciation rates range from ten to forty years for buildings (including improvements and asset retirement costs) and three to seven years for office furniture and equipment, vehicles, and decontamination and processing equipment. Leasehold improvements are capitalized and amortized over the lesser of the term of the lease or the life of the asset. Maintenance and repairs are charged directly to expense as incurred. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts, and any gain or loss from sale or retirement is recognized in the accompanying consolidated statements of operations. Renewals and improvement, which extend the useful lives of the assets, are capitalized. We include within buildings, asset retirement obligations, which represents our best estimates of the cost to close, at some undetermined future date, our permitted and/or licensed facilities.

**Accrued Closure Costs.** Accrued closure costs represent a contingent environmental liability to clean up a facility in the event we cease operations in an existing facility. The accrued closure costs are estimates based on guidelines developed by federal and/or state regulatory authorities under Resource Conservation and Recovery Act ("RCRA"). Such costs are evaluated annually and adjusted for inflationary factors (for 2009, the average inflationary factor was approximately 2.4%) and for approved changes or expansions to the facilities. Increases or decreases in accrued closure costs resulting from changes or expansions at the facilities are determined based on specific RCRA guidelines applied to the requested change. This calculation includes certain estimates, such as disposal pricing, external labor, analytical costs and processing costs, which are based on current market conditions. Except for the Michigan and Pittsburgh facilities, we have no current intention to close any of our facilities.

**Accrued Environmental Liabilities.** We have four remediation projects currently in progress. The current and long-term accrual amounts for the projects are our best estimates based on proposed or approved processes for clean-up. The circumstances that could affect the outcome range from new technologies that are being developed every day to reduce our overall costs, to increased contamination levels that could arise as we complete remediation which could increase our costs, neither of which we anticipate at this time. In addition, significant changes in regulations could adversely or favorably affect our costs to remediate existing sites or potential future sites, which cannot be reasonably quantified. In connection with the sale of our PFD facility in March 2008, the Company has retained the environmental liability for the remediation of an independent site known as EPS. This liability was assumed by the Company as a result of the original acquisition of the PFD facility. The environmental liabilities of PFM, PFMI, PFSG, and PFD remain the financial obligations of the Company.

**Disposal/Transportation Costs.** We accrue for waste disposal based upon a physical count of the total waste at each facility at the end of each accounting period. Current market prices for transportation and disposal costs are applied to the end of period waste inventories to calculate the disposal accrual. Costs are calculated using current costs for disposal, but economic trends could materially affect our actual costs for disposal. As there are limited disposal sites available to us, a change in the number of available sites or an increase or decrease in demand for the existing disposal areas could significantly affect the actual disposal costs either positively or negatively.

**Share-Based Compensation.** Effective January 1, 2006, we account for stock-based compensation in accordance with Financial Accounting Standards Board (“FASB”) Statement No. 123 (revised) (“SFAS 123R”), “Share-Based Payment”, a revision of FASB Statement No. 123, “Accounting for Stock-Based Compensation”, superseding APB Opinion No. 25, “Accounting for Stock Issued to Employees”, and its related implementation guidance. This Statement establishes accounting standards for entity exchanges of equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. We adopted SFAS 123R utilizing the modified prospective method in which compensation cost is recognized beginning with the effective date based on SFAS 123R requirements for all (a) share-based payments granted after the effective date and (b) awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date.

We estimate compensation expense based on the fair value at grant date for our employee and director options using the Black-Scholes valuation model and recognize compensation expense using a straight-line amortization method over the vesting period. As SFAS 123R requires that stock-based compensation expense be based on options that are ultimately expected to vest, our stock-based compensation is reduced for estimated forfeiture rates based on historical trends of actual forfeitures. When actual forfeitures vary from our estimates, we recognize the difference in compensation expense in the period the actual forfeitures occur or when options vest.

Our computation of expected volatility used to calculate the fair value of options granted using the Black-Scholes valuation model is based on historical volatility from our traded Common Stock over the expected term of the option grants. For our employee option grants made prior to 2008 (we had no option grant to employees in 2007), we used the simplified method, defined in the SEC’s Staff Accounting Bulletin No. 107, to calculate the expected term. For our employee option grants made since 2008, we computed the expected term based on historical exercises and post-vesting data. For the December 2008 and February 2009 option grants made to employees working under the CHPRC subcontract, we computed the expected term using the subcontract term of five years as our basis. For our director option grants, the expected term is calculated based on historical exercise and post-vesting data. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.



#### Known Trends and Uncertainties

Seasonality. Historically, we have experienced reduced activities and related billable hours throughout the November and December holiday periods within our Engineering Segment. Our Industrial Segment operations experience reduced activities during the holiday periods; however, one key product line is the servicing of cruise line business where operations are typically higher during the winter months, thus offsetting the impact of the holiday season. The DOE and DOD represent major customers for the Nuclear Segment. In conjunction with the federal government's September 30 fiscal year-end, the Nuclear Segment historically experienced seasonably large shipments during the third quarter, leading up to this government fiscal year-end, as a result of incentives and other quota requirements. Correspondingly for a period of approximately three months following September 30, the Nuclear Segment is generally seasonably slow, as the government budgets are still being finalized, planning for the new year is occurring, and we enter the holiday season. Over the past years, due to our efforts to work with the various government customers to smooth these shipments more evenly throughout the year, we have seen smaller fluctuations in the quarters. Although we have seen smaller fluctuation in the quarters in recent years, as government spending is contingent upon its annual budget and allocation of funding, we cannot provide assurance that we will not have larger fluctuations in the quarters in the near future. In addition, higher government (specifically DOE) funding made available to remediate DOE site than in past years under the 2009 federal budget, along with the economic stimulus package (American Recovery and Reinvestment Act) enacted by Congress in February 2009, could result in larger fluctuations in the quarters of 2009.

Economic Conditions. With much of our Nuclear Segment customer base being government or prime contractors treating government waste, economic upturns or downturns do not usually have a significant impact on the demand for our services. With our Industrial Segment, economic downturns or recessionary conditions can adversely affect the demand for our industrial services. Although we believe we are currently experiencing an economic downturn due to the recessionary economic environment, we continue to review contracts and revenue streams within our Industrial Segment in efforts to replace those that are not profitable with more profitable ones. Our Engineering Segment relies more on commercial customers though this segment makes up a very small percentage of our revenue.

We believe that the higher government funding made available to remediate DOE sites than past years under the 2009 federal budget along with the economic stimulus package (American Recovery and Reinvestment Act), enacted by the Congress in February 2009, will provide substantial funds to remediate DOE sites and thus should positively impact our existing government contracts within our Nuclear Segment. However, we expect that demand for our services will be subjected to fluctuations due to a variety of factors beyond our control, including the current economic recession and conditions, and the manner in which the government will be required to spend funding to remediate federal sites. Our operations depend, in large part, upon governmental funding, particularly funding levels at the DOE. In addition, our governmental contracts and subcontracts relating to activities at governmental sites are subject to termination or renegotiation on 30 days notice at the government's option. Significant reductions in the level of governmental funding or specifically mandated levels for different programs that are important to our business could have a material adverse impact on our business, financial position, results of operations and cash flows.

#### Certain Legal Matters:

Perma-Fix of Dayton ("PFD"), Perma-Fix of Florida ("PFF"), Perma-Fix of Orlando ("PFO"), Perma-Fix of South Georgia ("PFSG"), and Perma-Fix of Memphis ("PFM")

In May 2007, the above facilities were named Potentially Responsible Parties ("PRPs") at the Marine Shale Superfund site in St. Mary Parish, Louisiana ("Site"). Information provided by the EPA indicates that, from 1985 through 1996, the Perma-Fix facilities above were responsible for shipping 2.8% of the total waste volume received by Marine Shale. Subject to finalization of this estimate by the PRP group, PFF, PFO and PFD could be considered de-minimus at .06%, .07% and .28% respectively. PFSG and PFM would be major at 1.12% and 1.27% respectively. However, at this time the contributions of all facilities are consolidated.



As of the date of this report, the Louisiana Department of Environmental Quality (“LDEQ”) has collected approximately \$8,400,000 for the remediation of the site and has completed removal of above ground waste from the site. The EPA’s unofficial estimate to complete remediation of the site is between \$9,000,000 and \$12,000,000; however, based on preliminary outside consulting work hired by the PRP group, which we are a party to, the remediation costs could be below EPA’s estimation. The PRP Group has established a cooperative relationship with LDEQ and EPA, and is working closely with these agencies to assure that the funds held by LDEQ are used cost-effectively. As a result of negotiations with LDEQ and EPA, further remediation work by LDEQ has been put on hold pending completion of a site assessment by the PRP Group. This site assessment could result in remediation activities to be completed within the funds held by LDEQ. As part of the PRP Group, we have paid an initial assessment of \$10,000 in the fourth quarter of 2007, which was allocated among the facilities. In addition, we accrued approximately \$27,000 in the third quarter of 2008 for our estimated portion of the cost of the site assessment, which was allocated among the facilities. As of June 30, 2009, \$18,000 of the accrued amount has been paid, of which \$9,000 was paid in the fourth quarter of 2008 and \$9,000 was paid in the second quarter of 2009. We anticipate paying the remaining \$9,000 in the fourth quarter of 2009. As of the date of this report, we cannot accurately access our ultimate liability. The Company records its environmental liabilities when they are probable of payment and can be estimated within a reasonable range. Since this contingency currently does not meet this criteria, a liability has not been established.

#### Industrial Segment Divested Facilities/Operations

We sold substantially all of the assets of PFTS pursuant to an Asset Purchase Agreement on May 30, 2008. Under this Agreement the buyer assumed certain debts and obligations of PFTS, including, but not limited to, certain debts and obligations of PFTS to regulatory authorities under certain consent agreements entered into by PFTS with the appropriate regulatory authority to remediate portions of the facility sold to the buyer. If any of these liabilities/obligations are not paid or performed by the buyer, the buyer would be in breach of the Asset Purchase Agreement and we may assert claims against the buyer for such breach. We have sued the buyer of the PFTS’ assets regarding certain liabilities which we believe the buyer assumed and agreed to pay under the Asset Purchase Agreement but which the buyer has refused to satisfy as of the date of this report.

**Significant Customers.** Our revenues are principally derived from numerous and varied customers. However, we have a significant relationship with the federal government within our Nuclear Segment, and have continued to enter into contracts with (directly or indirectly as a subcontractor) the federal government. The contracts that we are a party to with the federal government or with others as a subcontractor to the federal government generally provide that the government may terminate on 30 days notice or renegotiate the contracts, at the government's election. Our inability to continue under existing contracts that we have with the federal government (directly or indirectly as a subcontractor) could have a material adverse effect on our operations and financial condition.

We performed services relating to waste generated by the federal government, either directly or indirectly as a subcontractor (including Fluor Hanford and CHPRC as discussed below) to the federal government, representing approximately \$16,822,000 or 71.0% and \$32,247,000 or 70.6% (within our Nuclear Segment) of our total revenue from continuing operations during the three and six months ended June 30, 2009, respectively, as compared to \$11,291,000 or 61.0% and \$19,392,000 or 53.9% of our total revenue from continuing operations during the corresponding period of 2008.

In the second quarter of 2008, our M&EC facility was awarded a subcontract by CHPRC, a general contractor to the DOE, to participate in the cleanup of the central portion of the Hanford Site, which once housed certain chemical separation building and other facilities that separated and recovered plutonium and other materials for use in nuclear weapons. This subcontract became effective on June 19, 2008, the date DOE awarded CHPRC the general contract. DOE's general contract and M&EC's subcontract provided a transition period from August 11, 2008 through September 30, 2008, a base period from October 1, 2008 through September 30, 2013, and an option period from October 1, 2013 through September 30, 2018. M&EC's subcontract is a cost plus award fee contract. On October 1, 2008, operations of this subcontract commenced at the DOE Hanford Site. We believe full operations under this subcontract will result in revenues for on-site and off-site work of approximately \$200,000,000 to \$250,000,000 over the five year base period. As provided above, M&EC's subcontract is terminable or subject to renegotiation, at the option of the government, on 30 days notice. Effective October 1, 2008, CHPRC also began management of waste activities previously managed by Fluor Hanford, DOE's general contractor prior to CHPRC. Our Nuclear Segment had three previous subcontracts with Fluor Hanford which have been renegotiated by CHPRC to September 30, 2013. Revenues from CHPRC totaled \$11,624,000 or 49.1% and \$22,371,000 or 49.0% of our total revenue from continuing operations for the three months and six months ended June 30, 2009, respectively. As revenue from Fluor Hanford has been transitioned to CHPRC, revenue from Fluor Hanford totaled \$0 of our total revenue from continuing operations for both the three and six months ended June 30, 2009, as compared to \$2,110,000 or 11.4% and \$3,875,000 or 10.8% for the three and six months ended June 30, 2008, respectively.

Insurance. We maintain insurance coverage similar to, or greater than, the coverage maintained by other companies of the same size and industry, which complies with the requirements under applicable environmental laws. We evaluate our insurance policies annually to determine adequacy, cost effectiveness and desired deductible levels. Due to the downturn in the economy, changes within the environmental insurance market, and the financial difficulties of AIG, the provider of our financial assurance policies, we have no guarantees as to continued coverage by AIG, that we will be able to obtain similar insurance in future years, or that the cost of such insurance will not increase materially.

#### Profit Sharing Plan

The Company adopted its 401(k) Plan in 1992, which is intended to comply with Section 401 of the Internal Revenue Code and the provisions of the Employee Retirement Income Security Act of 1974. All full-time employees who have attained the age of 18 are eligible to participate in the 401(k) Plan. Eligibility is immediate upon employment but enrollment is only allowed during two yearly open periods of January 1 and July 1. Participating employees may make annual pretax contributions to their accounts up to 100% of their compensation, up to a maximum amount as limited by law. We, at our discretion, may make matching contributions based on the employee's elective contributions. Company contributions vest over a period of five years. We matched 25% of our employees' contributions. We contributed \$401,000 in matching funds during 2008. Effective March 1, 2009, the Company suspended its matching contribution in an effort to reduce costs in light of the recent economic environment. The Company will evaluate the reversal of this suspension as the economic environment improves.

#### Environmental Contingencies

We are engaged in the waste management services segment of the pollution control industry. As a participant in the on-site treatment, storage, and disposal market and the off-site treatment and services market, we are subject to rigorous federal, state and local regulations. These regulations mandate strict compliance and therefore, are a cost and concern to us. Because of their integral role in providing quality environmental services, we make every reasonable attempt to maintain complete compliance with these regulations; however, even with a diligent commitment, we, along with many of our competitors, may be required to pay fines for violations or investigate and potentially remediate our waste management facilities.

We routinely use third party disposal companies, who ultimately destroy or secure landfill residual materials generated at our facilities or at a client's site. Compared with certain of our competitors, we dispose of significantly

less hazardous or industrial by-products from our operations due to rendering material non-hazardous, discharging treated wastewaters to publicly-owned treatment works and/or processing wastes into saleable products. In the past, numerous third party disposal sites have improperly managed wastes and consequently require remedial action; consequently, any party utilizing these sites may be liable for some or all of the remedial costs. Despite our aggressive compliance and auditing procedures for disposal of wastes, we could, in the future, be notified that we are a Potentially Responsible Party (“PRP”) at a remedial action site, which could have a material adverse effect.



We have budgeted for 2009, \$776,000 in environmental remediation expenditures to comply with federal, state, and local regulations in connection with remediation of certain contaminants at our facilities. Our facilities where the remediation expenditures will be made are the Leased Property in Dayton, Ohio (EPS), a former RCRA storage facility as operated by the former owners of PFD, PFM's facility in Memphis, Tennessee, PFSG's facility in Valdosta, Georgia, and PFMI's facility in Detroit, Michigan. The environmental liability of PFD (as it relates to the remediation of the EPS site assumed by the Company as a result of the original acquisition of the PFD facility) was retained by the Company upon the sale of PFD in March 2008. While no assurances can be made that we will be able to do so, we expect to fund the expenses to remediate these sites from funds generated internally.

At June 30, 2009, we had total accrued environmental remediation liabilities of \$1,657,000 of which \$825,000 is recorded as a current liability, which reflects a decrease of \$176,000 from the December 31, 2008, balance of \$1,833,000. The decrease represents payments on remediation projects. The June 30, 2009, current and long-term accrued environmental balance is recorded as follows (in thousands):

	Current Accrual	Long-term Accrual	Total
PFD	\$ 176	\$ 260	\$ 436
PFM	66	140	206
PFSG	133	371	504
PFMI	450		