PERMA FIX ENVIRONMENTAL SERVICES INC
Form 10-Q
August 05, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011

Or

o 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 T 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 (§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 T 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 T 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 T

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 1, 2011
Common Stock, $.001 Par Value	55,173,586 shares of registrant's Common Stock

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

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PART I - FINANCIAL INFORMATION
ITEM 1. – Financial Statements

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Consolidated Balance Sheets

(Amounts in Thousands, Except for Share and per Share Amounts)	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash	$ 27	$ 101
Restricted cash	35	35
Accounts receivable, net of allowance for doubtful accounts of $200 and $215, respectively	14,878	8,541
Unbilled receivables - current	10,558	9,436
Inventories	385	465
Prepaid and other assets	2,072	2,870
Deferred tax assets - current	562	1,734
Current assets related to discontinued operations	2,187	2,034
Total current assets	30,704	25,216
Property and equipment:		
Buildings and land	25,437	24,693
Equipment	33,357	33,279
Vehicles	235	235
Leasehold improvements	11,510	11,506
Office furniture and equipment	1,906	1,890
Construction-in-progress	1,440	593
	73,885	72,196
Less accumulated depreciation and amortization	(34,022)	(31,753)
Net property and equipment	39,863	40,443
Property and equipment related to discontinued operations	4,213	4,209
Intangibles and other long term assets:		
Permits	16,878	16,863
Goodwill	16,170	15,330
Unbilled receivables – non-current	1,756	2,556
Finite Risk Sinking Fund	19,329	17,424
Other assets	2,179	2,084
Intangible and other assets related to discontinued operations	1,190	1,190
Total assets	$ 132,282	$ 125,315

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Consolidated Balance Sheets, Continued

(Amounts in Thousands, Except for Share and per Share Amounts)	June 30, 2011 (Unaudited)	December 31, 2010
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,480	$ 4,891
Accrued expenses	6,569	5,996
Disposal/transportation accrual	2,699	2,188
Unearned revenue	6,410	3,527
Current liabilities related to discontinued operations	3,414	2,673
Current portion of long-term debt	2,328	3,612
Total current liabilities	27,900	22,887
Accrued closure costs	12,401	12,362
Other long-term liabilities	579	671
Deferred tax liability	1,235	1,180
Long-term liabilities related to discontinued operations	2,199	3,074
Long-term debt, less current portion	6,929	6,637
Total long-term liabilities	23,343	23,924
Total liabilities	51,243	46,811
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	¾	¾
Common Stock, $.001 par value; 75,000,000 shares authorized, 55,175,897 and 55,106,180 shares issued, respectively; 55,137,687 and 55,067,970 shares outstanding, respectively	55	55
Additional paid-in capital	101,157	100,821
Accumulated deficit	(21,370)	(23,569)
Less Common Stock in treasury at cost; 38,210 shares, respectively	(88)	(88)
Total stockholders' equity	79,754	77,219
Total liabilities and stockholders' equity	$ 132,282	$ 125,315

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

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

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net revenues	$28,913	$25,847	$52,528	$49,413
Cost of goods sold	20,864	18,665	41,449	37,288
Gross profit	8,049	7,182	11,079	12,125
Selling, general and administrative expenses	3,436	3,376	6,808	6,818
Research and development	395	179	661	389
Loss on disposal of property and equipment	¾	¾	¾	2
Income from operations	4,218	3,627	3,610	4,916
Other income (expense):				
Interest income	13	16	26	37
Interest expense	(183)	(206)	(359)	(424)
Interest expense-financing fees	(54)	(102)	(156)	(205)
Other	3	¾	3	5
Income from continuing operations before taxes	3,997	3,335	3,124	4,329
Income tax expense	1,445	1,219	1,105	1,638
Income from continuing operations	2,552	2,116	2,019	2,691
(Loss) income from discontinued operations, net of taxes	(32)	(670)	180	(608)
Net income	$2,520	$1,446	$2,199	$2,083
Net income (loss) per common share – basic:				
Continuing operations	$.05	$.04	$.04	$.05
Discontinued operations	¾	(.01)	¾	(.01)
Net income per common share	$.05	$.03	$.04	$.04
Net income (loss) per common share – diluted:				
Continuing operations	$.05	$.04	$.04	$.05
Discontinued operations	¾	(.01)	¾	(.01)
Net income per common share	$.05	$.03	$.04	$.04
Number of common shares used in computing net income (loss) per share:				
Basic	55,136	54,991	55,118	54,843
Diluted	55,136	55,124	55,123	55,012

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

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

	Six Months Ended June 30,	
(Amounts in Thousands)	2011	2010
Cash flows from operating activities:		
Net income	$2,199	$2,083
Less: income (loss) on discontinued operations	180	(608)
Income from continuing operations	2,019	2,691
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	2,332	2,220
Amortization of debt discount	121	167
Deferred taxes	1,227	1,213
(Benefit) provision for bad debt and other reserves	(15)	27
Loss on disposal of plant, property and equipment		2
Issuance of common stock for services	108	120
Share based compensation	192	165
Changes in operating assets and liabilities of continuing operations, net of effect from business acquisitions:		
Accounts receivable	(6,322)	3,137
Unbilled receivables	(322)	1,531
Prepaid expenses, inventories and other assets	667	1,047
Accounts payable, accrued expenses and unearned revenue	4,126	(8,172)
Cash provided by continuing operations	4,133	4,148
Cash used in discontinued operations	(31)	(33)
Cash provided by operating activities	4,102	4,115
Cash flows from investing activities:		
Purchases of property and equipment	(1,689)	(1,085)
Payment to finite risk sinking fund	(1,905)	(1,916)
Cash used in investing activities of continuing operations	(3,594)	(3,001)
Cash used in investing activities of discontinued operations	(135)	(345)
Net cash used in investing activities	(3,729)	(3,346)
Cash flows from financing activities:		
Net borrowing of revolving credit	1,047	2
Principal repayments of long term debt	(2,124)	(1,928)
Proceeds from finite risk financing	685	653
Proceeds from issuance of stock		509
Cash used in financing activities of continuing operations	(392)	(764)
Principal repayments of long term debt for discontinued operations	(55)	(21)
Cash used in financing activities	(447)	(785)
Decrease in cash	(74)	(16)
Cash at beginning of period	101	66
Cash at end of period	$27	$50

Supplemental disclosure:		
Interest paid	$409	$544
Income taxes paid	70	400
Non-cash investing and financing activities:		
Warrants extension for debt modification	36	

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited, for the six months ended June 30, 2011)

(Amounts in thousands, except for share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Common Stock Held In Treasury	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2010	55,106,180	$ 55	$ 100,821	$ (88)	$ (23,569)	$ 77,219
Net income	¾	¾	¾	¾	2,199	2,199
Warrant extension for debt modification	¾	¾	36	¾	¾	36
Issuance of Common Stock for services	69,717	¾	108	¾	¾	108
Stock-Based Compensation	¾	¾	192	¾	¾	192
Balance at June 30, 2011	55,175,897	$ 55	$ 101,157	$ (88)	$ (21,370)	$79,754

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

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

June 30, 2011
(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, 2010.

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, 2011 are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2011.

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, 2010.

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

As previously disclosed, on October 6, 2010, our Board of Directors authorized the divestiture of our three remaining operations within our Industrial Segment, Perma-Fix of Fort Lauderdale, Inc. ("PFFL"), Perma-Fix of South Georgia, Inc. ("PFSG"), and Perma-Fix of Orlando, Inc. ("PFO"). On October 6, 2010, PFFL, PFSG, and PFO met the held for sale criteria under Accounting Standards Codification ("ASC") 360 ("ASC 360"), "Property, Plant, and Equipment", and therefore, certain assets and liabilities of these facilities have been reclassified as discontinued operations in the Consolidated Balance Sheet, and we ceased depreciation of these facilities' long-lived assets classified as held for sale. The results of operations and cash flows of these three operations have been reported in the Consolidated Financial Statements as discontinued operations for all periods presented. See "Note 8 – Discontinued Operations" for definitive agreement and letter of intent ("LOI") entered into by the Company to sell PFFL and PFO, respectively.

2. Summary of Significant Accounting Policies

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

Recently Issued Accounting Standards
In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04 ("ASU 2011-04"), "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". ASU 2011-04 improves comparability of fair

value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRSs"). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. The amendments in this guidance are to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. We do not expect ASU 2011-04 to have a material effect on our financial position, results of operations, or cash flow.

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In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income", which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for interim and annual periods beginning after Dec. 15, 2011 with early adoption permitted. We do not expect ASU 2011-05 to have a material impact on our current presentation.

3. Stock Based Compensation

We follow FASB ASC 718, "Compensation – Stock Compensation" ("ASC 718") to account for stock-based compensation. ASC 718 requires all stock-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 a vesting period of six months.

No stock options were granted during the first six months of 2011 and 2010.

As of June 30, 2011, we had 1,730,833 employee stock options outstanding, of which 1,419,000 are vested. The weighted average exercise price of the 1,419,000 outstanding and fully vested employee stock options is $2.06 with a remaining weighted contractual life of 2.10 years. Additionally, we had 736,000 outstanding director stock options, all of which are vested. The weighted average exercise price of the 736,000 outstanding and fully vested director stock options is $2.24 with a remaining weighted contractual life of 5.16 years.

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 following table summarizes stock-based compensation recognized for the three and six months ended June 30, 2011 and 2010 for our employee and director stock options.

Stock Options	Three Months Ended June 30,				Six Months Ended June 30,			
		2011		2010		2011		2010
Employee Stock Options	$	76,000	$	79,000	$	152,000	$	138,000
Director Stock Options		¾		¾		40,000		27,000
Total	$	76,000	$	79,000	$	192,000	$	165,000

We recognized stock-based compensation expense using a straight-line amortization method over the requisite period, which is the vesting period of the stock option grant. ASC 718 requires that stock based compensation expense be based on options that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We have generally estimated forfeiture rate 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. As of June 30, 2011, we have approximately $51,000 of total unrecognized compensation cost related to unvested options, of which $48,000 is expected to be recognized in the remainder of 2011 and $3,000 in 2012.

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4. Capital Stock, Stock Plans, and Warrants

During the six months ended June 30, 2011, we issued 69,717 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. 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 attendance 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, 2011 as compared to June 30, 2010, and changes during the periods then ended are presented as follows. The Company's Plans consist of the 1993 Non-Qualified Stock Option plan, the 2004 and 2010 Stock Option Plans, and the 1992 and 2003 Outside Director Plans:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding Janury 1, 2011	2,755,525	$ 2.09		
Granted				
Exercised				$
Forfeited	(288,692)	1.79		
Options outstanding End of Period (1)	2,466,833	2.12	3.2	$
Options Exercisable at June 30, 2011 (1)	2,155,000	$ 2.12	3.1	$
Options Vested and expected to be vested at June 30, 2011	2,450,801	$ 2.12	3.2	$

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding Janury 1, 2010	3,109,525	$ 2.05		
Granted				
Exercised	(350,000)	1.70		$ 223,000
Forfeited	(55,000)	2.17		
Options outstanding End of Period (1)	2,704,525	2.09	3.6	$ 28,450
Options Exercisable at June 30, 2010 (1)	2,080,858	$ 2.08	3.4	$ 13,250
Options Vested and expected to be vested at June 30, 2010	2,666,742	$ 2.09	3.6	$ 28,450

(1) Options with exercise prices ranging from $1.42 to $2.98

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5. Earnings (Loss) Per Share

Basic earnings (loss) 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, 2011 and 2010:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
(Amounts in Thousands, Except for Per Share Amounts)	2011	2010	2011	2010
Income per share from continuing operations				
Income from continuing operations	$ 2,552	$ 2,116	2,019	$ 2,691
Basic income per share	$ .05	$ .04	.04	$ .05
Diluted income per share	$ .05	$ .04	.04	$ .05
(Loss) income per share from discontinued operations				
(Loss) income from discontinued operations	$ (32)	$ (670)	180	$ (608)
Basic loss per share	$ ¾	$ (.01)	¾	$ (.01)
Diluted loss per share	$ ¾	$ (.01)	¾	$ (.01)
Weighted average common shares outstanding – basic	55,136	54,991	55,118	54,843
Potential shares exercisable under stock option plans	¾	99	5	131
Potential shares upon exercise of Warrants	¾	34	¾	38
Weighted average shares outstanding – diluted	55,136	55,124	55,123	55,012
Potential shares excluded from above weighted average share calculations due to their anti-dilutive effect include:				
Upon exercise of options	2,467	1,715	2,317	1,625
Upon exercise of Warrants	150	¾	150	¾

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6. Long Term Debt

Long-term debt consists of the following at June 30, 2011 and December 31, 2010:

(Amounts in Thousands)	June 30, 2011	December 31, 2010
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, 2011) plus 2.0% or minimum floor base London InterBank Offer Rate ("LIBOR") of 1.0% plus 3.0%, balance due in July 2012. Effective interest rate for the six months of 2011 was 4.0%. (1) (2)	$3,066	$2,019
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 1.0% plus 3.5%. Effective interest rate for six months of 2011 was 4.5%. (1) (2)	4,167	4,667
Installment Agreement in the Agreement and Plan of Merger with Nuvotec and PEcoS, dated April 27, 2007, payable in three equal yearly installments of principal of $833 beginning June, 2009. Interest accrues at annual rate of 8.25% on outstanding principal balance. Final principal and remaining accrued interest payment was due on June 30, 2011.	—	833
Promissory Note dated April 18, 2011, payable in monthly installments of principal of $83 starting May 8, 2011, balance due April 8, 2012, variable interest paid monthly at LIBOR plus 4.5%, with LIBOR at least 1.5%.(3) (4)	793	1,222
Promissory Note dated September 28, 2010, payable in 36 monthly equal installments of $40, which includes interest and principal, beginning October 15, 2010, interest accrues at annual rate of 6.0% (5)	1,011	1,218
Various capital lease and promissory note obligations, payable 2011 to 2015, interest at rates ranging from 5.0% to 9.1%.	572	697
	9,609	10,656
Less current portion of long-term debt	2,328	3,612
Less long-term debt related to assets held for sale	352	407
	$6,929	$6,637

(1) Our Revolving Credit is collateralized by our accounts receivable and our Term Loan is collateralized by our property, plant, and equipment.

(2) From March 5, 2009 to January 24, 2010, variable interest was determined based on the options as noted; however, minimum floor base under the LIBOR option was 2.5% for both our Revolving Credit and Term Loan. Effective January 25, 2010, minimum floor base under the LIBOR option was amended from 2.5% to 1.0%.

(3) Original promissory note dated May 8, 2009 of $3,000,000 was modified on April 18, 2011, with principal balance of approximately $990,000. See "Promissory Note and Installment Agreement" below for terms of original and amended promissory notes.

(4) Net of debt discount of ($32,000) and ($117,000) for June 30, 2011 and December 31, 2010, respectively. See "Promissory Note and Installment Agreement" below for additional information.

(5) Uncollateralized note.

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Revolving Credit and Term Loan Agreement

On December 22, 2000, we entered into a Revolving Credit, Term Loan and Security Agreement ("Loan Agreement") with PNC Bank, National Association (“PNC”), a national banking association 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, 2011, the excess availability under our Revolving Credit was $13,843,000 based on our eligible receivables.

Promissory Note and Installment Agreement

In conjunction with our acquisition of Perma-Fix Northwest, Inc. (“PFNW”), we agreed to pay shareholders of Nuvotec (n/k/a PFNW) 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 installments of $833,333 on June 30, 2009, June 30, 2010, and June 30, 2011. Interest is accrued on the 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. On June 30, 2011, we made the final principal installment of $833,333 plus accrued interest of $69,000.

On September 28, 2010, the Company entered into a promissory note in the principal amount of $1,322,000, with the former shareholders of Nuvotec in connection with an earn-out amount that we are required to pay upon meeting certain conditions for each earn-out measurement year ending June 30, 2008 to June 30, 2011, as a result of our acquisition of PFNW and Perma-Fix Northwest Richland, Inc. (“PFNWR”). Interest is accrued at an annual interest rate of 6%. The promissory note provides for 36 equal monthly payments of approximately $40,000, consisting of interest and principal, starting October 15, 2010. The promissory note may be prepaid at any time without penalty. See further details of the earn-out amount in “Note 7 - Commitments and Contingencies - Earn-Out Amount – Perma-Fix Northwest, Inc. (“PFNW”) and Perma-Fix Northwest Richland, Inc. (“PFNWR”)”.

On May 8, 2009, the Company entered into a promissory note with William N. Lampson and Diehl Rettig (collectively, the “Lenders”) for $3,000,000. The Lenders were formerly shareholders of PFNW prior to our acquisition of PFNW and PFNWR and are also stockholders of the Company having received shares of our Common Stock in connection with our acquisition of PFNW and PFNWR. The promissory note provided for monthly principal repayment of approximately $87,000 plus accrued interest, starting June 8, 2009, with interest payable at LIBOR plus 4.5%, with LIBOR at least 1.5%. Any unpaid principal balance along with accrued interest was due May 8, 2011. We paid approximately $22,000 in closing costs on the promissory note which was being amortized over the term of the note. The promissory note may be prepaid at any time 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 were exercisable six months from May 8, 2009 and were to expire on May 8, 2011. 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. The fair value of the Common Stock and Warrants on the date of issuance was estimated to be $476,000 and $190,000, respectively. The fair value of the Common Stock and Warrants was recorded as a debt discount and was being amortized over the term of the loan as interest expense – financing fees. On April 18, 2011, we entered into an amendment to the promissory note whereby the remaining principal balance on the promissory note of approximately $990,000 is to be repaid in twelve monthly principal payments of approximately $82,500 plus accrued interest, starting May 8, 2011, with interest payable at the same rate of the original loan. As consideration of the amended loan, the original Warrants issued to Mr. Lampson and to Mr. Rettig which were to expire on May 8, 2011, were extended to May 8, 2012 at the same exercise price (Mr. Rettig is now deceased; accordingly, the amended Warrant and the remaining portion of the note payable to Mr. Rettig is now held by and payable to his personal representative or estate). We accounted for the amended loan as a modification in accordance with ASC 470-50, "Debt – Modifications and Extinguishments". At the date of the loan modification, unamortized debt discount and fees on the original loan and the fair value of the modified Warrants were determined to be approximately $42,000, which is being amortized as debt discount over the term of the modified loan as interest expense-financing fees in accordance to ASC 470-50.

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The promissory note also includes an embedded Put Option ("Put") that can be exercised upon default, whereby the lender has the option to receive a cash payment equal to the amount of the unpaid principal balance plus all accrued and unpaid interest, or the number of whole shares of our Common Stock equal to the outstanding principal balance. The maximum number of payoff shares is restricted to less than 19.9% of the outstanding equity. We concluded that the Put should have been bifurcated at inception; however, the Put had and continues to have nominal value as of June 30, 2011. We will continue to monitor the fair value of the Put until expiration.

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 ("PRP") for the costs of the cleanup notwithstanding any absence of fault on our part.

Legal Matters

In the normal course of conducting our business, we are involved in various litigations. We are not a party to any litigation or governmental proceeding which our management believes could result in any judgments or fines against us that would have a material adverse effect on our financial position, liquidity or results of future operations.

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

In connection with the acquisition of PFNW and PFNWR in June 2007, we are required to pay to those former shareholders of Nuvotec (n/k/a "PFNW") immediately prior to our acquisition, an earn-out amount upon meeting certain conditions for each measurement year ended 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 ("Agreement"). Under the Agreement, the earn-out amount to be paid for any particular measurement year is to be an amount equal to 10% of the amount that the revenues for our nuclear business (as defined) for such measurement year exceeds the budgeted amount of revenues for our nuclear business for that particular period. No earn-out was required to be paid for measurement year 2008, and we paid $734,000 in earn out for measurement year 2009 in 2009. We were required to pay $2,978,000 in earn-out prior to the Offset Amounts as discussed below for measurement year ended June 30, 2010. Pursuant to the Agreement, any indemnification obligations payable to the Company by the former shareholders of Nuvotec will be deducted ("Offset Amount") from any earn-out amounts payable by the Company for the measurement year ended June 30, 2010, and June 30, 2011. Pursuant to the Agreement, the aggregate amount of any Offset Amount may total up to $1,000,000, except an Offset Amount is unlimited as to indemnification relating to liabilities for taxes, misrepresentation or inaccuracies with respect to the capitalization of Nuvotec or PEcoS or for willful or reckless misrepresentation of any representation, warranty or covenant. For the $2,978,000 in earn-out for measurement year ended June 30, 2010, we identified an Offset Amount of approximately $93,000 relating to an excise tax issue and a refund request from a PEcoS (n/k/a "PFNWR") customer in connection with services for waste treatment prior to our acquisition of PFNWR and PFNW. We also identified an anticipated Offset Amount of $563,000 in connection with the receipt of nonconforming waste at the PFNWR facility prior to our acquisition of PFNWR and PFNW. We are currently involved in litigation with the party that delivered the nonconforming waste to the facility prior to our acquisition of PFNWR and PFNW. After the total Offset Amount of $93,000 and the anticipated Offset Amount of $563,000, we were required to pay $2,322,000 in earn-out amount for measurement year ended June 30, 2010. In September 2010, we paid $1,000,000 of the $2,322,000 in earn-out amount, with the remaining $1,322,000 payable in a promissory note (see "Note 6 – Long Term Debt – Promissory Note and Installment Agreement" for details and terms of the promissory note). As of June 30, 2011, we have determined that the remaining $840,000 in earn-out amount has been earned for measurement year ended June 30, 2011; accordingly, this amount was recorded as an increase to goodwill for PFNWR, with an increase to accrued expense. We anticipate paying this earn-out amount in October 2011.

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Insurance

The Company has a 25-year finite risk insurance policy entered into in June 2003 with Chartis, a subsidiary of 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, as amended in 2009, provides for a maximum allowable coverage of $39,000,000 and has available capacity to allow for annual inflation and other performance and surety bond requirements. This finite risk insurance policy requires the following payments:

- an upfront payment of $4,000,000, of which $2,766,000 represents the full premium for the 25-year term of the policy, and the remaining $1,234,000, is to be deposited in a sinking fund account representing a restricted cash account.
- seven annual installments of $1,004,000 starting February 2004, of which $991,000 is to be deposited in a sinking fund account, with the remaining $13,000 representing a terrorism premium.
- a payment of $2,000,000 due on March 6, 2009, of which approximately $1,655,000 is to be deposited into a sinking fund account, with the remaining representing a fee payable to Chartis.
- three yearly payments of approximately $1,073,000 payable starting December 31, 2009, of which $888,000 is be deposited into a sinking fund account, with the remaining representing a fee payable to Chartis. The second of the third payments was made in January 2011; and
- a payment of $2,008,000 (payable in February 2011), of which $1,982,000 is to be deposited in a sinking fund account, with the remaining $26,000 representing a terrorism premium.

During February 2011, the $2,008,000 and the $1,073,000 installment payments which had remained payable on the closure policy were amended, subject to finalization of the closure policy modification, as follows: $1,004,000 was to be paid by February 2011, of which $991,000 was to be deposited into a sinking fund, with the remaining $13,000 representing a terrorism premium; $1,073,000 is due December 2011, of which $888,000 is to be deposited into a sinking fund account, with the remaining representing a fee payable to Chartis; and a final payment of $1,054,000 due February 2012, of which $991,000 is to be deposited into a sinking fund, $13,000 representing a terrorism premium, and the remaining $50,000 representing a fee payable to Chartis. In February 2011, we paid the $1,004,000 under the amended terms. As a result of the revision to the payment terms, the maximum allowable coverage under this closure policy was revised to $36,431,000 as of February 2011, with such maximum allowable coverage increased to $37,300,000 in March 2011. The maximum allowable coverage will be increased to $39,000,000 upon final payment of the $1,054,000 in February 2012.

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As of June 30, 2011, our total financial coverage amount under this policy totaled $36,696,000. We have recorded $13,456,000 in our sinking fund related to the policy noted above on the balance sheet, which includes interest earned of $864,000 on the sinking fund as of June 30, 2011. Interest income for the three and six months ended June 30, 2011, was approximately $8,000 and $17,000, respectively. On the fourth and subsequent anniversaries of the contract inception, we may elect to terminate this contract. If we so elect, Chartis 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 with Chartis. The policy provides an initial $7,800,000 of financial assurance coverage with an annual growth rate of 1.5%, which at the end of the four year term policy, will provide maximum coverage of $8,200,000. We will have the option to renew this policy at the end of the four year term (see "Note 11 – Subsequent Event – Finite Risk Insurance Policy" for renewal of this policy). The policy requires total payments of $7,158,000, consisting of an initial payment of $1,363,000 ($1,106,000 represented premium on the policy and the remaining was deposited into a sinking fund account), two annual payments of $1,520,000 (for each annual payment, $1,344,000 was deposited into a sinking fund and the remaining represented premium), and an additional $2,755,000 payment (paid quarterly and all deposited into a sinking fund). We have made all of the payments. As of June 30, 2011, we have recorded $5,873,000 in our sinking fund related to this policy on the balance sheet, which includes interest earned of $173,000 on the sinking fund as of June 30, 2011. Interest income for the three and six months ended June 30, 2011 totaled approximately $4,000 and $8,000, respectively.

8. Discontinued Operations

Our discontinued operations consist of our PFFL, PFSG, and PFO facilities which met the held for sale criteria under ASC 360, "Property, Plant, and Equipment" on October 6, 2010, as previously discussed. Our discontinued operations also 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, which we completed the sale of substantially all of the assets on January 8, 2008, March 14, 2008, and May 30, 2008, respectively. Our discontinued operations also includes three previously shut down locations, Perma-Fix of Pittsburgh, Inc. ("PFP"), Perma-Fix of Michigan, Inc. ("PFMI"), and Perma-Fix of Memphis, Inc. ("PFM"), which were approved as discontinued operations by our Board of Directors effective November 8, 2005, October 4, 2004, and March 12, 1998, respectively.

On February 25, 2011, we entered into two separate LOIs with a hazardous waste management company to sell our PFFL and PFO operations. One of the LOIs covers the sale of assets of PFO for approximately $2,000,000, plus assumption by the purchaser of certain liabilities. The second LOI covers the acquisition of all outstanding stock of PFFL, for approximately $5,500,000.

On June 13, 2011, we entered into a definitive Stock Purchase Agreement ("Agreement") to sell 100% of the capital stock of PFFL, to the hazardous waste management company noted above for approximately $5,500,000 in cash, subject to certain working capital adjustments. The completion of this transaction is subject to the satisfaction of numerous conditions precedent. We expect to close this transaction during August 2011.

We continue to move forward in negotiation for a definitive agreement to sell our PFO operation. The purchase price of the LOI is subject to adjustment under certain conditions, including, but not limited to, completion of due diligence by the buyer, negotiation and execution of definitive agreements, and approval by the Board of Directors of both companies.

As required by ASC 360, we concluded that no tangible asset impairment existed as of June 30, 2011, for PFFL, PFO, and PFSG. We also performed internal financial valuations on the intangible assets of these three operations as required by ASC 350, "Intangibles-Goodwill and Other" and concluded that no goodwill or other intangible asset impairments existed for these three operations as of June 30, 2011.

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The following table summarizes the results of discontinued operations for the three and six months ended June 30, 2011, and 2010. The operating results of discontinued operations are included in our Consolidated Statements of Operations as part of our "(Loss) income from discontinued operations, net of taxes".

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2011	2010	2011	2010
Net revenues	$2,538	$2,249	$5,167	4,542
Interest expense	$(18)	$(28)	$(37)	$(45)
Operating (loss) income from discontinued operations	(45)	(838)	278	(760)
Income tax (benefit) expense	$(13)	(168)	$98	(152)
Income (loss) from discontinued operations	$(32)	$(670)	$180	$(608)

Assets and liabilities related to discontinued operations total $7,590,000 and $5,613,000 as of June 30, 2011, respectively and $7,433,000 and $5,747,000 as of December 31, 2010, 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, 2011 and December 31, 2010. The held for sale assets and liabilities may differ at the closing of a sale transaction from the reported balances as of June 30, 2011:

(Amounts in Thousands)	June 30, 2011	December 31, 2010
Accounts receivable, net (1)	$ 1,934	$ 1,760
Inventories	128	131
Other assets	1,274	1,295
Property, plant and equipment, net (2)	4,213	4,209
Total assets held for sale	$ 7,549	$ 7,395
Accounts payable	$ 558	$ 705
Accrued expenses and other liabilities	1,279	1,170
Note payable	352	407
Environmental liabilities	1,498	1,500
Total liabilities held for sale	$ 3,687	$ 3,782

(1) net of allowance for doubtful accounts of $226,000 and $97,000 as of June 30, 2011 and December 31, 2010, respectively.

(2) net of accumulated depreciation of $755,000 for each period presented.

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, 2011 and December 31, 2010:

(Amounts in Thousands)	June 30, 2011	December 31, 2010
Other assets	$ 41	$ 38
Total assets of discontinued operations	$ 41	$ 38

Accrued expenses and other liabilities	$	1,094	$	1,209
Environmental liabilities		832		756
Total liabilities of discontinued operations	$	1,926	$	1,965

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The environmental liabilities for our discontinued operations consist of remediation projects currently in progress at PFMI, PFM, PFD, and PFSG. These remediation projects principally entail the removal/remediation of contaminated soil, and in some cases, the remediation of surrounding ground water. All of the remedial clean-up projects were an issue for years prior to our acquisition of the facility and were recognized pursuant to a business combination and recorded as part of the purchase price allocation to assets acquired and liabilities assumed. The environmental liability for PFD was retained by the Company upon the sale of PFD in March 2008 and pertains to the remediation of a leased property which was separate and apart from the property on which PFD’s facility was located. The net increase in environmental liabilities of approximately $74,000 from the December 31, 2010 balance of $2,256,000 represents an increase to the reserve of $50,000 and $163,000 at PFMI and PFM, respectively, due to reassessment of our remediation reserves, offset by payment on remediation projects of $139,000.

“Accrued expenses and other liabilities” (not held for sale) for our discontinued operations include a pension payable at PFMI of $618,000 as of June 30, 2011. The pension plan withdrawal liability is a result of the termination of the union employees of PFMI. The PFMI union employees participated 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 $215,000 that we expect to pay over the next year.

9. Operating Segments

In accordance to ASC 280, “Segment Reporting”, 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 Chief Executive Officer 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 two 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 includes all facilities within our Industrial Segment (See Note 8 – “Discontinued Operations”).

Our operating segments are defined as follows:

The 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 and on-site waste man