PERMA FIX ENVIRONMENTAL SERVICES INC
Form 10-K/A
December 12, 2013

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

FORM 10-K/A
Amendment No. 1

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
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. 1-11596

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, #250, Atlanta, GA (Address of principal executive offices)	30350 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 Par Value	NASDAQ Capital Markets

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 x 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 Act).
Yes o No x

The aggregate market value of the Registrant's voting and non-voting common equity held by nonaffiliates of the Registrant computed by reference to the closing sale price of such stock as reported by NASDAQ as of the last business day of the most recently completed second fiscal quarter (June 30, 2012), was approximately $59,199,485. For the purposes of this calculation, all executive officers and directors of the Registrant (as indicated in Item 12) are deemed to be affiliates. Such determination should not be deemed an admission that such directors or officers, are, in fact, affiliates of the Registrant. The Company's Common Stock is listed on the NASDAQ Capital Markets.

As of December 9, 2013, there were 11,398,931 shares of the registrant's Common Stock, $.001 par value, outstanding.

Documents incorporated by reference: none

Explanatory Note

This Form 10-K/A – Amendment No.1 (“Amended Filing”) is being filed to amend our Form 10-K for the year ended December 31, 2012 (“Original Filing”) which was originally filed with the Securities and Exchange Commission (the “Commission”) on March 22, 2013 (the “Original Filing Date”).

The Amended Filing is a result of the restatement of our previously issued and audited consolidated financial statements and related disclosures for the years ended December 31, 2012, 2011, and 2010 included in our Original Filing. The impacts of the restatement on our Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Comprehensive (Loss) Income, and Consolidated Statements of Cash Flows are detailed in Note 1A to the “Notes to the Consolidated Financial Statements.” The Amended Filing is also being made to revise unaudited quarterly financial information for 2012 and 2011. The impact of the restatement affects only the fourth quarter of the unaudited quarterly financial information for each of the years 2012 and 2011 (see “Note 17”).

Restatement Background
On November 13, 2013, management of Perma-Fix Environmental Services, Inc. (the “Company”) concluded, in consultation with the Audit Committee of the Board of Directors (“Audit Committee”) and BDO USA, LLP, the Company’s independent registered public accounting firm, that the following financial statements previously filed by the Company with the Commission should no longer be relied upon: the audited consolidated financial statements for the years ended December 31, 2012, 2011, and 2010 on its Original Filing as filed with the Commission on March 22, 2013.

During the process of reviewing and filing the Company’s 2012 corporate income tax returns, the Company identified information related to certain deferred tax assets (“DTA”) that were recorded as part of the acquisition of our Diversified Scientific Services, Inc. subsidiary (“DSSI”) in 2000. Upon subsequent analysis of this information, the Company determined that there was not sufficient support for a portion of the DTA. The adjustment of DTA also resulted in re-evaluation and adjustments to valuation allowance and reserve for uncertain tax positions. The Company also performed a review of its deferred tax liabilities (“DTL”) and determined that the reported DTL related to depreciation for fixed assets for 2011 was understated. To correct theses errors, the Company reduced the beginning retained earnings balance in 2010 by approximately $1.6 million, reduced income tax expense by approximately $1.4 million in 2010, recorded approximately $5.8 million of income tax expense in 2011 and reversed $2.9 million of income tax expense recorded in 2012.

The restatement had no impact on the Company’s previously reported cash and cash equivalents, revenue or income (loss) from continuing operations before income taxes.

In addition to this Amended Filing, we intend to file during December 2013, our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 (“Form 10-Q”). The Company will not amend its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, as the effect of the restatement has no material impact to the Condensed Consolidated Statement of Operations, Condensed Consolidated Statements of Comprehensive (Loss) Income and the Condensed Consolidated Statement of Cash Flows for each of the reporting and comparative periods noted.

Items Amended in This Amended Filing
For the convenience of the reader, this Amended Filing sets forth the Original Filing, in its entirety, as modified and superseded where necessary resulting from the restatement. The following items in the Original Filing have been amended/updated as a result of, and to reflect, the restatement:

- Part I – Item 1A. Risk Factors;
- Part I – Item 4A. Executive Officers of the Registrant;
- Part II – Item 5. Market for Registrant’s Common Equity and Related Stockholder Matters;

- Part II – Item 6. Selected Financial Data;
- Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations;
- Part II – Special Note Regarding Forward-Looking Statements;
- Part II – Item 8. Financial Statements and Supplementary Data;
- Part II – Item 9A. Controls and Procedures;
- Part III – Item 10. Directors, Executive Officers and Corporate Governance;
- Part III – Item 11. Executive Compensation;
- Part III – Item 14. Principal Accountant's Fees and Services; and
- Part IV – Item 15. Exhibit and Financial Statement Schedules

The Company effected a reverse stock split at a ratio of 1-for-5 of the Company's Common Stock ("Common Stock"), effective as of 12:01 a.m. on October 15, 2013. As a result of the reverse stock split, each five shares of the outstanding Common Stock and shares held in treasury were combined into one share of Common Stock without any change to the par value per share. The reverse stock split did not affect the number of authorized shares of Common Stock which remains at 75,000,000. As a result of this reverse stock split, all references in the financial statements and notes thereto and discussions contained herein as to the number of shares outstanding, per share amounts, and stock option and warrant data of the Company's Common Stock have been amended to reflect the effect of the reverse stock split for all periods presented and discussion thereof as though the reverse stock split was in effect as of the period or periods presented in the financial statements and was in effect as of the date of the outstanding shares, options, and warrants.

Internal Control Consideration

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has determined that there was a control deficiency in our internal control over financial reporting that constitutes a material weakness, as discussed in Part II – Item 9A of this Amended Filing. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

INDEX

Index
PART I

ITEM 1. BUSINESS

Company Overview and Principal Products and Services
Perma-Fix Environmental Services, Inc. (the Company, which may be referred to as we, us, or our), a Delaware corporation incorporated in December of 1990, is an international environmental and technology know-how company, which provides:

- o Treatment, storage, processing and disposal of mixed waste (which is waste that contains both low-level radioactive and hazardous waste), non-nuclear hazardous waste, nuclear low level, and higher activity radioactive wastes;
- o Research and development ("R&D") activities to identify, develop and implement innovative waste processing techniques for problematic waste streams;
- o On-site waste management services to commercial and government customers;
- o Technical services which includes: (a) health physics and radiological control technician services; (b) safety and industrial hygiene services; (c) staff augmentation services providing consulting, engineering, project management, waste management, environmental, and decontamination and decommissioning field personal, technical personnel, and management and services to commercial and government customers; and (d) consulting engineering services including air, water, and hazardous waste permitting, air, soil, and water sampling, compliance reporting, emission reduction strategies, compliance auditing, and various compliance and training activities;
- o Nuclear services which includes: (a) technology-based services including engineering, decontamination and decommissioning ("D&D"), specialty services and construction, logistics, transportation, processing and disposal and (b) remediation of nuclear licensed and federal facilities and the remediation cleanup of nuclear legacy sites; and
- o Instrumentation and measurement technologies.

We have grown through acquisitions and internal growth. Our goal is to continue focus on the efficient operation of our facilities and on-site activities, continue to evaluate strategic acquisitions, and to continue the R&D of innovative technologies to treat nuclear waste, mixed waste, and industrial waste. Our business includes services provided by our two segments, Treatment and Services, as described below.

We service research institutions, commercial companies, public utilities, and governmental agencies nationwide, including the U.S. Department of Energy ("DOE") and U.S. Department of Defense ("DOD"). The distribution channels for our services are through direct sales to customers or via intermediaries.

Our executive offices are located at 8302 Dunwoody Place, Suite 250, Atlanta, Georgia 30350.

Website access to Company's reports
Our internet website address is www.perma-fix.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("Commission"). Additionally, we make available free of charge on our internet website:

- · our Code of Ethics;
- · the charter of our Corporate Governance and Nominating Committee;
- · our Anti-Fraud Policy;
- · the charter of our Audit Committee.

Index

Segment Information and Foreign and Domestic Operations and Export Sales

The Company has two reportable segments. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 Operating Officer to make decisions about resources to be allocated and assess its performance; and
· for which discrete financial information is available.

TREATMENT SEGMENT reporting includes:

- nuclear, low-level radioactive, mixed, hazardous and non-hazardous waste treatment, processing and disposal services primarily through four uniquely licensed (Nuclear Regulatory Commission or state equivalent) and permitted (Environmental Protection Agency ("EPA") or state equivalent) treatment and storage facilities held by the following subsidiaries: Perma-Fix of Florida, Inc. ("PFF"), Diversified Scientific Services, Inc., ("DSSI"), Perma-Fix Northwest Richland, Inc. ("PFNWR"), and East Tennessee Materials & Energy Corporation ("M&EC"). The presence of nuclear and low-level radioactive constituents within the waste streams processed by this segment creates different and unique operational, processing and permitting/licensing requirements; and
- R&D activities to identify, develop and implement innovative waste processing techniques for problematic waste streams.

For 2012, the Treatment Segment accounted for $45,882,000 or 36.0% of total revenue from continuing operations, as compared to $65,838,000 or 55.7% of total revenue from continuing operations for 2011 and $53,363,000 or 54.6% of total revenue from continuing operations for 2010. See " – Dependence Upon a Single or Few Customers" and "Financial Statements and Supplementary Data" for further details and a discussion as to our Segments' contracts with the federal government or with others as a subcontractor to the federal government.

SERVICES SEGMENT reporting includes:

- On-site waste management services to commercial and government customers;
- Technical services, which include:
  - o professional radiological measurement and site survey of large government and commercial installations using advance methods, technology and engineering;
  - o integrated Occupational Safety and Health services including industrial hygiene ("IH") assessments; hazardous materials surveys, e.g., exposure monitoring; lead and asbestos management/abatement oversight; indoor air quality evaluations; health risk and exposure assessments; health & safety plan/program development, compliance auditing and training services; and Occupational Safety and Health Administration ("OSHA") citation assistance;
  - o global technical services providing consulting, engineering, project management, waste management, environmental, and D&D field, technical, and management personnel and services to commercial and government customers; and
  - o augmented engineering services (through our Schreiber, Yonley & Associates subsidiary – "SYA") providing consulting environmental services to industrial and government customers:
    - § including air, water, and hazardous waste permitting, air, soil and water sampling, compliance reporting, emission reduction strategies, compliance auditing, and various compliance and training activities; and
    - § engineering and compliance support to other segments;
- Nuclear services, which include:
  - o technology-based services including engineering, D&D, specialty services and construction, logistics, transportation, processing and disposal;

Index

o remediation of nuclear licensed and federal facilities and the remediation cleanup of nuclear legacy sites. Such services capability includes: project investigation; radiological engineering; partial and total plant D&D; facility decontamination, dismantling, demolition, and planning; site restoration; site construction; logistics; transportation; and emergency response; and

- A company owned equipment calibration and maintenance laboratory that services, maintains, calibrates, and sources (i.e., rental) of health physics, IH and customized nuclear, environmental, and occupational safety and health ("NEOSH") instrumentation;

For 2012, the Services Segment accounted for $81,627,000 or 64.0% of total revenue from continuing operations, as compared to $52,261,000 or 44.3% of total revenue from continuing operations for 2011 and $44,427,000 or 45.4% of total revenue from continuing operations for 2010. Of the total revenues for 2011 in this segment, $10,156,000 was attributable to the activities of Safety and Ecology Holdings Corporation ("SEHC") and its subsidiaries, Safety and Ecology Corporation, Safety & Ecology Corporation Limited (now known as Perma-Fix Environmental Services UK Limited - "Perma-Fix UK Limited"), SEC Federal Services Corporation, and SEC Radcon Alliance, LLC ("SECRA", which we own 75%), (collectively "SEC"), which we acquired on October 31, 2011. See " – Dependence Upon a Single or Few Customers" and "Financial Statements and Supplementary Data" for further details and a discussion as to our Segments' contracts with the federal government or with others as a subcontractor to the federal government.

Our segments exclude the Corporate and Operation Headquarters, which do not generate revenue, and our discontinued operations: Perma-Fix of South Georgia, Inc. ("PFSG") facility which met the held for sale criteria under ASC 360, "Property, Plant, and Equipment" on October 6, 2010. Our discontinued operations also encompass our Perma-Fix of Fort Lauderdale, Inc. ("PFFL"), Perma-Fix of Orlando, Inc. ("PFO"), Perma-Fix of Maryland, Inc. ("PFMD"), Perma-Fix of Dayton, Inc. ("PFD"), and Perma-Fix Treatment Services, Inc. ("PFTS") facilities, which were divested on August 12, 2011, October 14, 2011, January 8, 2008, March 14, 2008, and May 30, 2008, respectively. Our discontinued operations also includes two previously closed locations, 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 October 4, 2004, and March 12, 1998, respectively.

Foreign Operations

Our Services Segment includes a foreign operation, Perma-Fix UK Limited, located in Blaydon On Tyne, England, which we acquired on October 31, 2011. Revenue generated from this operation was approximately $158,000 or 0.1% of our consolidated revenue from continuing operations during 2012. Revenue generated from this operation was $30,000 or .03% of our consolidated revenue from continuing operations during 2011.

Our consolidated revenue from continuing operations for 2012, 2011, and 2010 included approximately $2,433,000 or 1.9%, $364,000 or 0.3%, and $966,000 or 1.0%, respectively, from an external customer located in Canada.

Importance of Patents, Trademarks and Proprietary Technology

We do not believe we are dependent on any particular trademark in order to operate our business or any significant segment thereof. We have received registration to May 2022 and December 2020, for the service marks "Perma-Fix Environmental Services" and "Perma-Fix", respectively. In addition, we have received registration for six service marks for our SEC subsidiaries to periods ranging from 2014 to 2018.

We are dependent on our permits and licenses discussed below in order to operate our businesses (See "-Permits and Licenses").

We are active in the R&D of technologies that allow us to address certain of our customers' environmental needs. To date, our R&D efforts have resulted in the granting of eleven active patents and the filing of several applications for which patents are pending. These eleven active patents have remaining lives ranging from approximately six to eleven years. Our flagship technology, the Perma-Fix Process, is a proprietary, cost effective, treatment technology that converts hazardous waste into non-hazardous material. We have also developed the Perma-Fix II process, a multi-step treatment process that converts hazardous organic components into non-hazardous material. The Perma-Fix II process is particularly important to our mixed waste strategy.

3

Index

The Perma-Fix II process is designed to remove certain types of organic hazardous constituents from soils or other solids and sludges (“Solids”) through a water-based system. Until development of this Perma-Fix II process, we were not aware of a relatively simple and inexpensive process that would remove the organic hazardous constituents from Solids without elaborate and expensive equipment or expensive treating agents. Due to the organic hazardous constituents involved, the disposal options for such materials are limited, resulting in high disposal cost when there is a disposal option available. By reducing the organic hazardous waste constituents in the Solids to a level where the Solids meet Land Disposal Requirements, the generator's disposal options for such waste are substantially increased, allowing the generator to dispose of such waste at substantially less cost. We began commercial use of the Perma-Fix II process in 2000. However, changes to current environmental laws and regulations could limit the use of the Perma-Fix II process or the disposal options available to the generator. See “—Permits and Licenses” and “—Research and Development.”

Permits and Licenses

Waste management service companies are subject to extensive, evolving and increasingly stringent federal, state, and local environmental laws and regulations. Such federal, state and local environmental laws and regulations govern our activities regarding the treatment, storage, processing, disposal and transportation of hazardous, non-hazardous and radioactive wastes, and require us to obtain and maintain permits, licenses and/or approvals in order to conduct certain of our waste activities. Failure to obtain and maintain our permits or approvals would have a material adverse effect on us, our operations, and financial condition. The permits and licenses have terms ranging from one to ten years, and provided that we maintain a reasonable level of compliance, renew with minimal effort, and cost. Historically, there have been no compelling challenges to the permit and license renewals. We believe that these permit and license requirements represent a potential barrier to entry for possible competitors.

PFF, located in Gainesville, Florida, operates its hazardous, mixed and low-level radioactive waste activities under a RCRA (“Resource Conservation and Recovery Act”) Part B permit, Toxic Substances Control Act (“TSCA”) authorization, Restricted RX Drug Distributor-Destruction license, and a radioactive materials license issued by the State of Florida.

DSSI, located in Kingston, Tennessee, conducts mixed and low-level radioactive waste storage and treatment activities under RCRA Part B permits and a radioactive materials license issued by the State of Tennessee Department of Environment and Conservation. Co-regulated TSCA Polychlorinated Biphenyl (“PCB”) wastes are also managed for PCB destruction under the U.S. Environmental Protection Agency (“EPA”) Approval effective June 2008.

M&EC, located in Oak Ridge, Tennessee, performs hazardous, low-level radioactive and mixed waste storage and treatment operations under a RCRA Part B permit and a radioactive materials license issued by the State of Tennessee Department of Environment and Conservation. Co-regulated TSCA PCB wastes are also managed under EPA Approvals applicable to site-specific treatment units.

PFNWR, located in Richland, Washington, operates a low-level radioactive waste processing facility as well as a mixed waste processing facility. Radioactive material processing is authorized under radioactive materials licenses issued by the State of Washington and mixed waste processing is additionally authorized under a RCRA Part B permit with TSCA authorization issued jointly by the State of Washington and the EPA.

The combination of a RCRA Part B hazardous waste permit, TSCA authorization, and a radioactive materials license, as held by PFF, DSSI M&EC, and PFNWR are very difficult to obtain for a single facility and make these facilities unique.

Index

Seasonality

The DOE and DOD represent major customers for our Treatment Segment and Services Segment. For our Treatment Segment, federal clients have operated under reduced budgets due to ongoing short term budget Continuing Resolutions ("CR") and this has negatively impacted the amount of waste shipped to our treatment facilities. The uncertainty with the federal budget and the availability of funding will continue to impact the Treatment Segment until a final budget or year long CR is approved by Congress. Historical seasonal variances in revenue whereby large shipments are received during the third quarter in conjunction with the federal government's September 30 fiscal year-end from this Segment cannot be assured due to these uncertainties.

Our Services Segment generally experiences a seasonal slowdown during the winter months due to transition from heavy construction activities to project planning, engineering, design, and responding to project solicitations. Our heavy construction projects are typically performed in the early Spring to late Fall months and winter weather conditions preclude productive work at project sites. Likewise, our technical services experience reduced activities and related billable hours throughout the November and December holiday period thus driving down revenues and utilization results. As with our Treatment Segment, revenue from this Segment is heavily dependent on federal government funding; therefore, we cannot provide assurance that we will not see large fluctuations in each of our quarters in the near future.

Backlog

The Treatment Segment of our Company maintains a backlog of stored waste, which represents waste that has not been processed. The backlog is principally a result of the timing and complexity of the waste being brought into the facilities and the selling price per container. As of December 31, 2012, our Treatment Segment had a backlog of approximately $8,668,000, as compared to approximately $14,609,000 as of December 31, 2011. Additionally, the time it takes to process waste from the time it arrives may increase due to the types and complexities of the waste we are currently receiving. We typically process our backlog during periods of low waste receipts, which historically has been in the first or fourth quarter.

Dependence Upon a Single or Few Customers

Our segments have significant relationships with the federal government, and continue to enter into contracts, directly as the prime contractor or indirectly as a subcontractor, with 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 or renegotiate the contracts on 30 days notice, 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 as a prime contractor or indirectly as a subcontractor (including CHPRC as discussed below) to the federal government, representing approximately $101,533,000 or 79.6% of our total revenue from continuing operations during 2012, as compared to $99,660,000 or 84.5% of our total revenue from continuing operations during 2011, and $80,275,000 or 82.1% of our total revenue from continuing operations during 2010.

Index

The following customers accounted for 10% or more of the total revenues generated from continuing operations for twelve months ended December 31, 2012, 2011, and 2010:

Customer	Year	Total Revenue	% of Total Revenue	
CH Plateau Remediation Company ("CHPRC")	2012	$24,652,000	19.3	%
	2011	$59,136,000	50.1	%
	2010	$51,929,000	53.1	%
DOE	2012	$26,265,000	20.6	%
	2011	$4,136,000	3.5	%
	2010	$0	0.0	%

The increase in revenue generated directly from the DOE was attributed primarily from the acquisition of SEC on October 31, 2011. Revenue generated from CH Plateau Remediation Company ("CHPRC") includes revenue generated from the CHPRC subcontract (a cost plus award fee subcontract awarded to us during the second quarter of 2008 to participate in the cleanup of the central portion of the Hanford Site located in the state of Washington) at our Services Segment and three waste processing contracts at our Treatment Segment.

Competitive Conditions

The Treatment Segment's largest competitor is EnergySolutions. At present, EnergySolutions' Clive, Utah facility is one of the few radioactive disposal sites for commercially generated waste in the country in which our Treatment Segment can dispose of its nuclear waste. If EnergySolutions should refuse to accept our nuclear and mixed waste or cease operations at its Clive, Utah facility, such could have a material adverse effect on us for commercial wastes. However, with the recent radioactive disposal license granted to Waste Control Specialists ("WCS") located in Andrews, Texas, this risk should be reduced with WCS's disposal facility now online and accepting wastes. The Treatment Segment treats and disposes of DOE generated wastes largely at DOE owned sites. Smaller competitors are also present in the market place; however, they do not present a significant challenge at this time. Our Treatment Segment currently solicits business primarily on a North American basis with both government and commercial clients; however, we are focusing on emerging international markets for future work.

The permitting and licensing requirements, and the cost to obtain such permits, are barriers to the entry of hazardous waste and radioactive and mixed waste activities as presently operated by our waste treatment subsidiaries. If the permit requirements for hazardous waste treatment, storage, and disposal ("TSD") activities and/or the licensing requirements for the handling of low level radioactive matters are eliminated or if such licenses or permits were made less rigorous to obtain, such would allow companies to enter into these markets and provide greater competition.

Our Services Segment is engaged in highly competitive businesses in which a number of our government contracts and some of our commercial contracts are awarded through competitive bidding processes. The extent of such competition varies according to the industries and markets in which our customers operate as well as the geographic areas in which we operate. The degree and type of competition we face is also often influenced by the type of projects for which our Services Segment competes, especially projects subject to the governmental bid process. For international business, competition among competitors that are not encountered in our domestic business makes work in foreign countries more challenging. Some of the competitors are larger and possess greater resources and technical abilities than we do, which may give them an advantage when bidding for certain projects. Competition also places downward pressure on our contract bid prices and profit margins. Intense competition is expected to continue for government environmental service contracts, which may provide challenge to our ability to maintain strong growth rates and acceptable profit margins. If our Services Segment is unable to meet these competitive challenges, it could lose market share and experience an overall reduction in its profits.

Capital Spending, Certain Environmental Expenditures and Potential Environmental Liabilities

Capital Spending

During 2012, our purchases of capital equipment totaled approximately $412,000. These expenditures were for improvements to operations within both Segments. These capital expenditures were funded by the cash provided by operating activities. We have budgeted approximately $2,500,000 for 2013 capital expenditures for our segments to expand our operations into new markets, 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.

Index

Environmental Liabilities

We have four remediation projects, which are currently in progress at certain of our discontinued facilities. These remediation projects principally entail the removal/remediation of contaminated soil and, in most cases, the remediation of surrounding ground water.

In June 1994, we acquired PFD, which we divested in March 2008. Prior to our acquisition of PFD in 1994, the former owners of PFD had merged Environmental Processing Services, Inc. ("EPS") with PFD. In acquiring PFD in 1994, we were indemnified by the seller for costs associated with remediating the property leased by EPS ("Leased Property"). The seller subsequently filed bankruptcy. Such remediation involves soil and/or groundwater restoration. The Leased Property used by EPS to operate its facility was separate and apart from the property on which PFD's facility was located. Upon the sale of substantially all of the assets of PFD in March 2008, we retained the environmental liability of PFD as it related only to the remediation of the EPS site. A Revised Closure Plan, submitted to Ohio Environmental Protection Agency in 2010, was approved on January 12, 2012. Installation of the final remedy was completed in October 2012 and is now fully operational. We have accrued approximately $99,000, at December 31, 2012, for the estimated, remaining costs of remediating the Leased Property, which will extend approximately over the next six years.

In conjunction with our acquisition of PFM, we assumed and recorded certain liabilities to remediate gasoline contaminated groundwater and investigate potential areas of soil contamination on PFM's property. Prior to our ownership of PFM, the owners installed monitoring and treatment equipment to restore the groundwater to acceptable standards in accordance with federal, state and local authorities. In 2008, we completed all soil remediation with the exception of that associated with the groundwater contamination. In addition, we installed wells and equipment associated with groundwater remediation. In 2011, remediation of the remaining contaminated soil was completed leaving only treatment of the aquifer. We have accrued approximately $61,000 at December 31, 2012, for closure which we anticipate spending over the next five years.

In conjunction with the acquisition of PFSG, we initially recognized an environmental accrual of $2,200,000 for estimated long-term costs to remove contaminated soil and to undergo groundwater remediation activities at the acquired facility in Valdosta, Georgia. A Corrective Action Plan has been submitted to the Georgia Environmental Protection Division and is currently under review. We have accrued approximately $1,373,000 at December 31, 2012, to complete remediation of the facility, which we anticipate spending over approximately the next ten years.

As a result of the discontinued operations at the PFMI facility in 2004, we were required to complete certain closure and remediation activities pursuant to our RCRA permit, which were completed in January 2006. During 2006, based on state-mandated criteria, we implemented a modified methodology to remediate the facility, which have been completed. In 2010, as required under a Consent Order, a closure plan was submitted, which was approved on September 20, 2012. Only post closure monitoring, anticipated to continue for two years, is required going forward. As of December 31, 2012, we have $81,000 accrued for this site for expenses relating to post closure monitoring and remaining activities for the final closure of this site.

No insurance or third party recovery was taken into account in determining our cost estimates or reserves, nor do our cost estimates or reserves reflect any discount for present value purposes.

Index

The nature of our business exposes us to significant risk of liability for damages. Such potential liability could involve, for example, claims for cleanup costs, personal injury or damage to the environment in cases where we are held responsible for the release of hazardous materials; claims of employees, customers or third parties for personal injury or property damage occurring in the course of our operations; and claims alleging negligence or professional errors or omissions in the planning or performance of our services. In addition, we could be deemed a responsible party for the costs of required cleanup of any property, which may be contaminated by hazardous substances generated or transported by us to a site we selected, including properties owned or leased by us. We could also be subject to fines and civil penalties in connection with violations of regulatory requirements.

Research and Development

Innovation and technical know-how by our operations is very important to the success of our business. Our goal is to discover, develop and bring to market innovative ways to process waste that address unmet environmental needs. We conduct research internally, and also through collaborations with other third parties. The majority of our research activities are performed as we receive new and unique waste to treat. We feel that our investments in research have been rewarded by the discovery of the Perma-Fix Process and the Perma-Fix II process. Our competitors also devote resources to research and development and many such competitors have greater resources at their disposal than we do. We have estimated that during 2012, 2011, and 2010, we spent approximately $1,823,000, $1,502,000, and $921,000, respectively, in Company-sponsored research and development activities.

Number of Employees

In our service-driven business, our employees are vital to our success. We believe we have good relationships with our employees. As of December 31, 2012, we employed 596 employees, of which 568 are full-time employees, 21 are temporary employees and 7 are part-time employees. Approximately 61 full-time employees are unionized and covered by a collective bargaining agreement which expired on February 1, 2013 and 21 of the temporary employees are unionized and are covered by a collective bargaining agreement which expires on September 30, 2016. The collective bargaining agreement which expired on February 1, 2013 is currently being re-negotiated and covers employee working under the CHPRC subcontract. No interruption in work has resulted during this re-negotiation process.

Governmental Regulation

Environmental companies and their customers are subject to extensive and evolving environmental laws and regulations by a number of national, state and local environmental, safety and health agencies, the principal of which being the EPA. These laws and regulations largely contribute to the demand for our services. Although our customers remain responsible by law for their environmental problems, we must also comply with the requirements of those laws applicable to our services. We cannot predict the extent to which our operations may be affected by future enforcement policies as applied to existing laws or by the enactment of new environmental laws and regulations. Moreover, any predictions regarding possible liability are further complicated by the fact that under current environmental laws we could be jointly and severally liable for certain activities of third parties over whom we have little or no control. Although we believe that we are currently in substantial compliance with applicable laws and regulations, we could be subject to fines, penalties or other liabilities or could be adversely affected by existing or subsequently enacted laws or regulations. The principal environmental laws affecting our customers and us are briefly discussed below.

The Resource Conservation and Recovery Act of 1976, as amended (“RCRA”)

RCRA and its associated regulations establish a strict and comprehensive permitting and regulatory program applicable to hazardous waste. The EPA has promulgated regulations under RCRA for new and existing treatment, storage and disposal facilities including incinerators, storage and treatment tanks, storage containers, storage and treatment surface impoundments, waste piles and landfills. Every facility that treats, stores or disposes of hazardous waste must obtain a RCRA permit or must obtain interim status from the EPA, or a state agency, which has been authorized by the EPA to administer its program, and must comply with certain operating, financial responsibility and closure requirements.

Index

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA,” also referred to as the “Superfund Act”)

CERCLA governs the cleanup of sites at which hazardous substances are located or at which hazardous substances have been released or are threatened to be released into the environment. CERCLA authorizes the EPA to compel responsible parties to clean up sites and provides for punitive damages for noncompliance. CERCLA imposes joint and several liabilities for the costs of clean up and damages to natural resources.

Health and Safety Regulations

The operation of our environmental activities is subject to the requirements of the Occupational Safety and Health Act (“OSHA”) and comparable state laws. Regulations promulgated under OSHA by the Department of Labor require employers of persons in the transportation and environmental industries, including independent contractors, to implement hazard communications, work practices and personnel protection programs in order to protect employees from equipment safety hazards and exposure to hazardous chemicals.

Atomic Energy Act

The Atomic Energy Act of 1954 governs the safe handling and use of Source, Special Nuclear and Byproduct materials in the U.S. and its territories. This act authorized the Atomic Energy Commission (now the Nuclear Regulatory Commission “USNRC”) to enter into “Agreements with States to carry out those regulatory functions in those respective states except for Nuclear Power Plants and federal facilities like the VA hospitals and the DOE operations.” The State of Florida (with the USNRC oversight), Office of Radiation Control, regulates the radiological program of the PFF facility, and the State of Tennessee (with the USNRC oversight), Tennessee Department of Radiological Health, regulates the radiological program of the DSSI and M&EC facilities. The State of Washington (with the USNRC oversight) Department of Health, regulates the radiological operations of the PFNWR facility.

Other Laws

Our activities are subject to other federal environmental protection and similar laws, including, without limitation, the Clean Water Act, the Clean Air Act, the Hazardous Materials Transportation Act and the Toxic Substances Control Act. Many states have also adopted laws for the protection of the environment which may affect us, including laws governing the generation, handling, transportation and disposition of hazardous substances and laws governing the investigation and cleanup of, and liability for, contaminated sites. Some of these state provisions are broader and more stringent than existing federal law and regulations. Our failure to conform our services to the requirements of any of these other applicable federal or state laws could subject us to substantial liabilities which could have a material adverse effect on us, our operations and financial condition. In addition to various federal, state and local environmental regulations, our hazardous waste transportation activities are regulated by the U.S. Department of Transportation, the Interstate Commerce Commission and transportation regulatory bodies in the states in which we operate. We cannot predict the extent to which we may be affected by any law or rule that may be enacted or enforced in the future, or any new or different interpretations of existing laws or rules.

Insurance

We believe we maintain insurance coverage adequate for our needs and similar to, or greater than, the coverage maintained by other companies of our size in the industry. There can be no assurances, however, that liabilities, which we may incur, 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.

In June 2003, we entered into a 25-year finite risk insurance policy 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 provides a maximum $39,000,000 of financial assurance coverage. As of

December 31, 2012, our total financial coverage under our finite risk policy totals approximately $37,524,000.

Index

In August 2007, we entered into a second finite risk insurance policy for our PFNWR facility, which we acquired in June 2007, with Chartis, a subsidiary of 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 provides a maximum coverage of $8,200,000. This policy is renewed annually at the end of the four year term with a nominal fee for the variance between the policy and coverage requirement. We renewed this policy in 2011 and 2012 with an annual fee of $46,000. All other terms of the policy remain substantially unchanged.

ITEM 1A. RISK FACTORS

The following are certain risk factors that could affect our business, financial performance, and results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Form 10-K, as the forward-looking statements are based on current expectations, and actual results and conditions could differ materially from the current expectations. Investing in our securities involves a high degree of risk, and before making an investment decision, you should carefully consider these risk factors as well as other information we include or incorporate by reference in the other reports we file with the Securities and Exchange Commission (the “Commission”).

Risks Relating to our Operations

Failure to maintain our financial assurance coverage that we are required to have in order to operate our permitted treatment, storage and disposal facilities could have a material adverse effect on us.
A subsidiary of AIG, Chartis, provides our finite risk insurance policies which provide financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure of those facilities. We are required to provide and to maintain financial assurance that guarantees to the state that in the event of closure, our permitted facilities will be closed in accordance with the regulations. Our initial policy provides a maximum of $39,000,000 of financial assurance coverage. We also maintain a financial assurance policy for our PFNWR facility, which provides a maximum coverage of $8,200,000. In the event that we are unable to obtain or maintain our financial assurance coverage for any reason, this could materially impact our operations and our permits which we are required to have in order to operate our treatment, storage, and disposal facilities

If we cannot maintain adequate insurance coverage, we will be unable to continue certain operations.
Our business exposes us to various risks, including claims for causing damage to property and injuries to persons that may involve allegations of negligence or professional errors or omissions in the performance of our services. Such claims could be substantial. We believe that our insurance coverage is presently adequate and similar to, or greater than, the coverage maintained by other companies in the industry of our size. If we are unable to obtain adequate or required insurance coverage in the future, or if our insurance is not available at affordable rates, we would violate our permit conditions and other requirements of the environmental laws, rules, and regulations under which we operate. Such violations would render us unable to continue certain of our operations. These events would have a material adverse effect on our financial condition.

The inability to maintain existing government contracts or win new government contracts over an extended period could have a material adverse effect on our operations and adversely affect our future revenues.
A material amount of our segments’ revenues are generated through various U.S. government contracts or subcontracts involving the U.S. government. Our revenues from governmental contracts and subcontracts relating to governmental facilities within our segments were approximately $101,533,000 or 79.6% and $99,660,000 or 84.4%, of our consolidated operating revenues from continuing operations for 2012 and 2011, respectively. Most of our government contracts or our subcontracts granted under government contracts are awarded through a regulated competitive bidding process. Some government contracts are awarded to multiple competitors, which increase overall competition and pricing pressure and may require us to make sustained post-award efforts to realize revenues under these government contracts. All contracts with, or subcontracts involving, the federal government are terminable, or subject

to renegotiation, by the applicable governmental agency on 30 days notice, at the option of the governmental agency. If we fail to maintain or replace these relationships, or if a material contract is terminated or renegotiated in a manner that is materially adverse to us, our revenues and future operations could be materially adversely affected.

Index

Our existing and future customers may reduce or halt their spending on nuclear services with outside vendors, including us.

A variety of factors may cause our existing or future customers (including the federal government) to reduce or halt their spending on nuclear services from outside vendors, including us. These factors include, but are not limited to:

- accidents, terrorism, natural disasters or other incidents occurring at nuclear facilities or involving shipments of nuclear materials;
- failure of the federal government to approve necessary budgets, or to reduce the amount of the budget necessary, to fund remediation of DOE and DOD sites;
- civic opposition to or changes in government policies regarding nuclear operations; or
- a reduction in demand for nuclear generating capacity; or
- failure to perform under existing contracts, directly or indirectly, with the federal government.

These events could result in or cause the federal government to terminate or cancel its existing contracts involving us to treat, store or dispose of contaminated waste and/or to perform remediation projects, at one or more of the federal sites since all contracts with, or subcontracts involving, the federal government are terminable upon or subject to renegotiation at the option of the government on 30 days notice. These events also could adversely affect us to the extent that they result in the reduction or elimination of contractual requirements, lower demand for nuclear services, burdensome regulation, disruptions of shipments or production, increased operational costs or difficulties or increased liability for actual or threatened property damage or personal injury.

Economic downturns and/or reductions in government funding could have a material negative impact on our businesses.

Demand for our services has been, and we expect that demand will continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including economic conditions, inability of the federal government to adopt its budget or reductions in the budget for spending to remediate federal sites due to numerous reasons, including, without limitation, the substantial deficits that the federal government has and is continuing to incur. During economic downturns and large budget deficits that the federal government and many states are experiencing, the ability of private and government entities to spend on nuclear services may decline significantly. Our operations depend, in large part, upon governmental funding, particularly funding levels at the DOE. Significant reductions in the level of governmental funding (for example, the annual budget of the DOE) 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.

The loss of one or a few customers could have an adverse effect on us.

One or a few governmental customers or governmental related customers have in the past, and may in the future, account for a significant portion of our revenue in any one year or over a period of several consecutive years. Because customers generally contract with us for specific projects, we may lose these significant customers from year to year as their projects with us are completed. Our inability to replace the business with other projects could have an adverse effect on our business and results of operations.

As a government contractor, we are subject to extensive government regulation, and our failure to comply with applicable regulations could subject us to penalties that may restrict our ability to conduct our business.

Our governmental contracts, which are primarily with the DOE or subcontracts relating to DOE sites, are a significant part of our business. Allowable costs under U.S. government contracts are subject to audit by the U.S. government. If these audits result in determinations that costs claimed as reimbursable are not allowed costs or were not allocated in accordance with applicable regulations, we could be required to reimburse the U.S. government for amounts previously received.

Index

Governmental contracts or subcontracts involving governmental facilities are often subject to specific procurement regulations, contract provisions and a variety of other requirements relating to the formation, administration, performance and accounting of these contracts. Many of these contracts include express or implied certifications of compliance with applicable regulations and contractual provisions. If we fail to comply with any regulations, requirements or statutes, our existing governmental contracts or subcontracts involving governmental facilities could be terminated or we could be suspended from government contracting or subcontracting. If one or more of our governmental contracts or subcontracts are terminated for any reason, or if we are suspended or debarred from government work, we could suffer a significant reduction in expected revenues and profits. Furthermore, as a result of our governmental contracts or subcontracts involving governmental facilities, claims for civil or criminal fraud may be brought by the government or violations of these regulations, requirements or statutes.

Loss of certain key personnel could have a material adverse effect on us.

Our success depends on the contributions of our key management, environmental and engineering personnel, especially Dr. Louis F. Centofanti, Chairman, President, and Chief Executive Officer. The loss of Dr. Centofanti could have a material adverse effect on our operations, revenues, prospects, and our ability to raise additional funds. Our future success depends on our ability to retain and expand our staff of qualified personnel, including environmental specialists and technicians, sales personnel, and engineers. Without qualified personnel, we may incur delays in rendering our services or be unable to render certain services. We cannot be certain that we will be successful in our efforts to attract and retain qualified personnel as their availability is limited due to the demand for hazardous waste management services and the highly competitive nature of the hazardous waste management industry. We do not maintain key person insurance on any of our employees, officers, or directors.

Changes in environmental regulations and enforcement policies could subject us to additional liability and adversely affect our ability to continue certain operations.

We cannot predict the extent to which our operations may be affected by future governmental enforcement policies as applied to existing laws, by changes to current environmental laws and regulations, or by the enactment of new environmental laws and regulations. Any predictions regarding possible liability under such laws are complicated further by current environmental laws which provide that we could be liable, jointly and severally, for certain activities of third parties over whom we have limited or no control.

Our Treatment Segment has limited end disposal sites to utilize to dispose of its waste which could significantly impact our results of operations.

Our Treatment Segment has limited options available for disposal of its waste. Currently, there are only two disposal sites for our low level radioactive waste we receive from non-governmental sites. If either of these disposal sites ceases to accept waste or closes for any reason or refuses to accept the waste of our Treatment Segment, for any reason, we would be limited to only the one remaining site to dispose of our nuclear waste. With only one end disposal site to dispose of our waste, we could be subject to significantly increased costs which could negatively impact our results of operations.

Our businesses subject us to substantial potential environmental liability.

Our business of rendering services in connection with management of waste, including certain types of hazardous waste, low-level radioactive waste, and mixed waste (waste containing both hazardous and low-level radioactive waste), subjects us to risks of liability for damages. Such liability could involve, without limitation:

- claims for clean-up costs, personal injury or damage to the environment in cases in which we are held responsible for the release of hazardous or radioactive materials; and
- claims of employees, customers, or third parties for personal injury or property damage occurring in the course of our operations;
- andclaims alleging negligence or professional errors or omissions in the planning or performance of our services.

Index

Our operations are subject to numerous environmental laws and regulations. We have in the past, and could in the future, be subject to substantial fines, penalties, and sanctions for violations of environmental laws and substantial expenditures as a responsible party for the cost of remediating any property which may be contaminated by hazardous substances generated by us and disposed at such property, or transported by us to a site selected by us, including properties we own or lease.

As our operations expand, we may be subject to increased litigation, which could have a negative impact on our future financial results.

Our operations are highly regulated and we are subject to numerous laws and regulations regarding procedures for waste treatment, storage, recycling, transportation, and disposal activities, all of which may provide the basis for litigation against us. In recent years, the waste treatment industry has experienced a significant increase in so-called "toxic-tort" litigation as those injured by contamination seek to recover for personal injuries or property damage. We believe that, as our operations and activities expand, there will be a similar increase in the potential for litigation alleging that we have violated environmental laws or regulations or are responsible for contamination or pollution caused by our normal operations, negligence or other misconduct, or for accidents, which occur in the course of our business activities. Such litigation, if significant and not adequately insured against, could adversely affect our financial condition and our ability to fund our operations. Protracted litigation would likely cause us to spend significant amounts of our time, effort, and money. This could prevent our management from focusing on our operations and expansion.

Our operations are subject to seasonal factors, which cause our revenues to fluctuate.

We have historically experienced reduced revenues and losses during the first and fourth quarters of our fiscal years due to a seasonal slowdown in operations from poor weather conditions, overall reduced activities during these periods resulting from holiday periods, and finalization of government budgets during the fourth quarter of each year. During our second and third fiscal quarters there has historically been an increase in revenues and operating profits. If we do not continue to have increased revenues and profitability during the second and third fiscal quarters, this could have a material adverse effect on our results of operations and liquidity.

If environmental regulation or enforcement is relaxed, the demand for our services will decrease.

The demand for our services is substantially dependent upon the public's concern with, and the continuation and proliferation of, the laws and regulations governing the treatment, storage, recycling, and disposal of hazardous, non-hazardous, and low-level radioactive waste. A decrease in the level of public concern, the repeal or modification of these laws, or any significant relaxation of regulations relating to the treatment, storage, recycling, and disposal of hazardous waste and low-level radioactive waste would significantly reduce the demand for our services and could have a material adverse effect on our operations and financial condition. We are not aware of any current federal or state government or agency efforts in which a moratorium or limitation has been, or will be, placed upon the creation of new hazardous or radioactive waste regulations that would have a material adverse effect on us; however, no assurance can be made that such a moratorium or limitation will not be implemented in the future.

We and our customers operate in a politically sensitive environment, and the public perception of nuclear power and radioactive materials can affect our customers and us.

We and our customers operate in a politically sensitive environment. Opposition by third parties to particular projects can limit the handling and disposal of radioactive materials. Adverse public reaction to developments in the disposal of radioactive materials, including any high profile incident involving the discharge of radioactive materials, could directly affect our customers and indirectly affect our business. Adverse public reaction also could lead to increased regulation or outright prohibition, limitations on the activities of our customers, more onerous operating requirements or other conditions that could have a material adverse impact on our customers' and our business.

We may be exposed to certain regulatory and financial risks related to climate change.

Climate change is receiving ever increasing attention from scientists and legislators alike. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions.

Index

Presently there are no federally mandated greenhouse gas reduction requirements in the United States. However, there are a number of legislative and regulatory proposals to address greenhouse gas emissions, which are in various phases of discussion or implementation. The outcome of federal and state actions to address global climate change could result in a variety of regulatory programs including potential new regulations. Any adoption by federal or state governments mandating a substantial reduction in greenhouse gas emissions could increase costs associated with our operations. Until the timing, scope and extent of any future regulation becomes known, we cannot predict the effect on our financial position, operating results and cash flows.

We may not be successful in winning new business mandates from our government and commercial customers.
We must be successful in winning mandates from our government and commercial customers to replace revenues from projects that we have completed or that are nearing completion and to increase our revenues. Our business and operating results can be adversely affected by the size and timing of a single material contract.

The elimination or any modification of the Price-Anderson Acts indemnification authority could have adverse consequences for our business.
The Atomic Energy Act of 1954, as amended, or the AEA, comprehensively regulates the manufacture, use, and storage of radioactive materials. The Price-Anderson Act supports the nuclear services industry by offering broad indemnification to DOE contractors for liabilities arising out of nuclear incidents at DOE nuclear facilities. That indemnification protects DOE prime contractor, but also similar companies that work under contract or subcontract for a DOE prime contract or transporting radioactive material to or from a site. The indemnification authority of the DOE under the Price-Anderson Act was extended through 2025 by the Energy Policy Act of 2005.

Under certain conditions, the Price-Anderson Act's indemnification provisions may not apply to our processing of radioactive waste at governmental facilities, and do not apply to liabilities that we might incur while performing services as a contractor for the DOE and the nuclear energy industry. If an incident or evacuation is not covered under Price-Anderson Act indemnification, we could be held liable for damages, regardless of fault, which could have an adverse effect on our results of operations and financial condition. If such indemnification authority is not applicable in the future, our business could be adversely affected if the owners and operators of new facilities fail to retain our services in the absence of commercial adequate insurance and indemnification.

We are engaged in highly competitive businesses and typically must bid against other competitors to obtain major contracts.
We are engaged in highly competitive business in which most of our government contracts and some of our commercial contracts are awarded through competitive bidding processes. We compete with national and regional firms with nuclear services practices, as well as small or local contractors. Some of our competitors have greater financial and other resources than we do, which can give them a competitive advantage. In addition, even if we are qualified to work on a new government contract, we might not be awarded the contract because of existing government policies designed to protect certain types of businesses and underrepresented minority contractors. Competition also places downward pressure on our contract prices and profit margins. Intense competition is expected to continue for nuclear service contracts. If we are unable to meet these competitive challenges, we could lose market share and experience on overall reduction in our profits.

Our failure to maintain our safety record could have an adverse effect on our business.
Our safety record is critical to our reputation. In addition, many of our government and commercial customers require that we maintain certain specified safety record guidelines to be eligible to bid for contracts with these customers. Furthermore, contract terms may provide for automatic termination in the event that our safety record fails to adhere to agreed-upon guidelines during performance of the contract. As a result, our failure to maintain our safety record could have a material adverse effect on our business, financial condition and results of operations.

Index

We may be unable to utilize loss carryforwards in the future.

We have approximately $6,091,000 and $46,205,000 in net operating loss carryforwards which will expire from 2013 to 2021 if not used against future federal and state income tax liabilities, respectively. Our net loss carryforwards are subject to various limitations. Our ability to use the net loss carryforwards depends on whether we are able to generate sufficient income in the future years. Further, our net loss carryforwards have not been audited or approved by the Internal Revenue Service.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

Under accounting principles generally accepted in the United States ("U.S. GAAP"), we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances, indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable, include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, negatively impacting our results of operations.

We bear the risk of cost overruns in fixed-price contracts. We may experience reduced profits or, in some cases, losses under these contracts if costs increase above our estimates.

A percentage of our revenues are earned under contracts that are fixed-price in nature. Fixed-price contracts expose us to a number of risks not inherent in cost-reimbursable contracts. Under fixed price and guaranteed maximum-price contracts, contract prices are established in part on cost and scheduling estimates which are based on a number of assumptions, including assumptions about future economic conditions, prices and availability of labor, equipment and materials, and other exigencies. If these estimates prove inaccurate, or if circumstances change such as unanticipated technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, weather delays, cost of raw materials or our suppliers' or subcontractors' inability to perform, cost overruns may occur and we could experience reduced profits or, in some cases, a loss for that project. Errors or ambiguities as to contract specifications can also lead to cost-overruns.

Adequate bonding is necessary for us to win certain types of new work.

We are often required to provide performance bonds or other financial assurances to customers under fixed-price contracts, primarily within our Services Segment. These surety instruments indemnify the customer if we fail to perform our obligations under the contract. If a bond is required for a particular project and we are unable to obtain it due to insufficient liquidity or other reasons, we may not be able to pursue that project. We currently have a bonding facility but, the issuance of bonds under that facility is at the surety's sole discretion. Moreover, due to events that affect the insurance and bonding markets generally, bonding may be more difficult to obtain in the future or may only be available at significant additional cost. There can be no assurance that bonds will continue to be available to us on reasonable terms. Our inability to obtain adequate bonding and, as a result, to bid on new work could have a material adverse effect on our business, financial condition and results of operations.

Failure to maintain effective internal control over financial reporting or failure to remediate a material weakness in internal control over financial reporting could have a material adverse effect on our business, operating results, and stock price.

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial reports and is important in helping to prevent financial fraud. If we are unable to maintain adequate internal controls, our business and operating results could be harmed. We are required to satisfy the requirements of Section 404 of Sarbanes Oxley and the related rules of the Securities and Exchange Commission, which require, among other things, our management to assess annually the effectiveness of our internal control over financial reporting and our independent registered public accounting firm to issue a report on that assessment. In connection with the restatement to our consolidated financial statements in this Form 10-K/A – Amendment No. 1 as discussed in Note 1A, management, including our Chief Executive Officer, and Chief Financial Officer, reassessed the effectiveness of our internal control over financial reporting as of December 31, 2012 and concluded that the Company did not maintain adequate control of its accounting for deferred tax accounts in preparation of its provision for income taxes. This control deficiency resulted in the misstatement of our provision for income taxes. We will attempt to remediate this material weakness prior to the end of December 2013. If we are unable to effectively remediate this material weakness or we are otherwise unable to maintain adequate internal control over financial reporting, there is a reasonable possibility that a misstatement of our annual or interim financial statements will not be prevented or detected in a timely manner.

Index

Risks Relating to our Intellectual Property

If we cannot maintain our governmental permits or cannot obtain required permits, we may not be able to continue or expand our operations.

We are a nuclear services and waste management company. Our business is subject to extensive, evolving, and increasingly stringent federal, state, and local environmental laws and regulations. Such federal, state, and local environmental laws and regulations govern our activities regarding the treatment, storage, recycling, disposal, and transportation of hazardous and non-hazardous waste and low-level radioactive waste. We must obtain and maintain permits or licenses to conduct these activities in compliance with such laws and regulations. Failure to obtain and maintain the required permits or licenses would have a material adverse effect on our operations and financial condition. If any of our facilities are unable to maintain currently held permits or licenses or obtain any additional permits or licenses which may be required to conduct its operations, we may not be able to continue those operations at these facilities, which could have a material adverse effect on us.

We believe our proprietary technology is important to us.

We believe that it is important that we maintain our proprietary technologies. There can be no assurance that the steps taken by us to protect our proprietary technologies will be adequate to prevent misappropriation of these technologies by third parties. Misappropriation of our proprietary technology could have an adverse effect on our operations and financial condition. Changes to current environmental laws and regulations also could limit the use of our proprietary technology.

Risks Relating to our Financial Position and Need for Financing

Breach of financial covenants in existing credit facility could result in a default, triggering repayment of outstanding debt under the credit facility.

Our credit facility with our bank contains financial covenants. A breach of any of these covenants could result in a default under our credit facility triggering our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. In the past, none of our covenants have been restrictive to our operations. If we fail to meet our loan covenants in the future and our lender does not waive the non-compliance or revise our covenant so that we are in compliance, our lender could accelerate the repayment of borrowings under our credit facility. In the event that our lender accelerates the payment of our borrowings, we may not have sufficient liquidity to repay our debt under our credit facility and other indebtedness.

Our amount of debt could adversely affect our operations.

At December 31, 2012, our aggregate consolidated debt was approximately $14,267,000. Our Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated October 31, 2011 (“Amended Loan Agreement”) provides for an aggregate commitment of $43,500,000, consisting of a $25,000,000 revolving line of credit, a term loan of $16,000,000, and an equipment line of credit up to $2,500,000. The maximum we can borrow under the revolving part of the Credit Facility is based on a percentage of the amount of our eligible receivables outstanding at any one time. As of December 31, 2012, we had no borrowings under the revolving part of our Credit Facility and borrowing availability of up to an additional $10,146,000 based on our outstanding eligible receivables. A lack of operating results could have material adverse consequences on our ability to operate our business. Our ability to make principal and interest payments, or to refinance indebtedness, will depend on both our and our subsidiaries' future operating performance and cash flow. Prevailing economic conditions, interest rate levels, and financial, competitive, business, and other factors affect us. Many of these factors are beyond our control.

Index

Risks Relating to our Common Stock

Issuance of substantial amounts of our Common Stock could depress our stock price.

Any sales of substantial amounts of our Common Stock in the public market could cause an adverse effect on the market price of our Common Stock and could impair our ability to raise capital through the sale of additional equity securities. The issuance of our Common Stock will result in the dilution in the percentage membership interest of our stockholders and the dilution in ownership value. Given effect of the reverse stock split, as of December 31, 2012, we had 11,240,000 shares of Common Stock outstanding (which excludes 7,642 treasury shares).

In addition, given the effect of the reverse stock split, as of December 31, 2012, we had outstanding options to purchase 528,800 shares of Common Stock at exercise prices from $5.50 to $14.75 per share. Further, our preferred share rights plan, if triggered, could result in the issuance of a substantial amount of our Common Stock. The existence of this quantity of rights to purchase our Common Stock under the preferred share rights plan could result in a significant dilution in the percentage ownership interest of our stockholders and the dilution in ownership value. Future sales of the shares issuable could also depress the market price of our Common Stock.

We do not intend to pay dividends on our Common Stock in the foreseeable future.

Since our inception, we have not paid cash dividends on our Common Stock, and we do not anticipate paying any cash dividends in the foreseeable future. Our Credit Facility prohibits us from paying cash dividends on our Common Stock.

The price of our Common Stock may fluctuate significantly, which may make it difficult for our stockholders to resell our Common Stock when a stockholder wants or at prices a stockholder finds attractive.

The price of our Common Stock on the Nasdaq Capital Markets constantly changes. We expect that the market price of our Common Stock will continue to fluctuate. This may make it difficult for our stockholders to resell the Common Stock when a stockholder wants or at prices a stockholder finds attractive.

Future issuance or potential issuance of our Common Stock could adversely affect the price of our Common Stock, our ability to raise funds in new stock offerings, and dilute our shareholders percentage interest in our Common Stock.

Future sales of substantial amounts of our Common Stock in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our Common Stock, and impair our ability to raise capital through future offerings of equity. No prediction can be made as to the effect, if any, that future issuances or sales of shares of Common Stock or the availability of shares of Common Stock for future issuance, will have on the trading price of our Common Stock. Such future issuances could also significantly reduce the percentage ownership and dilute the ownership value of our existing common stockholders.

Delaware law, certain of our charter provisions, our stock option plans, outstanding warrants and our Preferred Stock may inhibit a change of control under circumstances that could give you an opportunity to realize a premium over prevailing market prices.

We are a Delaware corporation governed, in part, by the provisions of Section 203 of the General Corporation Law of Delaware, an anti-takeover law. In general, Section 203 prohibits a Delaware public corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. As a result of Section 203, potential acquirers may be discouraged from attempting to effect acquisition transactions with us, thereby possibly depriving our security holders of certain opportunities to sell, or otherwise dispose of, such securities at above-market prices pursuant to such transactions. Further, certain of our option plans provide for the immediate acceleration of, and removal of restrictions from, options and other awards under such plans upon a "change of control" (as defined in the respective plans). Such provisions may also have the result of discouraging acquisition of us.

17

Index

After the reverse stock split, we have authorized and unissued 63,223,558 (which include outstanding options to purchase 528,800 shares of our Common Stock) shares of Common Stock and 2,000,000 shares of Preferred Stock as of December 31, 2012 (which includes 600,000 shares of our Preferred Stock reserved for issuance under our preferred share rights plan). These unissued shares could be used by our management to make it more difficult, and thereby discourage an attempt to acquire control of us.

Our Preferred Share Rights Plan may adversely affect our stockholders.

In May 2008, we adopted a preferred share rights plan (the “Rights Plan”), designed to ensure that all of our stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer. However, the Rights Plan may also have the effect of deterring, delaying, or preventing a change in control that might otherwise be in the best interests of our stockholders.

In general, under the terms of the Rights Plan, subject to certain limited exceptions, if a person or group acquires 20% or more of our Common Stock or a tender offer or exchange offer for 20% or more of our Common Stock is announced or commenced, our other stockholders may receive upon exercise of the rights (the “Rights”) issued under the Rights Plan the number of shares our Common Stock or of one-one hundredths of a share of our Series A Junior Participating Preferred Stock, par value $.001 per share, having a value equal to two times the purchase price of the Right. In addition, if we are acquired in a merger or other business combination transaction in which we are not the survivor or more than 50% of our assets or earning power is sold or transferred, then each holder of a Right (other than the acquirer) will thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the purchase price of the Right. The initial purchase price of each Right was $13, subject to adjustment and adjustment for the reverse stock split.

The Rights will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. The Rights may be redeemed by us at $0.001 per Right at any time before any person or group acquires 20% or more of our outstanding common stock. The rights should not interfere with any merger or other business combination approved by our board of directors. The Rights expire on May 2, 2018.

There is no assurance that the Company will be able to regain compliance with the listing requirement under NASDAQ Listing Rule 5250(c)(1) for continued listing of its Common Stock on the NASDAQ

By letter dated November 14, 2013, the NASDAQ advised the Company that since it had failed to timely file its Form 10-Q for the period ended September 30, 2013 (“Form 10-Q”), it no longer complies with the NASDAQ Listing Rule 5250(c)(1) for continued listing, and that the Company has 60 calendar days to submit a plan to the NASDAQ to regain compliance. If the NASDAQ accepts such plan, the NASDAQ can grant an exception to the Company for up to 180 calendar days from the due date for filing the Form 10-Q, or until May 12, 2014, to regain compliance. Although the Company has filed its Form 10-K/A for the year ended 2012 and intends to file its Form 10-Q for the quarter ended September 30, 2013 during December 2013, and, if required, intends to submit a plan to NASDAQ prior to January 13, 2014 to regain compliance within the Listing Rules of the NASDAQ, acceptance of such plan is discretionary with the NASDAQ. This notification has no immediate effect on the listing of the Company’s common stock on the NASDAQ. There can be no assurance, however, that the Company will be able to regain compliance with the listing requirement discussed above or otherwise satisfy the other NASDAQ listing criteria.

Index

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our principal executive office is in Atlanta, Georgia. Our Operations Headquarters is located in Knoxville, Tennessee. Our Treatment Segment facilities are located in Gainesville, Florida; Kingston, Tennessee; Oak Ridge, Tennessee, and Richland, Washington. Our Services Segment operates subsidiaries located in Ellisville, Missouri; Knoxville, Tennessee; and Blaydon On Tyne, England, of which we lease all of the properties. We have a facility located in Valdosta, Georgia, which is included within our discontinued operations. We also maintain properties in Brownstown, Michigan and Memphis, Tennessee, which are all non-operational and are included within our discontinued operations.

Three of our facilities are subject to mortgages as granted to our senior lender (Kingston, Tennessee; Gainesville, Florida; and Richland, Washington).

The Company currently leases properties in the following locations:

Location	Square Footage	Expiration of Lease
Knoxville, TN (SEC)	20,850	May 31, 2018
Knoxville, TN (SEC)	11,000	September 30, 2013
Blaydon On Tyne, England (Perma-Fix UK Limited)	1,000	Monthly
Pittsburgh, PA (SEC)	640	Monthly
Newport, KY (SEC)	1,566	Monthly
Oak Ridge, TN (M&EC)	150,000	February 28, 2018
Ellisville, MO (SYA)	12,000	May 31, 2016
Atlanta, GA (Corporate)	7,672	May 31, 2015

We believe that the above facilities currently provide adequate capacity for our operations and that additional facilities are readily available in the regions in which we operate, which could support and supplement our existing facilities.

ITEM 3. LEGAL PROCEEDINGS

Perma-Fix of Northwest Richland, Inc. (“PFNWR”)
PFNWR filed suit (PFNWR vs. Philotechnics, Ltd.) in the U.S. District Court, Eastern District of Tennessee, asserting contract breach and seeking specific performance of the “return-of-waste clause” in the brokerage contract between a prior facility owner (now owned by PFNWR) and Philotechnics, Ltd. (“Philo”), as to certain non-conforming waste Philo delivered for treatment from Philo’s customer, El du Pont de Nemours and Company (“DuPont”), to the PFNWR facility, before PFNWR acquired the facility. Our complaint seeks an order that Philo: (A) specifically perform its obligations under the contract’s “return-of-waste” clause by physically taking custody of and by removing the nonconforming waste, (B) pay PFNWR all additional costs of maintaining and managing the waste, and (C) pay PFNWR the cost to treat and dispose of the nonconforming waste so as to allow PFNWR to compliantly dispose of that waste offsite. See “Liquidity and Capital Resources of the Company – Financing Activities” of the “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, for a discussion of an Offset Amount offsetting against the earn-out amount relating to the claims contained in this lawsuit.

On March 7, 2013, Perma-Fix Northwest Richland, Inc. (“PFNWR”), a subsidiary of ours, received a Notice of Intent to File Administrative Complaint from the U.S. Environmental Protection Agency (“EPA”), alleging PFNWR had improperly stored certain mixed waste. If a settlement is not reached between the Company and EPA in connection with these alleged violations within 120 days of initiating negotiations, the EPA has advised it will initiate an action for civil penalties for these alleged violations. The EPA could seek penalties up to $37,500 per day per violation. The EPA has proposed a consent agreement and final order ("CAFO") and has proposed a total penalty in the CAFO in the amount of $215,500 to resolve these alleged violations. We are initiating discussion with the EPA to resolve this matter.

Index

ITEM 4 MINE SAFETY DISCLOSURE

Not Applicable

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth, as of the date hereof, information concerning our executive officers:

NAME	AGE	POSITION
Dr. Louis F. Centofanti	69	Chairman of the Board, President and Chief Executive Officer
Mr. Ben Naccarato	50	Chief Financial Officer, Vice President, and Secretary
Mr. James A. Blankenhorn	48	Chief Operating Officer, Vice President
Mr. Robert Schreiber, Jr.	62	President of Schreiber, Yonley & Associates ("SYA"), a subsidiary of the Company, and Principal Engineer
Mr. Christopher P. Leichtweis (1)	53	President of Safety and Ecology Corporation ("SEC"), Senior Vice President

(1) Effective May 24, 2013, Mr. Leichtweis voluntarily terminated and retired from all positions with the Company and its subsidiaries. See discussion in Part III, Item 11- "Executive Compensation – Employment Agreements" for further details of the terms of his voluntary termination and retirement.

Dr. Louis F. Centofanti
Dr. Centofanti has served as Board Chairman since joining the Company in February 1991. Dr. Centofanti also served as Company President and Chief Executive Officer (February 1991 to September 1995) and again in March 1996 was elected Company President and Chief Executive Officer. From 1985 until joining the Company, Dr. Centofanti served as Senior Vice President of USPCI, Inc., a large hazardous waste management company, where he was responsible for managing the treatment, reclamation and technical groups within USPCI. In 1981 he founded PPM, Inc. (later sold to USPCI), a hazardous waste management company specializing in treating PCB contaminated oils. From 1978 to 1981, Dr. Centofanti served as Regional Administrator of the U.S. Department of Energy for the southeastern region of the United States. Dr. Centofanti has a Ph.D. and a M.S. in Chemistry from the University of Michigan, and a B.S. in Chemistry from Youngstown State University.

Mr. Ben Naccarato
Mr. Naccarato has served as the Chief Financial Officer since February 26, 2009. Mr. Naccarato joined the Company in September 2004 and served as Vice President, Finance of the Company's Industrial Segment until May 2006, when he was named Vice President, Corporate Controller/Treasurer. Prior to joining the Company in September 2004, Mr. Naccarato was the Chief Financial Officer of Culp Petroleum Company, Inc., a privately held company in the fuel distribution and used waste oil industry from December 2002 to September 2004. Mr. Naccarato is a graduate of University of Toronto having received a Bachelor of Commerce and Finance Degree and is a Certified Management Accountant.

Mr. James A. Blankenhorn
Mr. Blankenhorn was appointed by the Company's Board of Directors on February 18, 2011 as the Company's Chief Operating Officer. Mr. Blankenhorn's employment with the Company became effective on June 1, 2011. Mr. Blankenhorn has 24 years experience in the nuclear industry supporting U. S. Department of Defense programs, and the Department of Energy's Environmental Management and National Nuclear Security Administration programs. Prior to joining Perma-Fix, Mr. Blankenhorn served as the deputy project manager for the West Valley Environmental Services, LLC, in western New York where he directed a staff of 360 in the deactivation, decommissioning and clean-up of facilities at West Valley. From 2008 to early 2010, Mr. Blankenhorn was program director with Los

Alamos National Security, LLC, responsible for the Waste Disposition Project at the Los Alamos National Laboratory where he supervised 440 people and was responsible for improving performance and achieving cost savings while developing a long term strategy for legacy wastes. Mr. Blankenhorn has also served in a variety of senior management positions at URS Corporation, a publicly traded Company which provides engineering, construction, and technical services for public agencies and private sectors. Since 1986, Mr. Blankenhorn has been an officer in the U.S. Army (promoted to Colonel) and Army Reserve serving in leadership positions within the U.S. Army Nuclear, Biological, Chemical and Radiological program. Mr. Blankenhorn holds a Master of Strategic Studies from the U.S. Army War College, a Master of Science degree – Environmental/Hazardous Waste Management from National Technological University, and a Bachelor of Science degree – Chemistry from the Florida Institute of Technology.

Index

Mr. Robert Schreiber, Jr.

Mr. Schreiber has served as President of SYA since the Company acquired the environmental engineering firm in 1992. Mr. Schreiber co-founded the predecessor of SYA, Lafser & Schreiber in 1985, and held several executive roles in the firm until our acquisition of SYA. From 1978 to 1985, Mr. Schreiber was the Director of Air programs and all environmental programs for the Missouri Department of Natural Resources. Mr. Schreiber provides technical expertise in wide range of areas including the cement industry, environmental regulations and air pollution control. Mr. Schreiber has a B.S. in Chemical Engineering from the University of Missouri – Columbia.

Mr. Christopher P. Leichtweis

Mr. Leichtweis was appointed Senior Vice President of the Company and President of SEC upon the closing of the acquisition of Safety and Ecology Holdings Corporation ("SEHC") and its subsidiaries (collectively, "SEC") by the Company on October 31, 2011.

Prior to the acquisition of SEC by the Company, Mr. Leichtweis served as founder, President and CEO of SEC since 1991 and grew the domestic and international operations to more than 530 employees, eight offices, and revenues of approximately $98,000,000 in SEC's fiscal year 2011. From 2008 to prior the acquisition, he served as President and Director of SEC's parent (public) company Homeland Security Capital Corporation (now known as Timios National Corporation), growing the parent's portfolio of three companies by 43% and expanding operations into many new commercial and federal markets.

Prior to founding SEC, Mr. Leichtweis served in various engineering and management positions at Bechtel National and Bechtel Environmental, Inc., a global Engineering and Construction Company, starting in 1985, and was a key contributor to the environmental clean-up of major federal nuclear legacy programs. He currently serves on many boards including his undergraduate University's Foundation Board (State University of New York- Brockport) and is a distinguished graduate from the University of Tennessee. Mr. Leichtweis earned a B.S. degree in Physics from SUNY Brockport in 1983, and received his MBA from the University of Tennessee in December 2003. In addition, he is a Certified Industrial Hygienist by the American Board of Industrial Hygiene. Mr. Leichtweis was nationally recognized as the Southeast United States 2005 Ernst & Young Entrepreneur of the Year award winner. Effective May 24, 2013, Mr. Leichtweis' employment with the Company and his position as an officer terminated (see Note (1) above).

Certain Relationships

There are no family relationships between any of our executive officers.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is traded on the NASDAQ Capital Markets ("NASDAQ") under the symbol "PESI". The following table sets forth the high and low market trade prices quoted for the Common Stock during the periods shown. The source of such quotations and information is the NASDAQ online trading history reports. The trade prices noted below have been adjusted for the reverse stock split.

Index

	2012		2011	
	Low	High	Low	High
Common Stock 1st Quarter	$7.32	$9.50	$6.80	$9.10
2nd Quarter	5.30	8.40	6.40	7.85
3rd Quarter	4.25	5.95	5.00	8.40
4th Quarter	3.40	5.35	5.75	8.25

As of February 20, 2013, there were approximately 245 stockholders of record of our Common Stock, including brokerage firms and/or clearing houses holding shares of our Common Stock for their clientele (with each brokerage house and/or clearing house being considered as one holder). However, the total number of beneficial stockholders as of February 20, 2013, was approximately 3,674.

As discussed under Item 1A. – Risk Factors – "There is no assurance that the Company will be able to regain compliance with the listing requirement under NASDAQ Listing Rule 5250(c)(1) for continued listing of its Common Stock on the NASDAQ as the Company failed to timely file its Form 10-Q for the period ended September 30, 2013. See discussion under this "Risk Factor" for additional discussion of this issue relating to listing of our Common Stock in the NASDAQ Stock Market. Although the Company has filed its Form 10-K/A for the year ended 2012 and intends to file its Form 10-Q for the quarter ended September 30, 2013 during December 2013, and, if required, intends to submit a plan to NASDAQ prior to January 13, 2014 to regain compliance within the Listing Rules of the NASDAQ, acceptance of such plan is discretionary with the NASDAQ. There can be no assurance that the Company will be able to regain compliance with the listing requirement.

Since our inception, we have not paid any cash dividends on our Common Stock and have no dividend policy. Our Amended Loan Agreement prohibits us from paying any cash dividends on our Common Stock without prior approval from the lender. We do not anticipate paying cash dividends on our outstanding Common Stock in the foreseeable future.

No sales of unregistered securities occurred during 2012. There were no purchases made by us or on behalf of us or any of our affiliated members of shares of our Common Stock during 2012.

We have adopted a preferred share rights plan, which is designed to protect us against certain creeping acquisitions, open market purchases, and certain mergers and other combinations with acquiring companies. See "Item 1A. - Risk Factors – Our Preferred Share Rights Plan" as to further discussion relating to the terms of our preferred share rights plan.

Common Stock Price Performance Graph

The following Common Stock price performance graph compares the yearly change in the Company's cumulative total stockholders' returns on the Common Stock during the years 2008 through 2012, with the cumulative total return of the NASDAQ Market Index and the published industry index prepared by Morningstar and known as Morningstar Waste Management Industry Group ("Industry Index") assuming the investment of $100 on January 1, 2008.

The stockholder returns shown on the graph below are not necessarily indicative of future performance, and we will not make or endorse any predications as to future stockholder returns.

Index

Assumes $100 invested in the Company on January 1, 2008, the Industry Index and the NASDAQ Market Index, and the reinvestment of dividends. The above five-year Cumulative Total Return Graph shall not be deemed to be "soliciting material" or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 (collectively, the "Acts") or be subject to the liabilities under Section 18 of the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this information by reference, and shall not be deemed to be soliciting material or to be filed under such Acts.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, have been restated to reflect adjustments to our previously issued financial statements as more fully discussed in the "Explanatory Note", "Note 1A – Restatement of Consolidated Financial Statements" to the accompanying consolidated financial statements, and "Restatement" in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The following data should be read in conjunction with "Management's Discussion Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of the Company and the notes thereto included elsewhere herein in order to fully understatnd factors that may affect the comparability of the financial data. The following selected Consolidated Balance Sheet data as of December 31, 2012 and 2011 and the selected Consolidated Statements of Operations for the twelve months ended December 31, 2012, 2011, and 2010 are derived from our audited consolidated financial statements included in Item 8 ("Financial Statements and Supplementary Data") of this Form 10-K/A, which have been audited by BDO USA, LLP. Certain prior year amounts have been reclassified to conform with current year presentations. Amounts are in thousands (except for per share amounts).

Index

Statement of Operations Data (in thousands):

	(Restated) 2012	(Restated) 2011[1]	(Restated) 2010	(Restated) 2009	(Restated) 2008
Revenues	$ 127,509	$ 118,097	$ 97,790	$ 92,393	$ 64,553
(Loss) income from continuing operations	(3,149)	6,399	4,882	6,682	(818)
Income (loss) from discontinued operations, net of taxes	(30)	182	(919)	1,343	406
Gain on disposal of discontinued operations, net of taxes	¾	1,509	¾	¾	2,323
Net income attributable to noncontrolling interest	180	22	¾	¾	¾
Net (loss) income attributable to Perma-Fix Environmental Services, Inc. common stockholders	(3,359)	8,068	3,963	8,025	1,911
(Loss) income per common share attributable to Perma-Fix Environmental Services, Inc. stockholders - basic					
Continuing operations	(.30)	.58	.44	.62	(.08)
Discontinued operations	¾	.01	(.08)	.12	.04
Disposal of discontinued operations	¾	.14	¾	¾	(.22)
Net (loss) income per common share	(.30)	.73	.36	.74	(.18)
(Loss) income per common share attributable to Perma-Fix Environmental Services, Inc. stockholders - diluted					
Continuing operations	(.30)	.58	.44	.62	(.08)
Discontinued operations	¾	.01	(.08)	.12	.04
Disposal of discontinued operations	¾	.14	¾	¾	(.22)
Net (loss) income per common share	(.30)	.73	.36	.74	(.18)
Number of shares used in computing net (loss) income per common share - Basic	11,225	11,059	10,989	10,848	10,761
Number of shares and potential common shares used in computing net (loss) income per common share - Diluted	11,225	11,063	11,006	10,905	10,761

Balance Sheet Data:

	December 31, (Restated) 2012	(Restated) 2011	(Restated) 2010	(Restated) 2009	(Restated) 2008
Working capital (deficit)	$ 2,652	$ 7,534	$ 2,751	$ 1,764	$ (3,886)
Total assets	139,691	163,654	125,737	126,002	123,690
Current and long-term debt	14,196	17,716	10,656	12,381	16,203
Total liabilities	54,152	75,345	47,476	52,796	60,769
Preferred stock of subsidiary	1,285	1,285	1,285	1,285	1,285
Stockholders' equity	84,254	87,024	76,976	71,921	61,636

(1) Includes financial data of SEC acquired on October 31, 2011 and accounted for using the purchase method of accounting in which the results of operations are reported from the date of acquisition, October 31, 2011.

Index

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained within this “Management's Discussion and Analysis of Financial Condition and Results of Operations” 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”). See “Special Note regarding Forward-Looking Statements” contained in this report.

Management's discussion and analysis is based, among other things, upon our audited consolidated financial statements and includes our accounts and the accounts of our wholly-owned subsidiaries, after elimination of all significant intercompany balances and transactions.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 8 of this report.

Restatement

During the process of reviewing and filing the Company’s 2012 corporate income tax returns, the Company identified information related to certain deferred tax assets (“DTA”) that were recorded as part of the acquisition of our Diversified Scientific Services, Inc. subsidiary (“DSSI”) in 2000. Upon subsequent analysis of this information, the Company determined that there was not sufficient support for a portion of the DTA. The adjustment of DTA also resulted in re-evaluation and adjustments to valuation allowance and reserve for uncertain tax positions. The Company also performed a review of its deferred tax liabilities (“DTL”) and determined that the reported DTL related to depreciation for fixed assets for 2011 was understated. To correct these errors, the Company reduced the beginning retained earnings balance in 2010 by approximately $1,600,000, reduced income tax expense by approximately $1,355,000 in 2010, recorded approximately $5,768,000 of income tax expense in 2011 and reversed $2,913,000 of income tax expense recorded in 2012. Accordingly, this Item 7 has been amended and restated to give effect to the restatement of our audited consolidated financial statements for the years ended December 31, 2012, 2011, and 2010.

For a detailed description and impact of the restatement to the Consolidated Financial Statements, see “Note 1A – Restatement of Consolidated Financial Statements” in “Notes to Consolidated Financial Statements” of Part II, Item 8 – “Financial Statements and Supplementary Data.”

The restatement had no impact on the Company’s previously reported cash and cash equivalents, revenue or income (loss) from continuing operations before income taxes.

Review

This year was a challenging year for the Company. Federal governmental clients have operated under reduced budgets due to ongoing short term budget Continuing Resolutions (“CR”), and we believe that this has negatively impacted our financial results in both Segments. Revenue increased $9,412,000 or 8.0% from $118,097,000 for the twelve months ended December 31, 2011 to $127,509,000 for the twelve months ended December 31, 2012. Excluding the revenue of $55,661,000 and $10,156,000 for the twelve months ended December 31, 2012 and the corresponding period of 2011, respectively, generated from Safety and Ecology Holdings Corporation (“SEHC”) and its subsidiaries (collectively known as Safety and Ecology Corporation or “SEC” which is within our Services Segment) which we acquired on October 31, 2011, remaining revenue as of December 31, 2012, decreased $36,093,000 or 33.4% from the twelve months ended December 31, 2011. Treatment Segment revenue decreased $19,954,000 or 30.3% primarily due to lower waste volume. Services Segment revenue decreased $16,139,000 or 38.3% primarily due to reduced revenue from the CH Plateau Remediation Company (“CHPRC”) subcontract (“CHPRC subcontract”), a cost plus award fee subcontract. This subcontract entails performing a portion of facility operations and waste management activities for the U.S Department of Energy (“DOE”) Hanford, Washington Site. The revenue reduction was the result of a reduction in workforce which occurred during September 30, 2011 under the CHPRC subcontract.

25

Index

Excluding the SEC gross profit of $1,391,000 and negative gross profit of $62,000 for the twelve months ended December 31, 2012 and the corresponding period of 2011, respectively, remaining gross profit decreased $14,069,000 or 49.4% primarily due to decreased gross profit from our Treatment Segment resulting from lower waste volume and decreased gross profit under the CHPRC subcontract. Excluding the Selling, General, and Administrative ("SG&A") of SEC, remaining SG&A decreased $1,299,000 or 8.9%.

Our working capital at December 31, 2012 was $2,652,000, a decrease of $4,882,000 from a working capital position of $7,534,000 at December 31, 2011.

As previously reported, on October 31, 2011 ("Closing Date"), we completed the acquisition of SEHC and its subsidiaries (collectively known as SEC), pursuant to the Stock Purchase Agreement, dated July 15, 2011 ("Purchase Agreement"), between the Company, Homeland Capital Security Corporation (now known as Timios National Corporation - "TNC") and SEHC (collectively known as the "Parties). We acquired SEC for a total consideration of approximately $16,655,000 determined based on the following discussion:

(i) cash consideration of approximately $14,885,000, after certain working capital closing adjustments. This cash consideration was reduced by approximately $1,000,000 total consideration for our Common Stock purchased from us by certain security holders of TNC (see "Related Party Transactions – Christopher Leichtweis" in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further detail of this Common Stock purchase by certain security holders of TNC, including Mr. Leichtweis, who is a senior vice president and President of SEC of the Company);

(ii) $2,500,000 unsecured, non-negotiable promissory note (the "October Note"), bearing an annual rate of interest of 6%, payable in 36 monthly installments, which October Note provides that we have the right to prepay such at any time without interest or penalty. We prepaid $500,000 of the principal amount of the October Note within 10 days of closing of the acquisition. Subject to certain limitations, the October Note may be subject to offset of amounts TNC owes us for indemnification for breach of, or failure to perform, certain terms and provisions of the Purchase Agreement under certain terms and conditions (see below discussion regarding cancellation of this note as result of settlement of certain indemnification claims that the Company made after the acquisition); and

(iii) the sum of $2,000,000 deposited in an escrow account to satisfy any claims that we may have against TNC for indemnification pursuant to the Purchase Agreement and the Escrow Agreement, dated October 31, 2011 ("Escrow Agreement"). TNC and SEHC further agreed that if certain conditions were not met by December 31, 2011, relating to a certain contract, then the Company could withdraw $1,500,000 from the amount deposited into the escrow. On January 10, 2012, we received $1,500,000 from the escrow as certain conditions were not met under this certain contract as of December 31, 2011, leaving a balance of $500,000 in the escrow account ("Escrow Balance"). (See below for discussion as to the release of this remaining $500,000 escrow balance to TNC).

Subsequent to the Closing Date, in addition to the above described $1,500,000 claim, we made additional claims against TNC for indemnification pursuant to the indemnification provisions of the Purchase Agreement, asserting breach of certain representations, warranties and covenants of TNC and SEHC (the "Disputed Claims"). On February 12, 2013, the Parties entered into a Settlement and Release Agreement ("Settlement Agreement") to resolve (collectively, the "Subject Claims"): (a) the Disputed Claims, and (b) any other claim arising under the Purchase Agreement with respect to a breach of (i) the representations and warranties of the Parties contained in the Purchase Agreement, and (ii) certain covenants contained in the Purchase Agreement. Pursuant to the Settlement Agreement, the Parties agreed as follows:

- the October Note (with an unpaid principal balance of approximately $1,460,000), was cancelled, terminated and rendered null and void;

Index

- we issued to TNC a new, two-year, non-negotiable, unsecured promissory note in the principal amount of approximately $230,000 (the "New Note") (see – "Liquidity and Capital Resources – Financing Activities" for further detail of this New Note);

- the Escrow Balance of $500,000 was released to TNC;

- the Parties terminated all of their rights and obligations to indemnification under the Purchase Agreement, except with respect to TNC's covenants relating to non-complete, non-solicitation of customers and employees, confidentiality, and related remedies which will continue in full force and effect in accordance with the terms of the Purchase Agreement (the "Continuing Covenants");

- the Parties terminated their rights and obligations with respect to (i) the representations, warranties, and covenants contained in the Purchase Agreement, except for the Continuing Covenants; and

- we terminated our contractual right to offset amounts owing to TNC under the Purchase Agreement to satisfy claims against TNC.

In connection with the resolution of the Disputed Claims, we also entered into a Settlement and Release Agreement and Amendment to Employment Agreement ("Leichtweis Settlement") with Christopher Leichtweis, our Senior Vice President (see "Related Party Transactions – Christopher Leichtweis" for a discussion of the Leichtweis Settlement).

Outlook

We believe demand for our services will be subject to fluctuations due to a variety of factors beyond our control, including the current economic conditions that drive both commercial and government clients to reduce spending. In addition, federal governmental clients have operated under reduced budgets due to ongoing short term budget CR and we believe that this has negatively impacted the amount of waste shipped to our treatment facilities as well as jobs available in our Services Segment. We believe that the uncertainty with the federal budget and the availability of funding will continue to impact our Segments until a final budget or year long CR is approved by Congress. 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 generally subject to termination or renegotiation on 30 days notice at the government's option. Significant reductions in the level of governmental funding due to federal spending reductions from uncertain budgets resulting from temporary continuing resolutions 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 two reportable segments: The Treatment Segment ("Treatment") and the Services Segment ("Services"):

Index

Below are the results of continuing operations for our years ended December 31, 2012, 2011, and 2010 (amounts in thousands):

	(Restated)		(Restated)		(Restated)	
(Consolidated)	2012	%	2011	%	2010	%
Net revenues	$127,509	100.0	$118,097	100.0	$97,790	100.0
Cost of goods sold	111,705	87.6	89,677	75.9	77,175	78.9
Gross Profit	15,804	12.4	28,420	24.1	20,615	21.1
Selling, general and administrative	18,390	14.4	15,564	13.2	13,361	13.7
Research and development	1,823	1.4	1,502	1.3	921	.9
Loss (gain) on disposal of property and equipment	15	¾	(15)	¾	138	.2
(Loss) income from operations	(4,424)	(3.4)	11,369	9.6	6,195	6.3
Interest income	41	¾	58	.1	65	.1
Interest expense	(818)	(.6)	(657)	(.6)	(755)	(.8)
Interest expense – financing fees	(107)	(.1)	(207)	(.2)	(412)	(.4)
Loss on extinguishment of debt	¾	¾	(91)	(.1)	¾	¾
Other	8	¾	5	¾	24	¾
(Loss) income from continuing operations before taxes	(5,300)	(4.1)	10,477	8.8	5,117	5.2
Income tax (benefit) expense	(2,151)	(1.6)	4,078	3.4	235	.2
(Loss) income from continuing operations	$(3,149)	(2.5)	$6,399	5.4	$4,882	5.0

Summary - Years Ended December 31, 2012 and 2011

Net Revenue

Consolidated revenues from continuing operations increased $9,412,000 for the year ended December 31, 2012, compared to the year ended December 31, 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change	% Change
Treatment						
Government waste	$30,501	23.9	$50,155	42.4	$(19,654)	(39.2)
Hazardous/non-hazardous	3,230	2.5	3,484	3.0	(254)	(7.3)
Other nuclear waste	12,151	9.5	12,197	10.3	(46)	(0.4)
Total	45,882	36.0	65,836	55.7	(19,954)	(30.3)
Services						
Nuclear	23,462	18.4	39,637	33.6	(16,175)	(40.8)
Technical	2,504	2.0	2,468	2.1	36	1.5
Acquisition 10/31/11 (SEC) (1)	55,661	43.6	10,156	8.6	45,505	448.1
Total	81,627	64.0	52,261	44.3	29,366	56.2
Total	$127,509	100.0	$118,097	100.0	$9,412	8.0

(1) Includes approximately $47,570,000 and $9,868,000 relating to services generated by the federal government, either directly (as prime contractor) or indirectly as a subcontractor to the federal government, for the twelve months ended December 31, 2012 and the corresponding period of 2011, respetively.

Net Revenue

The Treatment Segment revenue decreased $19,954,000 or 30.3% for the twelve months ended December 31, 2012 over the same period in 2011. Revenue from government generators decreased $19,654,000 or 39.2% primarily due to lower waste volume. Revenue from hazardous and non-hazardous waste decreased $254,000 or 7.3% primarily due to lower waste volume. Services Segment revenue increased $29,366,000 or 56.2% in the twelve months ended December 31, 2012 from the corresponding period of 2011 primarily due to revenues of $55,661,000 generated by SEC which was acquired on October 31, 2011. Revenue from SEC for the two months ended December 31, 2011 was $10,156,000. Excluding the revenue of SEC, remaining Services Segment revenue decreased $16,139,000, or 38.3%, primarily due to reduced revenue in the nuclear services area. This decrease was primarily from the CH Plateau Remediation Company subcontract which is a cost plus award fee subcontract. The reduction in revenue of $16,175,000 or 40.8% under this subcontract from $39,637,000 for the twelve month ended December 31, 2011 to $23,462,000 for the twelve months ended December 31, 2012, was primarily the result of a reduction in workforce which occurred in September 2011 under this subcontract. The remaining revenue increase of $36,000 within the Services Segment resulted primarily from higher vendor pass-through in our our technical services area.

Index

Cost of Goods Sold

Cost of goods sold increased $22,028,000 for the year ended December 31, 2012, as compared to the year ended December 31, 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change
Treatment	$36,614	79.8	$44,537	67.6	(7,923)
Services	20,821	80.2	34,922	82.9	(14,101)
Services (Acquisition 10/31/11-SEC)	54,270	97.5	10,218	100.6	44,052
Total	$111,705	87.6	$89,677	75.9	$22,028

Cost of goods sold for the Treatment Segment decreased $7,923,000 or 17.8% primarily due to reduced revenue, revenue mix and reduction in certain fixed costs. Costs were lower throughout most categories within costs of goods sold. Salaries and payroll related expenses continue to decrease as we continue to manage headcount to streamline our operations; however, healthcare costs increased despite the reduction in headcount. We also saw significant reduction in incentive/bonus due to reduced profitability. Cost of goods sold for our Services Segment included cost of goods sold of $54,270,000 and $10,218,000 for SEC which we acquired on October 31, 2011. Excluding SEC, the remaining Services Segment cost of goods sold decreased $14,101,000 or 40.4%, which included the cost of goods sold of approximately $18,814,000 related to the CHPRC subcontract. Cost of goods sold for the CHPRC subcontract was approximately $32,784,000 for the twelve months ended December 31, 2011. The decrease in cost of goods sold for the CHPRC subcontract of $13,970,000 or 42.6% was consistent with the decrease in revenue for the CHPRC subcontract. The remaining decrease in Services Segment cost of goods sold of $131,000 or 6.1% was primarily due to lower salaries and payroll related expenses resulting from reduced headcount in our engineering group (technical service area). The reduced cost was partially offset by higher material and supplies costs. Included within cost of goods sold is depreciation and amortization expense of $5,146,000 and $4,640,000 for the twelve months ended December 31, 2012, and 2011, respectively. The increase in depreciation and amortization expense in 2012 was attributed primarily to amortization of intangible assets acquired from the SEC acquisition.

Gross Profit (Negative Gross Profit)

Gross profit for the year ended December 31, 2012, was $12,616,000 lower than 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change
Treatment	$9,268	20.2	$21,299	32.4	(12,031)
Services	5,145	19.8	7,183	17.1	$(2,038)
Services (Acquisition 10/31/11-SEC)	1,391	2.5	(62)	(0.6)	1,453
Total	$15,804	12.4	$28,420	24.1	$(12,616)

The Treatment Segment gross profit decreased $12,031,000 or 56.5% due to decreased revenue and gross margin decreased to 20.2% from 32.4% due to lower revenue from lower waste volume and the impact of fixed costs. Our Services Segment gross profit for the twelve months ended December 31, 2012 and the corresponding period of 2011 included gross profit of $1,391,000 and gross loss of $62,000, respectively for SEC which was acquired on October 31, 2011. Excluding the gross profit of SEC, the Services Segment gross profit decreased $2,038,000 or 28.4% primarily due to gross profit decrease of $2,205,000 or 32.2% under the CHPRC subcontract. The gross profit decrease under the CHPRC subcontract to $4,648,000 for the twelve months ended December 31, 2012 from $6,853,000 for the corresponding period of 2011 was reflective of the revenue decrease under this subcontract. The gross margin of 19.8% and 17.3% for the same period, respectively, was in accordance with the contract fee provisions. The remaining Services Segment gross profit increase of $167,000 or 50.6% was primarily due to lower salaries and payroll related expenses from lower headcount in our engineering group within the Segment.

Index

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses increased $2,826,000 for the year ended December 31, 2012, as compared to the corresponding period for 2011, as follows:

(In thousands)	2012	% Revenue	2011	% Revenue	Change
Administrative	$6,536	¾	$6,832	¾	$(296)
Treatment	4,051	8.8	4,933	7.5	(882)
Services	2,634	10.1	2,755	6.5	(121)
Services (Acquisition 10/31/11-SEC)	5,169	9.3	1,044	10.3	4,125
Total	$18,390	14.4	$15,564	13.2	$2,826

The decrease in administrative SG&A was primarily the result of significantly lower incentive/bonus ($520,000) due to reduced profitability, lower legal and consulting expenses ($353,000) as higher costs were incurred in 2011 in connection with the acquisition of SEC, and lower general costs. This lower cost was offset by higher salaries and payroll related expenses and healthcare costs (increase of approximately $496,000) due to additional headcount resulting from centralization of accounting functions from the SEC operations to the corporate office as part of the Company's consolidation process related to the acquisition. The increase in headcount at the corporate office was offset by headcount reduction at our SEC operations in our Services Segment. In addition, we wrote off approximately $117,000 in costs related to our shelf registration statement on Form S-3 which expired on June 26, 2012. The Company did not sell any shares of our Common Stock from the registration statement. Treatment SG&A was lower primarily due to lower commission/incentive expense, lower bad debt expense, and lower general expenses. The lower cost was partially offset by higher health claim costs. The decrease in Services SG&A (excluding SG&A of SEC which we acquired October 31, 2011) was primarily due to lower bonus/incentive expense, lower general expenses, and lower bad debt expenses. This lower cost was partially offset by higher salaries and payroll related expenses resulting from the shift of certain employees under the CHPRC subcontract from billable costs (cost of goods sold) to overhead costs based on contract terms. We also saw higher health claims costs. Included in SG&A expenses is depreciation and amortization expense of $305,000 and $176,000 for the twelve months ended December 31, 2012 and 2011, respectively.

Research and Development

Research and development costs increased $321,000 for the year ended December 31, 2012, as compared to the corresponding period of 2011. Research and development costs consist primarily of employee salaries and benefits, laboratory costs, third party fees, and other related costs associated with the development and enhancement of new potential waste treatment processes. The increase was primarily due to increased lab and payroll costs from more research and development projects. Included in research and development expense is depreciation expense of $19,000 and $0 for the twelve months ended December 31, 2012 and 2011, respecitvely.

Index

Interest Expense

Interest expense increased $161,000 for the year ended December 31, 2012, as compared to the corresponding period of 2011.

(In thousands)	2012	2011	Change	%
PNC interest	$616	$404	$ 212	52.5
Other	202	253	(51)	(20.2)
Total	$818	$657	$ 161	24.5

The increase for the twelve months ended December 31, 2012, as compared to the corresponding period of 2011 was primarily due to higher interest from a higher Term Loan balance resulting from our Amended and Restated Revolving Credit Term Loan and Security Agreement ("Amended Loan Agreement") that we entered into with PNC on October 31, 2011. In addition, we incurred higher interest resulting from the $2,500,000 note we entered into with TNC resulting from the acquisition of SEC on October 31, 2011. The higher interest expense was partially offset by lower interest on our revolver resulting from lower average balance and lower interest expense resulting from the payoff of the shareholder note in June 2011 in connection with the acquisition of PFNWR.

Interest Expense- Financing Fees

Interest expense-financing fees decreased approximately $100,000 for the twelve months ended December 31, 2012, as compared to the corresponding period of 2011. The decrease was primarily due to debt discount which became fully amortized as financing fees in April 2012 in connection with the issuance of 200,000 shares of the Company's Common Stock and two Warrants to purchase up to 150,000 shares of the Company's Common Stock as consideration for the Company receiving a $3,000,000 loan dated May 8, 2009 from William Lampson and Diehl Rettig. This decrease in interest expense-financing fees was partially offset by higher financing fees resulting from the Amended Loan Agreement as mentioned above.

Income Taxes

We had an income tax benefit of $2,151,000 and income tax expense of 4,078,000 for continuing operations for the twelve months ended December 31, 2012 and the corresponding period of 2011, respectively. The Company's effective tax rates were approximately 39.3% and 38.8% for the twelve months ended December 31, 2012 and 2011, respectively. We estimate our tax liability based on our estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate.

Index

Summary - Years Ended December 31, 2011 and 2010

Net Revenue

Consolidated revenues from continuing operations increased $20,307,000 for the year ended December 31, 2011, compared to the year ended December 31, 2010, as follows:

(In thousands)	2011	% Revenue	2010	% Revenue	Change	% Change
Treatment						
Government waste	$50,155	42.5	$38,306	39.2	$11,849	30.9
Hazardous/non-hazardous	3,484	3.0	3,473	3.6	11	0.3
Other nuclear waste	12,197	10.3	11,584	11.8	613	5.3
Total	65,836	55.7	53,363	54.6	12,473	23.4
Services						
Nuclear	39,637	33.6	41,969	42.9	(2,332)	(5.6)
Technical	2,468	2.1	2,458	2.5	10	0.4
Acquisition 10/31/11 (SEC) (1)	10,156	8.6	¾	¾	10,156	100.0
Total	52,261	44.3	44,427	45.4	7,834	17.6
Total	$118,097	100.0	$97,790	100.0	$20,307	20.8

(1) Includes approximately $9,868,000 relating to services generated by the federal government, either directly (as prime contractor) or indirectly as a subcontractor to the federal government.

The Treatment Segment realized revenue growth of $12,473,000 or 23.4% for the twelve months ended December 31, 2011 over the same period in 2010. Revenue from government generators increased by a total of $11,849,000 or 30.9% primarily due to higher waste volume, which was partially offset by lower averaged priced waste. In the prior year, we generated revenue from the receipt and processing/disposal of higher activity waste streams received in late 2009 and 2010. Revenue from hazardous and non-hazardous waste was up slightly by $11,000 or 0.3% primarily due to increased field service work, which was partially offset by lower waste volume. Other nuclear waste revenue increased approximately $613,000 or 5.3% primarily due to increased waste volume which was partially reduced by lower average priced waste. Services revenue increased $7,834,000 or 17.6% from 2010 to 2011. Total revenue within this segment included $10,156,000 of revenue from SEC, which was acquired on October 31, 2011. Excluding the revenue of SEC, revenue from the remaining Services Segment decreased $2,322,000 or 5.2% primarily due the reduction in revenue of $2,332,000 or 5.6% under the CHPRC subcontract, a cost plus award fee subcontract, in our nuclear services area. The reduction in revenue under this subcontract was primarily due to reduced headcount resulting from a reduction in workforce which occurred in September 2011 under this subcontract. The remaining revenue increase of $10,000 within the Services Segment resulted from higher average billing rate which was mostly offset by decreased billable hours in our technical services area.

Cost of Goods Sold

Cost of goods sold increased $12,502,000 for the year ended December 31, 2011, as compared to the year ended December 31, 2010, as follows:

(In thousands)	2011	% Revenue	2010	% Revenue	Change
Treatment	44,537	67.6	40,630	76.1	3,907
Services	$34,922	82.9	$36,545	82.3	$(1,623)
Services (Acquisition 10/31/11-SEC)	10,218	100.6	¾	¾	10,218

Total	$89,677	75.9	$77,175	78.9	$12,502

Cost of goods sold for the Treatment Segment increased $3,907,000 or 9.6% primarily due to increased revenue from increased waste volume. We saw increases in material and supplies, disposal costs, and transportation costs, which were reflective of the higher waste volume. We also recognized higher incentive expense resulting from higher revenue and operating income. Salaries, healthcare costs, and payroll related expenses were down resulting from reduction in workforce which occurred in April 2011 in our Diversified and Scientific Services, Inc. ("DSSI") and East Tennessee Material & Energy Corporation ("M&EC") operations but were partially reduced by the $154,000 in severance expense incurred from the reduction in workforce. Excluding the cost of goods sold of SEC (which is under our Services Segment), the Services Segment cost of goods sold decreased $1,623,000 or 4.4%, which included the cost of goods sold of approximately $32,784,000 related to the CHPRC subcontract. Cost of goods sold for the CHPRC subcontract was approximately $34,294,000 for the twelve months ended December 31, 2010. The decrease in cost of goods sold for the CHPRC subcontract of $1,510,000 or 4.4% was consistent with the decrease in revenue for the CHPRC subcontract. The remaining decrease in Services Segment cost of goods sold of $113,000 or 5.0% was primarily due to lower salaries, lower payroll related expenses and lower healthcare costs from lower headcount resulting from the reduction in workforce which occurred during March 2011 in our Schreiber, Yonley & Associates ("SYA") operations. Included within cost of goods sold is depreciation and amortization expense of $4,640,000 and $4,438,000 for the years ended December 31, 2011 and 2010, respectively.

Index

(Negative Gross Profit) Gross Profit

Gross profit for the year ended December 31, 2011, was $7,805,000 higher than 2010, as follows:

(In thousands)	2011	% Revenue	2010	% Revenue	Change
Treatment	21,299	32.4	12,733	23.9	8,566
Services	$7,183	17.1	$7,882	17.7	$(699)
Services (Acquisition 10/31/11-SEC)	(62)	(0.6)	¾	¾	(62)
Total	$28,420	24.1	$20,615	21.1	$7,805

The Treatment Segment gross profit increased $8,566,000 or 67.3% and gross margin increased to 32.4% from 23.9% from higher waste volume, revenue mix and the reduction in salaries and payroll related costs resulting from the reduction in workforce which occurred in April 2011. Excluding the gross profit of SEC (which is under our Services Segment), the Services Segment gross profit decreased $699,000 or 8.9% primarily due to gross profit decrease of $822,000 or 10.7% for the CHPRC subcontract. Gross profit for the CHPRC subcontract decreased $822,000 to $6,853,000 from $7,675,000 for the twelve months ended December 31, 2011 and 2010, respectively, which was reflective of the of the revenue decrease under this subcontract. The gross margin of 17.3% and 18.3% for the same period, respectively, was in accordance with the contract fee provisions. The remaining Services Segment gross profit increase of $123,000 or 59.4% and gross margin increase of 5.0% were primarily due to lower salaries and payroll related expenses from lower headcount resulting from the reduction in workforce which occurred during March 2011.

Selling, General and Administrative

Selling, general and administrative (“SG&A”) expenses increased $2,203,000 for the year ended December 31, 2011, as compared to the corresponding period for 2010, as follows:

(In thousands)	2011	% Revenue	2010	% Revenue	Change
Administrative	$6,832	¾	$6,106	¾	$726
Treatment	4,933	7.5	4,654	8.7	279
Services	2,755	6.5	2,601	5.9	154
Services (Acquisition 10/31/11-SEC)	1,044	10.3	¾	¾	1,044
Total	$15,564	13.2	$13,361	13.7	$2,203

Excluding the SG&A of SEC of $1,044,000, the increase in administrative SG&A was primarily the result of higher incentive costs resulting from the Company’s improved operating results, higher salary and payroll related expenses, and higher legal expense (legal costs incurred 2011 totaled approximately $593,000) incurred for the acquisition of SEC. The increase was partially offset by lower general and healthcare expenses. Treatment SG&A was higher primarily due to higher incentive expense resulting from higher revenue and operating income. The increase was partially offset by lower bad debt expense, lower outside service expense from fewer business/consulting matters, and lower healthcare and general costs. The increase in Services SG&A was primarily due to higher bad debt expense and higher non-reimbursable costs incurred related to the reduction in workforce under the CHPRC subcontract. Included in SG&A expenses is depreciation and amortization expense of 176,000 and $92,000 for the years ended December 31, 2011, and 2010, respectively.

Index

Research and Development

Research and development costs increased $581,000 for the year ended December 31, 2011, as compared to the corresponding period of 2010. The increase was primarily due to increased payroll and lab costs from more research and development projects.

Interest Income

Interest income decreased approximately $7,000 for the twelve months ended December 31, 2011, as compared to the corresponding period of 2010, respectively. The decrease was primarily the result of lower interest earned on the finite risk sinking fund due to lower interest rates, partially offset by interest income earned from cash in our money market account.

Interest Expense

Interest expense decreased $98,000 for the year ended December 31, 2011, as compared to the corresponding period of 2010.

(In thousands)	2011	2010	Change	%
PNC interest	$404	$428	$ (24)	(5.6)
Other	253	327	(74)	(22.6)
Total	$657	$755	$ (98)	(13.0)

The decrease in interest expense for the twelve months ended December 31, 2011, as compared to the corresponding period in 2010 was primarily due to payoff of our Revolving Credit line and principal payoff of the Term Loan under our original Loan Agreement with PNC. In addition, interest was lower resulting from the final principal installment payment in June 2011 of the shareholder note in connection with the acquisition of Perma-Fix of Northwest, Inc. ("PFNW") and its wholly owned subsidiary, PFNWR, and reduced loan balance from continuing reductions to the principal on the promissory note dated May 8, 2009 entered into with Mr. William Lampson and Mr. Diehl Rettig (which was modified on April 18, 2011). The reduction in interest expense mentioned above was partially offset by higher interest expense from a $1,322,000 promissory note entered into in September 2010 in connection with an earn-out amount we are required to pay from the acquisition of PFNW and PFNWR, higher Term Loan balance from the Amended Loan Agreement we entered into on October 31, 2011 resulting from the acquisition of SEC and the $2,500,000 promissory note we entered into with TNC resulting from the acquisition of SEC.

Interest Expense - Financing Fees

Interest expense-financing fees decreased approximately $205,000 for the twelve months ended December 31, 2011, as compared to the corresponding period of 2010. The decrease was primarily due to the debt discount which became fully amortized as financing fees on May 8, 2011 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 dated May 8, 2009. This decrease in interest expense-financing fees was partially offset by additional debt discount amortized related to the extension of the two Warrants as consideration for extending the due date of the loan from May 8, 2011 to April 8, 2012.

Loss on Extinguishment of Debt

The $91,000 recorded was the result of the termination of our original Loan Agreement with PNC. On October 31, 2011, the Company entered into an Amended and Restated Revolving Credit, Term Loan and Security Agreement ("Amended Loan Agreement") with PNC as a result of the acquisition of SEC.

Index

Income Taxes- Valuation Allowance

We had tax expenses of $4,078,000 and $235,000 for 2011 and 2010, respectively. Our effective tax rate was 38.8% in 2011, as compared to 4.6% for 2010. The effective tax rate for 2010 was impacted by the change in valuation allowance.

Discontinued Operations and Divestitures

Our discontinued operations consist of our Perma-Fix of South Georgia, Inc. (“PFSG”) facility which met the held for sale criteria under ASC 360, “Property, Plant, and Equipment” on October 6, 2010. Our discontinued operations also encompass our Perma-Fix of Fort Lauderdale, Inc. (“PFFL”), Perma-Fix of Orlando, Inc. (“PFO”), Perma-Fix of Maryland, Inc. (“PFMD”), Perma-Fix of Dayton, Inc. (“PFD”), and Perma-Fix Treatment Services, Inc. (“PFTS”) facilities, which were divested on August 12, 2011, October 14, 2011, January 8, 2008, March 14, 2008, and May 30, 2008, respectively. Our discontinued operations also includes two previously closed locations, 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 October 4, 2004, and March 12, 1998, respectively.

We continue to market our PFSG facility for sale. As required by ASC 360, based on our internal financial valuations, we concluded that no tangible asset impairments existed for PFSG as of December 31, 2012. No intangible asset exists at PFSG.

Our discontinued operations generated revenues of $2,204,000, $6,931,000, and $9,248,000, for the years ended December 31, 2012, 2011, and 2010, respectively, and had net loss of $30,000, net income of $1,691,000 and net loss of $919,000 for years ended December 31, 2012, 2011, and 2010, respectively. Our net income for the twelve months ended December 31, 2011 included a total gain on the sale of our discontinued operations of $1,509,000 (gain of $1,707,000 for PFFL and loss of $198,000 for PFO, which are all net of taxes) for PFFL and PFO.

Assets related to discontinued operations total $2,113,000 and $2,343,000 as of December 31, 2012, and 2011, respectively, and liabilities related to discontinued operations total $3,341,000 and $3,972,000 as of December 31, 2012 and 2011, respectively.

Liquidity and Capital Resources

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 December 31, 2012, we had cash of $4,368,000. The following table reflects the cash flow activities during the twelve months of 2012:

(In thousands)	2012
Cash used in operating activities of continuing operations	$(2,487)
Cash used in operating activities of discontinued operations	(922)
Cash used in investing activities of continuing operations	(709)
Cash used in investing activities of discontinued operations	(2)
Cash used in financing activities of continuing operations	(3,532)
Principal repayment of long-term debt for discontinued operations	(35)
Decrease in cash	$(7,687)

As of December 31, 2012, we were in a positive cash position. We attempt to move all excess cash into a Money Market Sweep account in order to maximize the interest earned. When we are in a net borrowing position, we 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 a remittance lock box 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 December 31, 2012, primarily represents cash provided by operations (including cash balance of the non-controlling interest which is not subject to our borrowing availability) and minor petty cash and local account balances used for miscellaneous services and supplies.

Index

Operating Activities

Cash totaled $4,368,000 at December 31, 2012, a decrease of $7,687,000 from the December 31, 2011 balance of $12,055,000. Our cash at December 31, 2011 was relatively high due to a number of waste shipments received, invoiced and collected prior to year end. A large amount of this waste was not processed and was therefore carried as unearned revenue at year end 2011. Conversely, waste shipments were slow in 2012, while we processed our backlog of waste, generating revenue but utilizing cash flow for processing expenses. Cash balance will continue to fluctuate depending on the timing of waste shipments, the contractual timing of invoicing these shipments and the time it takes to collect on these invoices.

Accounts Receivable, net of allowances for doubtful accounts, totaled $11,395,000 at December 31, 2012, a decrease of $5,453,000 from the December 31, 2011 balance of $16,848,000. The decrease was primarily due to reduction in invoicing resulting from decreased revenue and increased cash collection.

As of December 31, 2012, unbilled receivables totaled $8,667,000, a decrease of $1,389,000 from the December 31, 2011 balance of $10,056,000. Treatment unbilled receivables decreased $2,395,000 from $7,542,000 as of December 31, 2011 to $5,147,000 as of December 31, 2012. Services Segment unbilled receivables (which are all current) increased $1,006,000 from a balance of $2,514,000 as of December 31, 2011 to $3,520,000 as of December 31, 2012. The delays in processing invoices usually take several months to complete and the related receivables are normally considered collectible within twelve months. However, as we have historical data in our Treatment Segment 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 extend 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 December 31, 2012 was $8,530,000, a decrease of $1,102,000 from the balance of $9,632,000 as of December 31, 2011. The long term portion as of December 31, 2012 was $137,000, a decrease of $287,000 from the balance of $424,000 as of December 31, 2011.

As of December 31, 2012, total consolidated accounts payable was $8,657,000, a decrease of $4,656,000 from the December 31, 2011 balance of $13,313,000. The decrease was primarily due to payment of our vendor invoices from cash collected. We continue to manage payment terms with our vendors to maximize our cash position throughout both segments.

Accrued expenses as of December 31, 2012, totaled $6,672,000, a decrease of $2,762,000 over the December 31, 2011 balance of $9,434,000. Accrued expenses are made up of accrued compensation, interest payable, insurance payable, certain tax accruals, and other miscellaneous accruals. The decrease was primarily the payment of fiscal year end 2011 bonus/incentives. Miminum bonus/incentive was accrued for in 2012 due to reduced profitability. In addition, monthly payments for the Company’s general insurance policies and our closure policy for our treatment operations attributed to the decrease in accrued expenses.

Our working capital was $2,652,000 (which included working capital of our discontinued operations) as of December 31, 2012, as compared to a working capital of $7,534,000 as of December 31, 2011. Our working capital was negatively impacted by the reduction in our cash used to pay our final two payments of our closure policies into the sinking fund (which is a long term asset), payments of our long term debt, and the net reduction in accounts receivable over account payables. Our working capital was positively impacted by the reduction of our unearned revenue.

Index

Investing Activities

During 2012, our purchases of capital equipment totaled approximately $412,000. These expenditures were for improvements to operations within both Segments. These capital expenditures were funded by the cash provided by operating activities. We have budgeted approximately $2,500,000 for 2013 capital expenditures for our segments to expand our operations into new markets, 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.

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, 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. We have made all of the required payments for this finite risk insurance policy, as amended, of which the last two payments ($1,073,000 and $1,054,000) were made in the first quarter of 2012. Fourteen payments totaling $18,305,000 have been made for this policy of which $14,472,000 has been deposited into a sinking fund account which represents a restricted cash account; $2,883,000 represented full/terrorism premium; and $950,000 represented fee payable to Chartis. As of December 31, 2012, our financial assurance coverage amount under this policy totaled approximately $37,524,000. We have recorded $15,382,000 in our sinking fund related to the policy noted above in other long term assets on the accompanying balance sheets, which includes interest earned of $911,000 on the sinking fund as of December 31, 2012. Interest income for twelve months ended December 31, 2012, was approximately $30,000. 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 provided 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, provides maximum coverage of $8,200,000. We have made all of the required payments on this policy, totaling $7,158,000, of which $5,700,000 has been deposited into a sinking fund account and $1,458,000 represented premium. As of December 31, 2012, we have recorded $5,890,000 in our sinking fund related to this policy in other long term assets on the accompanying balance sheets, which includes interest earned of $190,000 on the sinking fund as of December 31, 2012. Interest income for the twelve months ended December 31, 2012 totaled approximately $9,000. This policy is renewed annually at the end of the four year term with a nominal fee for the variance between the policy and coverage requirement. We renewed this policy in 2011 and 2012 with an annual fee of $46,000. All other terms of the policy remain substantially unchanged.

Financing Activities

On October 31, 2011, in connection with the acquisition of SEC, we entered into an Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated October 31, 2011 ("Amended Loan Agreement"), with PNC Bank, National Association ("PNC"), acting as agent and lender, replacing our previous Loan Agreement with PNC. The Amended Loan Agreement provides us with the following credit facilities:

- up to $25,000,000 revolving credit facility ("Revolving Credit"), subject to the amount of borrowings based on a percentage of eligible receivables. 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;

Index

- a term loan (“Term Loan”) of $16,000,000, which requires monthly installments of approximately $190,000 (based on a seven-year amortization); and

- equipment line of credit up to $2,500,000, subject to certain limitations.

The Amended Loan Agreement terminates as of October 31, 2016, unless sooner terminated.

We have the option of paying an annual rate of interest due on the revolving credit facility at prime plus 2% or London Inter Bank Offer Rate (“LIBOR”) plus 3% and the term loan and equipment credit facilities at prime plus 2.5% or LIBOR plus 3.5%.

As a condition of the Amended Loan Agreement, we paid the remaining balance due under the term loan under our previous Loan Agreement, totaling approximately $3,833,000 using our credit facilities under the Amended Loan Agreement. In connection with the Amended Loan Agreement, we paid PNC a fee of $217,500 and incurred other direct costs of approximately $298,000 (of which $33,000 was incurred in 2012), all of which are being amortized over the term of the Amended Loan Agreement as interest expense – financing fees. As of December 31, 2012, there were no balances outstanding under the revolving credit facility and the excess availability under our revolving credit was $10,146,000, based on our eligible receivables.

Pursuant to the Amended Loan Agreement, we may terminate the Amended Loan Agreement upon 90 days’ prior written notice and upon payment in full of our obligations under the Amended Loan Agreement. We agreed to pay PNC 1.0% of the total financing in the event we pay off our obligations on or before October 31, 2012 and 0.5% of the total financing if we pay off our obligations after October 31, 2012, but prior to or on October 31, 2013. No early termination fee shall apply if we pay off our obligations under the Amended Loan Agreement after October 31, 2013.

Our credit facility with PNC Bank contains certain financial covenants, along with customary representations and warranties. A breach of any of these financial covenants, unless waived by PNC, could result in a default under our credit facility triggering our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. On November 7, 2012, we entered into an Amendment to the Amended Loan Agreement. This Amendment provided for the exclusion of approximately $700,000 in certain costs related to the acquisition and $1,600,000 of costs incurred related to certain contracts assumed in connection with the acquisition of SEC, in calculating the fixed charge ratio commencing September 30, 2012. The minimum fixed charge coverage ratio of 1.25 to 1.0 for the four quarter period endings as of the each of the fiscal quarters remains unchanged. As a condition of this Amendment, we agreed to pay PNC a fee of $15,000, which is being amortized as interest expense – financing fees. All other terms of the Amended Loan Agreement remain principally unchanged.

We met our financial covenants in each of the quarters in 2012 and we expect to meet our financial covenants in remaining 2013. The following table illustrates the most significant financial covenants under our credit facility and reflects the quarterly compliance required by the terms of our senior credit facility as of December 31, 2012:

Index

(Dollars in thousands)	Quarterly Requirement	1st Quarter Actual	2nd Quarter Actual	3rd Quarter Actual	4th Quarter Actual
PNC Credit Facility					
Fixed charge coverage ratio	1:25:1	3:55:1	2:73:1	1:42:1	1:30:1
Minimum tangible adjusted net worth	$ 30,000	$65,010	$64,261	$61,691	$55,068

In connection with the acquisition of SEC, we entered into the October Note. As of February 12, 2013, the October Note had an outstanding principal balance of $1,460,000. As discussed above under "Review" of this "Management Discussion and Analysis of Financial Condition and Results of Operations," the October Note was cancelled on February 12, 2013, and replaced by the New Note in the principal sum of approximately $230,000, as part of a settlement with TNC. The New Note bears an annual interest rate of 6%, payable in 24 monthly installments of principal and interest of approximately $10,000, with the first payment due February 28, 2013, and as agreed by us and TNC after entering into the New Note, with subsequent payments due on the last day of each month thereafter. The New Note provides us the right to prepay such at any time without interest or penalty. Under the terms of the New Note, in the event of a continuing event of default, TNC has the option to convert the unpaid portion of the New Note into our restricted shares of Common Stock equal to the quotient determined by dividing the principal amount owing under the New Note and all accured and unpaid interest thereon, plus certain expenses, by the average of the closing prices per share of our Common Stock as reported by the primary national securities exchange or automatic quotation system on which our Common Stock is traded during the 30 consecutive trading day period ending on the trading day immediately prior to receipt by us of TNC's written notice of its election to receive our Common Stock as a result of the event of default that is continuing; provided that the number of shares of our Common Stock to be issued to TNC under the New Note in the event of a continuing event of default plus the number of shares of our Common Stock issed to the Management Investors, shall not exceed 19.9% of the voting power of all of our voting securities issued and outstanding as of the date of the Purchase Agreement (See discussion under "Related Party Transactions" of this "Management Discussion and Analysis of Financial Condition and Results of Operations"as to Leichtweis Settlement and issuances of shares of Common Stock to Management Investors).

The Company had a promissory note dated May 8, 2009, with William N. Lampson and Diehl Rettig (collectively, the "Lenders") for $3,000,000, which was amended on April 18, 2011 ("Amended Note"). Pursuant to the Amended Note, the remaining principal balance on the promissory note of approximately $990,000 was 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, which was LIBOR plus 4.5%, with LIBOR at least 1.5%. The Lenders were former shareholders of Nuvotec USA, Inc. ("Nuovtec") (now known as ("n/k/a") Perma-Fix Northwest, Inc. ("PFNW")) prior to our acquisition of PFNW and Pacific EcoSolution, Inc. ("PEcoS") (n/k/a Perma-Fix Northwest Richland, Inc. ("PFNWR")) and are also stockholders of the Company, having received shares of our Common Stock in connection with our acquisition of PFNW and PFNWR. As consideration of the Company receiving the loan dated May 8, 2009, we issued a Warrant to Mr. Lampson ("Lampson Warrant") and a Warrant to Mr. Diehl to purchase, after taking into account the reverse stock split, up to 27,000 and 3,000 shares, respectively, of the Company's Common Stock at an exercise price of $7.50 per share. We also issued to them, after taking into account the reverse stock split, an aggregate of 40,000 shares of the Company's Common Stock, with Mr. Lampson receiving 36,000 shares and Mr. Rettig receiving 4,000 shares. In connection with the April 18, 2011 Amended Note, the expiration date of the Warrants were extended to May 8, 2012 from May 8, 2011 (Mr. Rettig is deceased; accordingly, the amended Warrant and the note payments were held by and paid to his personal representative/estate). During 2011, Mr. Robert L. Ferguson, a member of our Board of Directors who did not stand for re-election at our 2012 Annual Meeting of Stockholders held on September 13, 2012, acquired from Mr. William Lampson one-half of the Lampson Warrant. The Company made the final payment on the note in April 2012. The Warrants as discussed above were not exercised and expired on May 8, 2012. The debt discount recorded in connection with the Common Stock and Warrants was fully amortized by April 2012. See "Related Party Transactions – Mr. Robert L. Ferguson" in this Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of Mr. Robert L.

Ferguson.
39

Index

In connection with the acquisition of PFNW and PFNWR in June 2007, we were required to pay to those former shareholders of Nuvotec (which includes Mr. Robert L. Ferguson, a member of our Board of Directors who did not stand for re-election at our 2012 Annual Meeting of Stockholders held on September 13, 2012), 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"). As of December 31, 2012, an aggregate earn-out amount of $3,896,000 has been paid or is payable as follows: (i) $2,574,000 in cash; and (ii) we issued a promissory note, dated September 28, 2010, in the principal amount of $1,322,000, payable in 36 equal monthly payments of approximately $40,000 consisting of interest and principal, starting October 15, 2010. The total $3,896,000 in earn-out amount paid to date or to be paid pursuant to the promissory note excludes approximately an aggregate $656,000 in Offset Amount, which represents an indemnification obligation (as defined by the Merger Agreement) which is payable or may be payable to the Company by the former shareholders of Nuvotec. Pursuant to the Merger 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. The $656,000 Offset Amount represents approximately $93,000 relating to an excise tax issue and a refund request from a PEcoS customer in connection with services for waste treatment prior to our acquisition of PFNWR and PFNW and 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.

On October 7, 2011, the Company's Board of Directors authorized a repurchase program of up to $3,000,000 of the Company's Common Stock. The Company may purchase Common Stock through open market and privately negotiated transactions at prices deemed appropriate by management. The timing, the amount of repurchase transactions and the prices paid for the stock under this program will depend on market conditions as well as corporate and regulatory limitations, including blackout period restrictions. The Board approved the repurchase plan in consideration of the Company's improved cash position and current market volatility. 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 based on what is in our best interest and the best interest of our stockholders.

In summary, we continue to take steps to improve our operations and liquidity and to invest working capital into our facilities to fund capital additions in our Segments. Although there are no assurances, we believe that our cash flows from operations and our available liquidity from the amended and restated line of credit are sufficient to service the Company's current obligations and the current obligations resulting from the acquisition of SEC.

Index

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2012, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments due by period				
Contractual Obligations	Total	2013	2014-2015	2016 - 2017	After 2017
Long-term debt	$14,196	$2,794	$4,736	$6,666	$¾
Interest on fixed rate long-term debt [(1)]	22	18	4	¾	—
Interest on variable rate debt [(2)]	1,551	556	779	216	¾
Operating leases	3,708	883	1,535	1,116	174
Pension withdrawal liability [(3)]	301	251	50	¾	¾
Environmental contingencies [(4)]	1,614	374	816	153	271
Total contractual obligations	$21,392	$4,876	$7,920	$8,151	$445

[(1)] The Company entered into a promissory note dated September 28, 2010, in the principal amount of $1,322,000 at an annual interest rate of 6.0%, with the former shareholders of Nuvotec (n/k/a "PFNW") in connection with an earn-out amount that we are required to pay upon meeting certain conditions for each measurement year between June 30, 2008 to June 30, 2011, as a result of our acquisition of PFNW and PFNWR. On February 12, 2013, the Company issued a two-year, non-negotiable, unsecured promissory note in the principal amount of approximately $230,000 (the "New Note") in settlement in connection with certain claims that we asserted against TNC for breach of certain representations and covenant subsequent to our acquisition of SEC on October 31, 2012. The promissory note bear