PERMA FIX ENVIRONMENTAL SERVICES INC
Form 10-Q
May 10, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

Or

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

For the transition period from ____________________ to ____________________

Commission File No. 111596

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**58-1954497**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*
8302 Dunwoody Place, Suite 250, Atlanta, GA	**30350**
(Address of principal executive offices)	*(Zip Code)*

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes T No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer £ Accelerated Filer T Non-accelerated filer £

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

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

Class	Outstanding at May 8, 2007
Common Stock, $.001 Par Value	52,071,244 shares of registrant's Common Stock

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PART I - FINANCIAL INFORMATION
ITEM 1. - FINANCIAL STATEMENTS

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except for Share Amounts)		March 31, 2007 (Unaudited)		December 31, 2006
ASSETS				
Current assets:				
Cash	$	982	$	1,863
Restricted cash		65		65
Accounts receivable, net of allowance for doubtful accounts of $385 and $415, respectively		16,333		15,256
Unbilled receivables - current		11,578		12,861
Inventories		1,067		847
Prepaid expenses		2,686		3,039
Other receivables		78		1,622
Current assets of discontinued operations		21		22
Total current assets		32,810		35,575
Property and equipment:				
Buildings and land		20,614		20,965
Equipment		31,436		31,414
Vehicles		4,780		4,616
Leasehold improvements		11,474		11,469
Office furniture and equipment		2,513		2,502
Construction-in-progress		6,470		4,896
		77,287		75,862
Less accumulated depreciation and amortization		(30,666)		(29,942)
Net property and equipment		46,621		45,920
Property and equipment of discontinued operations		706		706
Intangibles and other assets:				
Permits		13,444		13,395
Goodwill		1,330		1,330
Unbilled receivable – non-current		3,821		2,600
Finite Risk Sinking Fund		5,566		4,518
Other assets		1,825		1,953
Total assets	$	106,123	$	105,997

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

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

(Amounts in Thousands, Except for Share Amounts)	March 31, 2007 (Unaudited)	December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,995	$ 3,922
Current environmental accrual	927	871
Accrued expenses	11,044	11,287
Unearned revenue	3,637	3,575
Current liabilities of discontinued operations	726	707
Current portion of long-term debt	2,421	2,403
Total current liabilities	23,750	22,765
Environmental accruals	1,686	1,754
Accrued closure costs	5,432	5,393
Other long-term liabilities	3,130	3,019
Long-term liabilities of discontinued operations	1,362	1,402
Long-term debt, less current portion	5,948	5,926
Total long-term liabilities	17,558	17,494
Total liabilities	41,308	40,259
Commitments and Contingencies		
Preferred Stock of subsidiary, $1.00 par value; 1,467,396 shares authorized, 1,284,730 shares issued and outstanding, liquidation value $1.00 per share	1,285	1,285
Stockholders' equity:		
Preferred Stock, $.001 par value; 2,000,000 shares authorized, no shares issued and outstanding, respectively	¾	¾
Common Stock, $.001 par value; 75,000,000 shares authorized, 52,071,244 and 52,053,744 shares issued, including 0 share held and 988,000 shares of treasury stock retired in 2006, respectively	52	52
Additional paid-in capital	93,128	92,980
Stock subscription receivable	(66)	(79)
Accumulated deficit	(29,584)	(28,500)
Total stockholders' equity	63,530	64,453
Total liabilities and stockholders' equity	$ 106,123	$ 105,997

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

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

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
Net revenues	$	20,155	$	21,118
Cost of goods sold		14,265		14,288
Gross profit		5,890		6,830
Selling, general and administrative expenses		6,543		5,241
Loss (gain) on disposal of property and equipment		(20)		3
Income (loss) from operations		(633)		1,586
Other income (expense):				
Interest income		88		33
Interest expense		(225)		(357)
Interest expense-financing fees		(48)		(49)
Other		(14)		(13)
Income (loss) from continuing operations before taxes		(832)		1,200
Income tax expense		126		72
Income (loss) from continuing operations		(958)		1,128
Loss from discontinued operations, net of taxes		(126)		(450)
Net income (loss)		(1,084)		678
Preferred Stock dividends		¾		¾
Net income (loss) applicable to Common Stock	$	(1,084)	$	678
Net income (loss) per common share – basic				
Continuing operations	$	(.02)	$	.03
Discontinued operations		¾		(.01)
Net income (loss) per common share	$	(.02)	$	.02
Net income (loss) per common share – diluted				
Continuing operations	$	(.02)	$	.03
Discontinued operations		¾		(.01)
Net income (loss) per common share	$	(.02)	$	.02
Number of shares used in computing net income (loss) per share:				
Basic		52,063		44,831
Diluted		52,063		45,349

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

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

	Three Months Ended March 31,	
(Amounts in Thousands)	2007	2006
Cash flows from operating activities:		
Net Income (loss)	$ (1,084)	$ 678
Adjustments to reconcile net income (loss) to cash provided by operations:		
Depreciation and amortization	1,217	1,194
Provision (credit) for bad debt and other reserves	42	(41)
(Gain) loss on disposal of property and equipment	(20)	3
Issuance of Common Stock for services	12	10
Share based compensation	111	29
Discontinued operations	(20)	(291)
Changes in operating assets and liabilities of continuing operatons:		
Accounts receivable	(1,120)	3,099
Unbilled receivables	62	(2,026)
Prepaid expenses, inventories and other assets	1,932	1,325
Accounts payable, accrued expenses, and unearned revenue	853	(3,644)
Net cash provided by operations	1,985	336
Cash flows from investing activities:		
Purchases of property and equipment, net	(1,496)	(496)
Proceeds from sale of plant, property and equipment	28	1
Change in restricted cash, net	¾	9
Change in finite risk sinking fund	(1,048)	(1,022)
Discontinued operations	¾	104
Net cash used in investing activities	(2,516)	(1,404)
Cash flows from financing activities:		
Net borrowings of revolving credit	¾	1,573
Principal repayments of long-term debt	(388)	(531)
Proceeds from issuance of stock	25	¾
Repayment of stock subscription receivable	13	¾
Net cash provided by (used in) financing activities	(350)	1,042
Decrease in cash	(881)	(26)
Cash at beginning of period	1,863	94
Cash at end of period	$ 982	$ 68
Supplemental disclosure:		
Interest paid	$ 191	$ 244
Non-cash investing and financing activities:		
Long-term debt incurred for purchase of property and equipment	428	¾

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited, for the three months ended March 31, 2007)

(Amounts in thousands, except for share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Loan for Equity	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2006	52,053,744	$ 52	$ 92,980	$ (79)	$ (28,500)	$ 64,453
Net loss	¾	¾	¾	¾	(1,084)	(1,084)
Issuance of Common Stock for cash and services	¾	¾	12	¾	¾	12
Issuance of Common Stock upon exercise of Warrants & Options	17,500	¾	25	¾	¾	25
Share based compensation	¾	¾	111	¾	¾	111
Repayment of stock subscription receivable	¾	¾	¾	13	¾	13
Balance at March 31, 2007	52,071,244	$ 52	$ 93,128	$ (66)	$ (29,584)	$ 63,530

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

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

March 31, 2007
(Unaudited)

Reference is made herein to the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

1. Basis of Presentation

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

It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The results of operations for the three months ended March 31, 2007, are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2007.

2. Summary of Significant Accounting Policies

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

Recent Accounting Pronouncements
In September 2006, the FASB issued SFAS 157, “Fair Value Measurements”. SFAS 157 simplifies and codifies guidance on fair value measurements under generally accepted accounting principles. This standard defines fair value, establishes a framework for measuring fair value and prescribes expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the effect, if any, the adoption of SFAS 157 will have on our financial condition, results of operations and cash flows.

In February 2007, the FASB issued SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities”. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting financial instruments. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November, 15, 2007. We are currently evaluating the effect, if any, the adoption of SFAS 159 will have on our financial condition, results of operations and cash flow.

Reclassifications

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

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3. Stock Based Compensation

On January 1, 2006, we adopted Financial Accounting Standards Board ("FASB") Statement No. 123 (revised) ("SFAS 123R"), *Share-Based Payment*, a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, superseding APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and its related implementation guidance. This Statement establishes accounting standards for entity exchanges of equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative upon adopting SFAS 123R.

We adopted SFAS 123R utilizing the modified prospective method in which compensation cost is recognized beginning with the effective date based on SFAS 123R requirements for all (a) share-based payments granted after the effective date and (b) awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

Prior to our adoption of SFAS 123R, on July 28, 2005, the Compensation and Stock Option Committee of the Board of Directors approved the acceleration of vesting for all the outstanding and unvested options to purchase Common Stock awarded to employees as of the approval date. The Board of Directors approved the accelerated vesting of these options based on the belief that it was in the best interest of our stockholders to reduce future compensation expense that would otherwise be required in the statement of operations upon adoption of SFAS 123R, effective beginning January 1, 2006. The accelerated vesting triggered the re-measurement of compensation cost under current accounting standards. In the event a holder of an accelerated vesting option terminates employment with us prior to the end of the original vesting term of such options, we will recognize the compensation expense at the time of termination.

As of March 31, 2007, we had 2,610,250 employee stock options outstanding, which included 1,677,250 that were outstanding and fully vested at December 31, 2005, 833,000 employee stock options approved and granted on March 2, 2006, of which 277,667 became vested on March 2, 2007, and 100,000 employee stock options approved and granted on May 15, 2006. The weighted average exercise price of the 1,954,917 outstanding and fully vested employee stock options is $1.95 with a weighted contractual life of 4.13 years. The employee stock options outstanding at December 31, 2005 are ten year options, issuable at exercise prices from $1.25 to $3.00 per share, and expiration dates from April 8, 2007 to October 28, 2014. The employee stock option grants in March and May 2006 are six year options with a three year vesting period, with exercise prices from $1.85 to $1.86 per share. Additionally, we also have 489,000 outstanding and fully vested director stock options, of which 90,000 became fully vested in January 2007, with exercise price ranging from $1.2188 to $2.98 per share and expiration dates from December 8, 2007 to July 27, 2016. The 90,000 director stock options were granted on July 27, 2006, resulting from the reelection of our Board of Directors. The weighted average exercise price of the 489,000 outstanding and fully vested director stock option is $1.97 with a weighted contractual life of 6.42 years. We have not granted any employee or director stock options for the three months ended March 31, 2007.

We recognized share based compensation expense of approximately $87,000 for the three months ended March 31, 2007, for the employee stock options grants of March 2, 2006 and May 15, 2006, as compared to approximately $18,000 for the period ended March 31, 2006. For the stock option grants on March 2, 2006 and May 15, 2006, we have estimated compensation expense based on the fair value at grant date using the Black-Scholes valuation model, and have recognized compensation expense using a straight-line amortization method over the three year vesting period. As SFAS 123R requires that stock-based

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compensation expense be based on options that are ultimately expected to vest, approximately $30,000 of the $87,000 share based compensation expense recognized above for the three months ended March 31, 2007 was the result of the difference between our estimated forfeiture rate of 5.7% and the actual forfeiture rate of 1.7% for the first year vesting of our March 2, 2006 employee option grant. When estimating forfeitures, we consider trends of actual option forfeitures. The forfeiture rates are evaluated, and revised as necessary. We also recognized the remaining share based compensation expense of approximately $24,000 for the three months ended March 31, 2007 for the 90,000 director option grant made on July 27, 2006, which became vested in January 2007. Pursuant to the adoption of SFAS 123R, during the three month period ended March 31, 2006, we recorded share based compensation expense for the director stock options granted prior to, but not yet vested as of January 1, 2006, as if the fair value method required for pro forma disclosure under SFAS 123 were in effect for expense recognition purposes. As such, we recorded approximately $11,000 in share compensation expense for the period ended March 31, 2006. We have approximately $569,000 of total unrecognized compensation cost related to unvested options as of March 31, 2007, of which approximately $164,000 will be recognized in remaining 2007, $219,000 will be recognized in 2008, and the remaining $186,000 in 2009.

We calculated a fair value of $0.868 for each March 2, 2006 option grant on the date of grant using the Black-Scholes option pricing model with the following assumptions: no dividend yield; an expected life of four years; expected volatility of 54.0%; and a risk free interest rate of 4.70%. We calculated a fair value of $0.877 for the May 15, 2006 option grant on the date of grant with the following assumptions: no dividend yield; an expected life of four years; an expected volatility of 54.6%; and a risk-free interest rate of 5.03%. We calculated a fair value of $1.742 for each July 27, 2006 director option grant on the date of the grant with the following assumptions: no dividend yield; an expected life of ten years; an expected volatility of 73.31%; and a risk free interest rate of 4.98%.

Our computation of expected volatility is based on historical volatility from our traded common stock. Due to our change in the contractual term and vesting period, we utilized the simplified method, defined in the Securities and Exchange Commission's Staff Accounting Bulletin No. 107, to calculate the expected term for our 2006 grants. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

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4. Earnings (Loss) Per Share

Basic EPS is based on the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS includes the dilutive effect of potential common shares. Diluted loss per share for the three months ended March 31, 2007, do not include potential common shares as their effect would be antidilutive.

The following is a reconciliation of basic net income (loss) per share to diluted net income (loss) per share for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,			
(Amounts in Thousands, Except for Per Share Amounts)		2007		2006
Earnings (loss) per share from continuing operations				
Income(loss) from continuing operations	$	(958)		1,128
Preferred stock dividends		¾		¾
Income (loss) from continuing operations applicable to Common Stock		(958)		1,128
Effect of dilutive securities:				
Preferred Stock dividends		¾		¾
Income (loss) – diluted	$	(958)	$	1,128
Basic income (loss) per share	$	(.02)	$	.03
Diluted income (loss) per share	$	(.02)	$	.03
Earnings (loss) per share from discontinued operations				
Loss – basic and diluted	$	(126)	$	(450)
Basic loss per share	$	¾	$	(.01)
Diluted loss per share	$	¾	$	(.01)
Weighted average common shares outstanding – basic		52,063		44,831
Potential shares exercisable under stock option plans		¾		211
Potential shares upon exercise of Warrants		¾		307
Weighted average shares outstanding – diluted		52,063		45,349
Potential shares excluded from above weighted average share calculations due to their anti-dilutive effect include:				
Upon exercise of options		270		2,258
Upon exercise of Warrants		¾		1,776

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5. Long Term Debt

Long-term debt consists of the following at March 31, 2007 and December 31, 2006:

(Amounts in Thousands)	March 31, 2007 (Unaudited)	December 31, 2006
Revolving Credit facility dated December 22, 2000, borrowings based upon eligible accounts receivable, subject to monthly borrowing base calculation, variable interest paid monthly at prime rate plus ½% (8.75% at March 31, 2007), balance due in May 2008.	$ ¾	$ ¾
Term Loan dated December 22, 2000, payable in equal monthly installments of principal of $83, balance due in May 2008, variable interest paid monthly at prime rate plus 1% (9.25% at March 31, 2007).	5,250	5,500
Promissory Note dated June 25, 2001, payable in semiannual installments on June 30 and December 31 through December 31, 2008, variable interest accrues at the applicable law rate determined under the IRS Code Section (10.0% on March 31, 2007) and is payable in one lump sum at the end of installment period.	1,434	1,434
Installment Agreement dated June 25, 2001, payable in semiannual IRS installments on June 30 and December 31 through December 31, 2008, variable interest accrues at the applicable law rate determined under the Code Section (10.0% on March 31, 2007) and is payable in one lump sum at the end of installment period.	353	353
Various capital lease and promissory note obligations, payable 2007 to 2012, interest at rates ranging from 5.0% to 15.7%.	1,332	1,042
	8,369	8,329
Less current portion of long-term debt	2,421	2,403
	$ 5,948	$ 5,926

Revolving Credit and Term Loan Agreement

On December 22, 2000, we entered into a Revolving Credit, Term Loan and Security Agreement ("Agreement") with PNC Bank, National Association, a national banking association ("PNC") acting as agent ("Agent") for lenders, and as issuing bank, as amended. The Agreement provides for a term loan ("Term Loan") in the amount of $7,000,000, which requires monthly installments of $83,000 with the remaining unpaid principal balance due on May 31, 2008. The Agreement also provides for a revolving line of credit ("Revolving Credit") with a maximum principal amount outstanding at any one time of $18,000,000, as amended. The Revolving Credit advances are subject to limitations of an amount up to the sum of (a) up to 85% of Commercial Receivables aged 90 days or less from invoice date, (b) up to 85% of Commercial Broker Receivables aged up to 120 days from invoice date, (c) up to 85% of acceptable Government Agency Receivables aged up to 150 days from invoice date, and (d) up to 50% of acceptable unbilled amounts aged up to 60 days, less (e) reserves the Agent reasonably deems proper and necessary. As of March 31, 2007, the excess availability under our Revolving Credit was $11,395,000 based on our eligible receivables.

Pursuant to the Agreement, as amended, the Term Loan bears interest at a floating rate equal to the prime rate plus 1%, and the Revolving Credit at a floating rate equal to the prime rate plus ½%. The Agreement was subject to a prepayment fee of 1% until March 25, 2006, and ½% until March 25, 2007 had we elected to terminate the Agreement with PNC.

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Promissory Note

In conjunction with our acquisition of M&EC, M&EC issued a promissory note for a principal amount of $3.7 million to Performance Development Corporation ("PDC"), dated June 25, 2001, for monies advanced to M&EC for certain services performed by PDC. The promissory note is payable over eight years on a semiannual basis on June 30 and December 31. The principal repayments for 2007 will be approximately $400,000 semiannually. Interest is accrued at the applicable law rate ("Applicable Rate") pursuant to the provisions of section 6621 of the Internal Revenue Code of 1986 as amended (10% on March 31, 2007) and payable in one lump sum at the end of the loan period. On March 31, 2007, the outstanding balance was $3,268,000 including accrued interest of approximately $1,834,000. Pursuant to the agreement the accrued interest is to be paid at the end of the term, and as such, is recorded as a long-term liability. PDC has directed M&EC to make all payments under the promissory note directly to the Internal Revenue Service ("IRS") to be applied to PDC's obligations under its installment agreement with the IRS.

Installment Agreement

Additionally, M&EC entered into an installment agreement with the IRS for a principal amount of $923,000 effective June 25, 2001, for certain withholding taxes owed by M&EC. The installment agreement is payable over eight years on a semiannual basis on June 30 and December 31. The principal repayments for 2007 will be approximately $100,000 semiannually. Interest is accrued at the Applicable Rate, and is adjusted on a quarterly basis and payable in lump sum at the end of the installment period. On March 31, 2007, the rate was 10%. On March 31, 2007, the outstanding balance was $796,000 including accrued interest of approximately $443,000. The interest expense is recorded as a long-term liability, pursuant to the terms of the agreement.

6. Commitments and Contingencies

Hazardous Waste

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

Legal

In the normal course of conducting our business, we are involved in various litigations. There has been no material change in legal proceedings from those disclosed previously in the Company's Form 10-K for the year ended December 31, 2006 other than the following material developments:

In December 2004, our Dayton, Ohio subsidiary, Perma-Fix of Dayton, Inc. (PFD) was sued under the citizen’s suit provisions of the Clean Air Act in the United States District Court for the Southern District of Ohio, Western District, styled *Barbara Fisher v. Perma-Fix of Dayton, Inc.* The suit alleges violation by PFD of a number of state and federal clean air statutes in connection with the operation of PFD’s facility, primarily due to PFD’s operating its facility without a Title V air permit. The complaint further alleges that PFD failed to install appropriate air pollution control equipment, conduct appropriate recordkeeping, properly monitor and report, and further alleges that air emissions from PFD’s facility injured persons, endangered the health of the public and constituted a nuisance in violation of Ohio law. The action seeks remediation, injunctive relief, imposition of civil penalties, attorney fees, and costs and other forms of relief. On or about May 19, 2006, the U.S. Department of Justice (“DOJ”), on behalf of the EPA, intervened in the case seeking injunctive relief and civil penalties against PFD for alleged violations which parallel certain claims asserted in the citizen’s suit, including claims PFD’s failure to have obtained, and to have operated its facility without, a Title V air permit, failure to install appropriate air pollution control equipment and conduct appropriate recordkeeping, monitoring and reporting was in violation of the Clean Air Act and applicable regulations. The federal complaint also alleges that PFD failed to respond to a formal request for information from the EPA in a timely manner and request civil penalties.

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On April 25, 2007, PFD reached an agreement in principle ("AIP") with DOJ/USEPA representatives to settle all of the United States' claims. In addition to taking specific actions to address relevant air pollution control regulations and permit requirements, the AIP states that PFD will pay a civil penalty of $800,000. However, at this time, PFD expects the $800,000 will consist of as many as three components: 1) cash payment to the appropriate regulatory authority; 2) supplemental environmental project(s) consisting of cash equivalent investment(s) in PFD's facility and/or the local community; and 3) supplemental environmental project(s) consisting of one or more capital projects. The process for formalizing the details of a settlement agreement (consent decree) and meeting the DOJ/EPA official approval requirements (including public notice and comment) is expected to take between 90 and 120 days. Cost estimates associated with taking action to address air pollution control regulations and permit requirements are dependent upon the definitization of the consent decree. If agreement on all terms and format of such a final consent decree is not reached, then the AIP will be null and void and no party may seek to enforce it. The AIP does not address the citizen's suit portion of the lawsuit, and, as a result, we expect the citizen's suit to continue after finalization of the settlement with the federal government. PFD continues to mount a vigorous defense against, and seek an acceptable resolution of, the claims and requests for relief brought by the citizen's group.

As of March 31, 2007, we have incurred approximately $2.7 million in costs in vigorously defending against the lawsuits above, of which approximately $1.2 million was incurred in the first quarter of 2007. On April 12, 2007, we were notified by our insurer, American International Group ("AIG"), that it has withdrawn its prior denial of coverage and has agreed to defend and indemnify us (PFD) in the above disclosed lawsuit, subject to insurer's reservation of rights as discussed below.

Although our insurer has agreed to reimburse us for reasonable defense costs incurred in connection with the litigation prior to the insurer's assumption of the defense, the insurer's agreement to defend and indemnify PFD is subject to the insurer's reservation of its rights to deny indemnity pursuant to various policy provisions and exclusions of the policy, including, without limitation, payment of any civil penalties and fines, as well as the insurer's right to recoup any defense cost it has advanced in the event that it is determined that the policy provides no coverage. At this time, the amount of the reimbursement from our insurer of the amount of legal and out of pocket defense costs that we have incurred to date has not been determined. As such, we have not recorded any of the reimbursement.

Insurance

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

In June 2003, we entered into a 25-year finite risk insurance policy, 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 $35 million of financial assurance coverage of which the coverage amount totals $30,096,000 at March 31, 2007, and has available capacity to allow for annual inflation and other performance and surety bond requirements. This finite risk insurance policy required an upfront payment of $4.0 million, of which $2,766,000 represented the full premium for the 25-year term of the policy, and the remaining $1,234,000, was deposited in a sinking fund account representing a restricted cash account. In February 2007, we paid our fourth of nine required annual installments of $1,004,000, of which $991,000 was deposited in the sinking fund account, the remaining $13,000 represents a terrorism premium. As

of March 31, 2007, we have recorded $5,566,000 in our sinking fund on the balance sheet,

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which includes interest earned of $368,000 on the sinking fund as of March 31, 2007. Interest income for the three months ended March 31, 2007, was $57,000.

7. Discontinued Operations

PFP

Effective November 8, 2005, our Board of Directors approved the discontinuation of operations at the facility in Pittsburgh, Pennsylvania, owned by our subsidiary, Perma-Fix of Pittsburgh, Inc. ("PFP"). The decision to discontinue operations at PFP was due to our reevaluation of the facility and our ability to achieve profitability at the facility in the near term. During February 2006, we completed the remediation of the leased property and the equipment, and released the property back to the owner. The operating results for the current and prior periods have been reclassified to discontinued operations in our Consolidated Statements of Operations.

PFP recorded a loss of $500 for the three months ended March 31, 2007 and an operating loss of $342,000 the same period ended March 31, 2006. The loss in 2006 was partially due to costs of $200,000 associated with our early termination of our leased property. The assets and liabilities related to PFP have been reclassified into separate categories in the Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006. The assets are recorded at their net realizable value, and consist of equipment of $106,000. PFP has no liabilities on the books as of March 31, 2007.

PFMI

On October 4, 2004, our Board of Directors approved the discontinuation of operations at the facility in Detroit, Michigan, owned by our subsidiary, Perma-Fix of Michigan, Inc. ("PFMI"). The decision to discontinue operations at PFMI was principally a result of two fires that significantly disrupted operations at the facility in 2003, and the facility's continued drain on the financial resources of our Industrial segment. We are in the process of remediating the facility and evaluating our available options for future use or sale of the property. The operating activities for the current and prior periods have been reclassified to discontinued operations in our Consolidated Statements of Operations.

PFMI recorded a loss of $126,000 for the three months ended March 31, 2007, and a loss of $108,000 for the three months ended March 31, 2006. During the last half of 2005, we settled the three insurance claims we submitted relative to the two fires at PFMI, a property claim for the first fire and a property claim and business interruption claim for the second fire. During 2004, we recorded a receivable of $1,585,000 based on negotiations with the insurance carrier on the business interruption claim. The income from recording this receivable was recorded as a reduction of "loss from discontinued operations" and reduced the operating losses for 2004. During 2005, we received insurance proceeds and claim settlements of $3,253,000 for settlement of all three claims. Of these proceeds, $1,476,000 was recorded as income from discontinued operations during the third quarter of 2005, which is net of $192,000 paid for public adjustor fees.

Assets and liabilities related to the discontinued operation have been reclassified to separate categories in the Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006. As of March 31, 2007, assets are recorded at their estimated net realizable values, and consist of property and equipment of $600,000 and prepaid expense of $21,000. Liabilities as of March 31, 2007, consist of current accrued expenses of $32,000, environmental accruals of $639,000, and a pension payable of $1,417,000. The pension plan withdrawal liability, is a result of the termination of the union employees of PFMI. The PFMI union employees participate in the Central States Teamsters Pension Fund ("CST"), which provides that a partial or full termination of union employees may result in a withdrawal liability, due from PFMI to CST. The recorded liability is based upon a demand letter received from CST in August 2005 that provided for the payment of $22,000 per month over an eight year period. This obligation is recorded as a long-term liability, with a current portion of $158,000 that we expect to pay over the next year.

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As a result of the discontinuation of operations at the PFMI facility, we are required to complete certain closure and remediation activities pursuant to our RCRA permit. Also, in order to close and dispose of the facility, we may have to complete certain additional remediation activities related to the land, building, and equipment. The level and cost of the clean-up and remediation will be determined by state mandated requirements, the extent to which is not known at this time. Also, impacting this estimate is the level of contamination discovered, as we begin remediation, and the related clean-up standards which must be met in order to dispose of or sell the facility. We engaged our engineering firm, SYA, to perform an analysis and related estimate of the cost to complete the RCRA portion of the closure/clean-up costs and the potential long-term remediation costs. Based upon this analysis, we estimated the cost of this environmental closure and remediation liability to be $2,464,000. During 2006 we re-evaluated our required activities to close and remediate the facility, and during the quarter ended June 30, 2006, we began implementing the modified methodology to remediate the facility. As a result of the reevaluation and the change in methodology, we reduced the accrual by $1,182,000. We have spent approximately $644,000 for closure costs since September 30, 2004, of which $15,000 has been spent during the first quarter of 2007 and $74,000 was spent in 2006. We have $639,000 accrued for the closure, as of March 31, 2007, and we anticipate spending $536,000 in 2007 with the remainder over the next five years.

8. Operating Segments

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

· from which we may earn revenue and incur expenses;

· whose operating results are regularly reviewed by the segment president to make decisions about resources to be allocated to the segment and assess its performance; and

· for which discrete financial information is available.

We have three operating segments, which are defined as each business line that we operate. This however, excludes corporate headquarters, which does not generate revenue, and our discontinued operations, PFMI and PFP.

Our operating segments are defined as follows:

The Industrial Waste Management Services segment provides on-and-off site treatment, storage, processing and disposal of hazardous and non-hazardous industrial waste, and wastewater through our six facilities; Perma-Fix Treatment Services, Inc., Perma-Fix of Dayton, Inc., Perma-Fix of Ft. Lauderdale, Inc., Perma-Fix of Orlando, Inc., Perma-Fix of South Georgia, Inc., and Perma-Fix of Maryland, Inc. We provide through certain of our facilities various waste management services to certain governmental agencies.

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

The Consulting Engineering Services segment provides environmental engineering and regulatory compliance services through Schreiber, Yonley & Associates, Inc. which includes oversight management of environmental restoration projects, air and soil sampling and compliance and training activities to industrial and government customers, as well as, engineering and compliance support needed by our other segments.

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The table below presents certain financial information in thousands by business segment as of and for the three months ended March 31, 2007 and 2006 (in thousands).

Segment Reporting for the Quarter Ended March 31, 2007

	Industrial	Nuclear [3]	Engineering	Segments Total	Corporate [2]	Consolidated Total
Revenue from external customers	$ 7,234	$ 12,344	$ 577	$ 20,155	$ ¾	$ 20,155
Intercompany revenues	231	555	235	1,021	¾	1,021
Gross profit	1,290	4,431	169	5,890	¾	5,890
Interest income	¾	¾	¾	¾	88	88
Interest expense	25	91	¾	116	109	225
Interest expense-financing fees	¾	¾	¾	¾	48	48
Depreciation and amortization	446	743	9	1,198	19	1,217
Segment profit (loss)	(1,683)	2,153	49	519	(1,477)	(958)
Segment assets[1]	21,244	70,596	2,063	93,903	12,220[4]	106,123
Expenditures for segment assets	558	1,353	10	1,921	3	1,924
Total long-term debt	906	2,200	13	3,119	5,250[5]	8,369

Segment Reporting for the Quarter Ended March 31, 2006

	Industrial	Nuclear [3]	Engineering	Segments Total	Corporate [2]	Consolidated Total
Revenue from external customers	$ 8,222	$ 12,158	$ 738	$ 21,118	$ ¾	$ 21,118
Intercompany revenues	391	673	110	1,174	¾	1,174
Gross profit	1,777	4,821	232	6,830	¾	6,830
Interest income	2	¾	¾	2	31	33
Interest expense	28	112	¾	140	217	357
Interest expense-financing fees	1	¾	¾	1	48	49
Depreciation and amortization	441	732	10	1,183	11	1,194
Segment profit (loss)	(89)	2,706	91	2,708	(1,580)	1,128
Segment assets[1]	23,350	62,411	2,183	87,944	9,192[4]	97,136
Expenditures for segment assets	194	264	25	483	13	496
Total long-term debt	1,018	3,109	21	4,148	10,270[5]	14,418

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

(2) Amounts reflect the activity for corporate headquarters not included in the segment information.

(3) The consolidated revenues within the Nuclear segment include the LATA/Parallax revenues for the quarter ended March 31, 2007, which total $1,954,000 or (9.7%) of total revenue and $458,000 or (2.2%) for the same quarter

2006.

(4) Amount includes assets from Perma-Fix of Michigan, Inc., and Perma-Fix of Pittsburgh, Inc. two discontinued operations from the Industrial segment, of approximately $727,000 and $716,000 as of March 31, 2007 and 2006, respectively.

(5) Includes the balance outstanding from our revolving line of credit and term loan, which is utilized by all of our segments.

9. Income Taxes

In July 2006, the Financial Accounting Standard Board (FASB) issued FASB Interpretation No. 48 (FIN 48), “Accounting for Uncertainty in Income Taxes”. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes”. FIN 48 requires a company to evaluate whether the tax position taken by a company will more likely than not be sustained upon examination by the appropriate taxing authority. It also provides guidance on how a company should measure the amount of benefit that the

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company is to recognize in its financial statements. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted FIN 48 in the first quarter of 2007. As a result of the implementation of FIN 48, we have concluded that we have not taken any uncertain tax positions on any of our open tax returns filed through the period ended December 31, 2005 that would materially distort our financial statement. Our methods of accounting are based on established tax principles approved in the Internal Revenue Code (IRC) and are properly calculated and reflected within our returns. In addition, we have filed returns in all applicable jurisdictions in which it has material nexus warranting a return filing. Furthermore, we have not experienced an ownership change as defined in IRC section 382 that would further limit our ability to utilize net operating loss carryforwards as reflected on our 2003 through 205 tax returns.

We have not yet filed our income tax returns for the period ended December 31, 2006 tax year; however, we expect that the actual return will mirror tax positions taken within our income tax provision for 2006. As we believe that all such positions are fully supportable by existing Federal law and related interpretations, there are no uncertain tax positions to consider in accordance with FIN 48. The impact of our reassessment of our tax positions in accordance with FIN 48 did not have any impact on our result of operations, financial condition or liquidity.

10. Acquisition - Definitive Agreement

During April 2007, we entered into a definitive agreement (the "Merger Agreement") to acquire Nuvotec USA, Inc. (Nuvotec) and its wholly owned subsidiary, Pacific EcoSolutions, Inc. (PEcoS) through a reverse subsidiary merger (the "Merger"). PEcoS is a nuclear waste management company that treats both low level and mixed waste, based in Richland, Washington. Subject and pursuant to the terms of the Merger Agreement, as consideration for the Merger, we would pay to the Nuvotec shareholders approximately $11.6 million, subject to adjustment, payable as follows: (a) $2.5 million in cash at closing of the Merger which amount the parties have orally agreed to modify to $2.1 million, subject to execution of a formal amendment to the Merger Agreement; (b) an earn-out amount not to exceed $4.6 million over a four year period ("Earn-Out Amount"), with the first $1.0 million of the Earn-Out Amount to be placed in an escrow account to satisfy certain indemnification obligations under the Merger Agreement of Nuvotec, PEcoS, and the shareholders of Nuvotec to us that we identify within two years following the Merger; and (c) subject to adjustment pursuant to the terms of the Merger Agreement and payable only to the shareholders of Nuvotec that qualify as accredited investors pursuant to Rule 501 of Regulation D promulgated under the Securities Act:

- $2.5 million, payable over a four year period (subject to voluntary prepayment without penalty), unsecured and nonnegotiable and bearing an annual rate of interest of 8.25%, with (i) accrued interest only payable on June 30, 2008, (ii) $833,333.33, plus accrued and unpaid interest, payable on June 30, 2009, (iii) $833,333.33, plus accrued and unpaid interest, payable on June 30, 2010, and (iv) the remaining unpaid principal balance, plus accrued and unpaid interest, payable on June 30, 2011 (collectively, the "Installment Payments").

- $2.0 million in shares of our common stock, with the number of shares determined by dividing $2.0 million by 95% of average of the closing price of our common stock as quoted on the Nasdaq during the 20 trading days period ending five business days prior to the closing of the Merger; and

The Installment Payments and our common stock would be issued and paid only to the shareholders of Nuvotec that qualify as accredited investors in a private placement exempt from registration under Section 4(2) and/or Rule 506 of Regulation D.

The Merger Agreement requires that, upon completion of the Merger, the debt of Nuvotec and PEcoS will be limited to (a) approximately $9.1 million owing under Nuvotec's existing credit facility, plus accrued and

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unpaid interest thereon, (b) $375,000 owing to certain stockholders of Nuvotec immediately prior to the Merger, plus accrued and unpaid interest thereon, which we will pay at the closing of the transaction, and (c) other liabilities incurred in the ordinary course of PEcoS' business.

If the Merger is completed, we have agreed to increase the number of our directors from seven to eight and to take reasonable action to nominate and recommend for election Robert L. Ferguson ("Ferguson"), the current Chairman and Chief Executive Officer of Nuvotec and PEcoS, as a member of our board of directors. Mr. Ferguson's nomination is subject to certain conditions, including the limitation that our board of directors is not required to nominate Ferguson if doing so would breach any fiduciary duty or legal requirements of the board.

Prior to the closing of the Merger, Nuvotec is permitted to transfer certain of its assets, including the spin off to the shareholders of Nuvotec of the common stock of Nuvotec's majority owned subsidiary, Vivid Learning Systems, Inc. (OTCBB:VVDL).

Assumption of Nuvotec's debt of approximately $9.1 million owing under its credit facility is anticipated to be paid by us with $2.9 million at closing with the remaining balance to be financed by Nuvotec's lender, which is to be negotiated. We intend to fund any consideration and with debt assumed by us consisting of cash payments to be paid at closing from our borrowings under our Revolving Credit facility. We anticipate the acquisition will be completed in the second quarter of 2007.

The PEcoS' facility is located on 45 acres adjacent to the Department of Energy's (DOE) Hanford site, and is comprised of a low-level radioactive waste (LLRW) facility and a mixed waste (MW) facility. The LLRW facility has a radioactive materials license, and encompasses approximately 70,000 square feet. The MW facility has RCRA and TSCA permits, a radioactive materials license, and encompasses approximately 80,000 square feet. The DOE's Hanford site was first utilized as part of the Manhattan Project and throughout the Cold War to provide the plutonium and other materials necessary for the development of nuclear weapons. Most of Hanford's reactors were shut down in the 1970s, while substantial quantities of nuclear waste still remain at the site. Currently, the Hanford Site is engaged in one of the nation's largest environmental cleanups, which is expected to continue beyond 2030. PEcoS' net revenue and net income during its fiscal year ended September 30, 2006, was approximately $13 million and $628,000, respectively.

11. Capital Stock And Employee Stock Plan

During the three months ended March 31, 2007, we issued 17,500 shares of our Common Stock upon exercise of employee stock options, at exercise prices from $1.375 to $1.44 per share. We also had 1,775,638 warrants to purchase shares of our Common Stocks expiring on March 22, 2007. Total proceeds received during the three months ended March 31, 2007 related to warrant and option exercises totaled approximately $38,000, which includes $25,000 from employee stock option exercises and $13,000 from repayment of stock subscription resulting from exercise of warrant to purchase 60,000 shares of our Common Stock on a loan by the Company at an arms length basis in 2006.

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

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The summary of the Company's total Plans as of March 31, 2007 as compared to March 31, 2006 and changes during the period then ended are presented as follows:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Options outstanding Janury 1, 2007	2,816,750	$	1.86			
Granted	¾		¾			
Exercised	17,500		1.41		$	16,938
Forfeited	¾		¾			
Options outstanding End of Period	2,799,250		1.86	5.1	$	1,465,613
Options Exercisable at March 31, 2007	2,143,917	$	1.87	5.2	$	1,123,840
Options Vested and expected to be vested at March 31, 2007	2,752,047	$	1.86	5.1	$	1,441,000

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Options outstanding January 1, 2006	2,546,750	$	1.79			
Granted	878,000		1.86			
Exercised	¾		¾		$	—
Forfeited	7,500		1.44			
Options outstanding End of Period	3,417,250		1.81	5.5	$	634,726
Options Exercisable at March 31, 2006	2,539,250	$	1.79	5.4	$	590,826
Options Vested and expected to be vested at March 31, 2006	3,367,204	$	1.81	5.5	$	632,223

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The following tables summarize information about options under the plans outstanding at March 31, 2007 and 2006:

	Options Outstanding			**Options Exercisable**		
Description and Range of Exercise Prices at March 31, 2007	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Performance Equity Plan ($1.25)	12,000	1.5	$ 1.25	12,000	1.5	$ 1.25
Non-Qualified Stock Option Plan ($1.25 - $2.19)	1,290,250	4.6	1.86	1,290,250	4.6	1.86
2004 Stock Option Plan ($1.44 - $1.86)	1,008,000	5.1	1.83	352,667	5.5	1.77
1992 Outside Director Stock Option Plan ($1.21880 - $2.98)	165,000	3.7	2.05	165,000	3.7	2.05
2003 Outside Director Stock Option Plan ($1.70- $2.15)	324,000	7.8	1.94	324,000	7.8	1.94

	Options Outstanding			**Options Exercisable**		
Description and Range of Exercise Prices at March 31, 2006	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Performance Equity Plan ($1.00 - $1.25)	27,000	1.6	$ 1.16	27,000	1.6	$ 1.16
Non-Qualified Stock Option Plan ($1.00- $2.19)	1,989,250	5.1	1.79	1,989,250	5.1	1.79
2004 Stock Option Plan	967,000	6.2	1.82	89,000	8.6	1.44

($1.44 - $1.86)						
1992 Outside Director Stock Option Plan ($1.21880 - $2.98)	200,000	4.0	2.00	200,000	4.0	2.00
2003 Outside Director Stock Option Plan ($1.70- $2.15)	234,000	8.2	1.85	234,000	8.2	1.85

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

Forward-looking Statements

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

- improve our operations and liquidity;
- anticipated improvement in the financial performance of the Company;
- ability to comply with the Company's general working capital requirements;
- anticipate a full repayment of our Term Loan by May 2008;
- ability to be able to continue to borrow under the Company's revolving line of credit;
- ability to generate sufficient cash flow from operations to fund all costs of operations and remediation of certain formerly leased property in Dayton, Ohio, and the Company's facilities in Memphis, Tennessee; Detroit, Michigan; Valdosta, Georgia; and Tulsa, Oklahoma;
- ability to remediate certain contaminated sites for projected amounts;
- ability to fund budgeted capital expenditures of $4,137,000 during 2007;
- we expect backlog levels to continue to fluctuate within the same range throughout 2007, subject to the complexity of the waste streams and timing of receipts and processing of materials;
- LATA/Parallax can terminate the contract with us at any time for convenience, which could have a material adverse effect on our operations;
- growth of our Nuclear segment;
- we anticipate spending $536,000 in closure costs in 2007 with the remainder over the next five years;
- under our insurance contracts, we usually accept self-insured retentions, which we believe is appropriate for our specific business risks.
- we believe we maintain insurance coverage adequate for our needs and which is similar to, or greater than the coverage maintained by other companies of our size in the industry.
- we intend to fund any consideration consisting of cash payments to be paid at closing from our borrowing under our Revolving Credit facility;
- the insurer's agreement to defend and indemnify us and our Dayton, Ohio subsidiary is subject to the insurer's reservation of its rights to deny indemnity pursuant to various policy provisions and exclusions of the policy, including, without limitation, payment of any civil penalties and fines, as well as the insurer's right to right to recoup any defense cost it has advanced in the event that it is determined that the policy provides no coverage;
- as part of the agreement, PFD will file for a Title V air permit, make certain improvement the facility and meet certain air requirements in connection with managing waste at the facility;
- continue to see changes in the market;

- we could be a potentially responsible party for the costs of the cleanup notwithstanding any absence of fault on our part;
- we do not expect future inflationary changes to differ materially from the last three years;
- no current intention to close any facilities, other than the Michigan and Pittsburgh facilities.
- our ability to negotiate a final consent decree with the U.S. Department of Justice with respect to the Dayton facility or the approval of such consent decree by the appropriate assistant attorney general;
- the process for formalizing the details of a settlement agreement (consent decree) and meeting the DOJ/EPA official approval requirements (including public notice and comment) is expected to

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take between 90 and 120 days;

- the agreement in principle (“AIP”) states that PFD will pay a civil penalty of $800,000; however, at this time, PFD expects the $800,000 will consist of as many as three components;
- it is anticipated that the citizen’s suit would continue; and
- the anticipated closing of the Nuvotec Acquisition in the second quarter of 2007.

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

- general economic conditions;
- material reduction in revenues;
- inability to collect in a timely manner a material amount of receivables;
- increased competitive pressures;
- the ability to maintain and obtain required permits and approvals to conduct operations;
- the ability to develop new and existing technologies in the conduct of operations;
- ability to retain or renew certain required permits;
- discovery of additional contamination or expanded contamination at a certain Dayton, Ohio, property formerly leased by the Company or the Company's facilities at Memphis, Tennessee; Valdosta, Georgia; Detroit, Michigan; and Tulsa, Oklahoma, which would result in a material increase in remediation expenditures;
- changes in federal, state and local laws and regulations, especially environmental laws and regulations, or in interpretation of such;
- potential increases in equipment, maintenance, operating or labor costs;
- management retention and development;
- financial valuation of intangible assets is substantially less than expected;
- the requirement to use internally generated funds for purposes not presently anticipated;
- inability to continue to be profitable on an annualized basis;
- the inability of the Company to maintain the listing of its Common Stock on the NASDAQ;
- the determination that PFMI and PFSG were responsible for a material amount of remediation at certain superfund sites;
- terminations of contracts with federal agencies or subcontracts involving federal agencies, or reduction in amount of waste delivered to the Company under the contracts or subcontracts;
- execution of final agreement with EPA with regard to PFD lawsuit.

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

Overview

We provide services through three reportable operating segments. The Industrial Waste Management Services segment ("Industrial segment") is engaged in on-site and off-site treatment, storage, disposal and processing of a wide variety of by-products and industrial, hazardous and non-hazardous wastes, 24-hour emergency response, vacuum services and marine and industrial maintenance services. The segment operates and maintains facilities and businesses in the waste by-product brokerage, on-site treatment and stabilization, and off-site blending, treatment and disposal industries. The Nuclear Waste Management Services segment ("Nuclear segment") provides treatment, storage,

processing and disposal services of mixed waste (waste containing both hazardous and low-level radioactive materials) and low-level radioactive wastes, including research, development and on-site and off-site waste remediation. The presence of nuclear and low-level radioactive constituents within the waste streams processed by this segment create different and unique operational, processing and permitting/licensing requirements from those contained within the Industrial segment. Our Consulting Engineering Services segment ("Engineering segment") provides a wide variety of environmental related consulting and engineering services to both industry and government. These services include oversight management of

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environmental restoration projects, air and soil sampling, compliance reporting, surface and subsurface water treatment design for removal of pollutants, and various compliance and training activities.

The first quarter of 2007 reflected a revenue decrease of $963,000 to $20,155,000 or 4.6% from revenue of $21,118,000 for the same period of 2006. This decrease was primarily from the Industrial segment, which saw a decrease of 12.0%. This was primarily due to the termination of low margin waste revenue as we attempt to replace it with higher margin waste streams. This decrease was offset by a modest increase in the Nuclear segment's revenues of 1.5% over the first quarter of 2006 as we continue to augment the growth opportunities in our Nuclear segment by among other things, expansion within the mixed waste market, and receipt of more complex waste streams. Gross Profit for the quarter was also down by $940,000. This reduction was primarily due to revenue mix primarily in the Nuclear segment, as well as the reduced revenue in the Industrial and Engineering segments. We continue to pursue beneficial contracts and revenues, as well as evaluating additional cost savings. We completed the construction on our M&EC south bay special waste processing area and will commence processing special wastes in this new area in the second quarter of 2007. In addition, we are pleased by the recent receipt of a certification to dispose of certain types of nuclear related waste at the Nevada Test Site which will assist in the growth of our Nuclear segment. Our interest expense and interest expense - financing fees continue to decrease as our operations and cash flow improve and we are able to reduce our long term debt.

Results of Operations

The reporting of financial results and pertinent discussions are tailored to three reportable segments: Industrial, Nuclear and Engineering. The table below should be used when reviewing management's discussion and analysis for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,					
Consolidated (amounts in thousands)		2007	%		2006	%
Net Revenues	$	20,155	100.0	$	21,118	100.0
Cost of good sold		14,265	70.8		14,288	67.7
Gross Profit		5,890	29.2		6,830	32.3
Selling, general and administrative		6,543	32.4		5,241	24.8
Loss (gain) on disposal of property and equipment		(20)	(.1)		3	¾
Income (loss) from operations	$	(633)	(3.1)	$	1,586	7.5
Interest expense		(225)	(1.1)		(357)	(1.7)
Interest expense-financing fees		(48)	(.2)		(49)	(.2)
Other		(14)	(.1)		(13)	(.1)
Income (loss) from continuing operations		(958)	(4.8)		1,128	5.3
Preferred Stock dividends		¾	¾		¾	¾

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Summary - Three Months Ended March 31, 2007 and 2006

Net Revenue

Consolidated revenues decreased $963,000 for the three months ended March 31, 2007, compared to the three months ended March 31, 2006, as follows:

(In thousands)	2007	% Revenue	2006	% Revenue	Change	% Change
Nuclear						
Government waste	$ 4,535	22.5	$ 5,005	23.7	$ (470)	(9.4)
Hazardous/Non-hazardous	1,486	7.3	800	3.8	686	85.8
Other nuclear waste	3,973	19.7	3,882	18.4	91	2.3
Bechtel Jacobs	396	2.0	2,013	9.5	(1,617)	(80.3)
LATA/Parallax	1,954	9.7	458	2.2	1,496	326.6
Total	12,344	61.2	12,158	57.6	186	1.5
Industrial Revenues						
Commercial waste	5,180	25.7	6,164	29.2	(984)	(16.0)
Government services	1,172	5.8	1,027	4.8	145	14.1
Oil Sales	882	4.4	1,031	4.9	(149)	(14.5)
Total	7,234	35.9	8,222	38.9	(988)	