PERMA FIX ENVIRONMENTAL SERVICES INC
Form 10-Q
November 09, 2006

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 SEPTEMBER 30, 2006

OR

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

FOR THE TRANSITION PERIOD FROM ____________________TO____________________

Commission File No. 111596

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

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

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

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

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

Yes [X] 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 [X] 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 [X]

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 November 8, 2006
Common Stock, $.001 Par Value	52,024,617

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED FINANCIAL STATEMENTS

PART I, ITEM 1

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 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, 2005.

The results of operations for the nine months ended September 30, 2006, are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2006.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except for Share Amounts)	September 30, 2006	Decemb 20
	(Unaudited)	
ASSETS		
Current assets		
Cash	$ 2,549	$
Restricted cash	65	
Accounts receivable, net of allowance for doubtful accounts of $520 and $512	13,591	
Unbilled receivables	17,226	
Inventories	851	
Prepaid expenses	3,815	
Other receivables	54	
Current assets of discontinued operations, net of allowance for doubtful accounts of $0 and $90	--	
Total current assets	38,151	
Property and equipment:		
Buildings and land	20,311	
Equipment	31,768	
Vehicles	4,670	
Leasehold improvements	11,469	
Office furniture and equipment	2,570	
Construction-in-progress	3,448	

	74,236	
Less accumulated depreciation and amortization	(29,323)	
Net property and equipment	44,913	
Property and equipment of discontinued operations, net of accumulated depreciation of $28 and $80	706	
Intangibles and other assets:		
Permits, net	13,498	
Goodwill	1,330	
Finite Risk Sinking Fund	4,471	
Other assets	1,923	
Total assets	$ 104,992	$

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

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

(Amounts in Thousands, Except for Share Amounts)	September 30, 2006 (Unaudited)	Decemb 20
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,674	$
Current environmental accrual	905	
Accrued expenses	11,189	
Unearned revenue	3,083	
Current liabilities of discontinued operations	758	
Current portion of long-term debt	2,445	
Total current liabilities	23,054	
Environmental accruals	1,915	
Accrued closure costs	5,355	
Other long-term liabilities	2,876	
Long-term liabilities of discontinued operations	1,422	
Long-term debt, less current portion	6,759	
Total long-term liabilities	18,327	
Total liabilities	41,381	
Commitments and Contingencies (see Note 4)	--	
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	

Stockholders' equity:		
Common Stock, $.001 par value; 75,000,000 shares authorized, 52,019,617 and 45,813,916 shares issued, including 988,000 shares retired in September 2006 and held as treasury stock as of December 31, 2005 respectively	52	
Additional paid-in capital	92,748	
Stock Subscription Receivable	(97)	
Accumulated deficit	(30,377)	
	62,326	
Less Common Stock in treasury at cost; 988,000 shares	--	
Total stockholders' equity	62,326	
Total liabilities and stockholders' equity	$ 104,992	$

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)

	Three Months Ended September 30,		Nine Mon Septem
(Amounts in Thousands, Except for Per Share Amounts)	2006	2005	2006
Net revenues	$ 21,266	$ 22,826	$ 65,899
Cost of goods sold	14,938	16,106	44,589
Gross profit	6,328	6,720	21,310
Selling, general and administrative expenses	5,621	4,643	17,654
Loss (gain) on disposal of property and equipment	(4)	4	(3)
Income from operations	711	2,073	3,659
Other income (expense):			
Interest income	100	4	195
Interest expense	(331)	(382)	(1,074)
Interest expense-financing fees	(48)	(48)	(145)
Other	3	(68)	(114)
Income from continuing operations before taxes	435	1,579	2,521
Income tax expense (recovery)	(26)	324	152
Income from continuing operations	461	1,255	2,369
Income (loss) from discontinued operations, net of tax	(131)	751	465
Net income	330	2,006	2,834

Preferred Stock dividends	--	30	--
Net income applicable to Common Stock	$ 330	$ 1,976	$ 2,834
Net income per common share - basic			
Continuing operations	$ .01	$ .03	$ .05
Discontinued operations	-	.02	.01
Net income per common share	$ .01	$ .05	$ .06
Net income per common share - diluted			
Continuing operations	$ .01	$ .03	$ .05
Discontinued operations	--	.02	.01
Net income per common share	$ .01	$ .05	$ .06
Number of shares and potential common shares used in net income per common share:			
Basic	50,541	42,055	46,851
Diluted	51,430	44,152	47,414

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)

	Nine Months Ended September 30,	
(Amounts in Thousands)	2006	2005
Cash flows from operating activities:		
Net income	$ 2,834	$ 3,133
Adjustments to reconcile net income to cash provided by (used in) operations:		
Depreciation and amortization	3,648	3,541
Provision for bad debt and other reserves	59	33
Gain on disposal of property and equipment	(3)	(332)
Issuance of Common Stock for services	150	160
Share based compensation	173	--
Discontinued operations	(1,576)	995
Changes in operating assets and liabilities:		
Accounts receivable	2,977	2,503
Unbilled receivables	(5,277)	(4,564)
Prepaid expenses, inventories and other assets	(2,633)	(350)
Accounts payable, accrued expenses, and unearned revenue	(1,098)	(1,420)

Net cash (used in) provided by operations	(746)	3,699
Cash flows from investing activities:		
Purchases of property and equipment, net	(3,990)	(1,720)
Proceeds from sale of plant, property and equipment	12	702
Change in restricted cash, net	446	15
Change in finite risk sinking fund	(1,133)	(991)
Discontinued operations	117	(3)
Net cash used in investing activities	(4,548)	(1,997)
Cash flows from financing activities:		
Net borrowings (repayments) of revolving credit	(2,447)	(1,699)
Principal repayments of long-term debt	(1,819)	(5,516)
Borrowings of long-term debt	--	4,417
Proceeds from issuance of stock	12,007	1,000
Change in Note Receivable for Common Stock	8	--
Net cash provided by (used in) financing activities	7,749	(1,798)
Increase (decrease) in cash	2,455	(96)
Cash at beginning of period	94	215
Cash at end of period	$ 2,549	$ 119
Supplemental disclosure		
Interest paid	$ 691	$ 971
Non-cash investing and financing activities:		
Gain on interest rate swap	--	35
Long-term debt incurred for purchase of property and equipment	94	517

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

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited, for the nine months ended September 30, 2006)

(Amounts in thousands, except for share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Loan for Equity	Accumulated Deficit	Comm Sto Held Treas
Balance at December 31, 2005	45,813,916	$ 46	$ 82,180	$ --	$ (33,211)	$ (1
Net income	--	--	--	--	2,834	
Issuance of Common Stock for cash and services	118,911	--	195	--	--	
Issuance of Common Stock upon exercise of Warrants and options	7,074,790	7	12,061	--	--	
Share based compensation			173			
Issue Stock Subscription						

Receivable				(105)		
Repayment of Stock Subscription Receivable				8		
Retirement of Treasury Stock	(988,000)	(1)	(1,861)			1,
Balance at September 30, 2006	52,019,617	$ 52	$ 92,748	$ (97)	$ (30,377)	$

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

SEPTEMBER 30, 2006
(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, 2005.

1. 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 July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 will be effective for fiscal years beginning after December 15, 2006 and the provisions of FIN 48 will be applied to all tax positions upon initial adoption of the Interpretation. The cumulative effect of applying the provisions of this Interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. We are currently evaluating the potential impact of FIN 48 on our financial statements.

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 September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plan - an amendment of FASB Statement No. 87, 88, 106 and 132(R)." SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status in the year in which the changes occur. SFAS 158 is effective for fiscal years ending after December 15, 2006. We are currently evaluating the effect, if any, the adoption of SFAS 158 will have on our financial condition, results of operations and cash flows.

RECLASSIFICATIONS

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

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 September 30, 2006, we had 2,764,750 employee stock options outstanding, which included 1,796,750 that were outstanding and fully vested at December 31, 2005, 868,000 employee stock options approved and granted on March 2, 2006, and 100,000 employee stock options approved and granted on May 15, 2006. The weighted average exercise price of the 1,796,750 outstanding and fully vested employee stock options is $1.96 with a weighted contractual life of 4.52 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 July 30, 2013. 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 had 524,000 director stock options outstanding, of which 72,000 became fully vested in January 2006, and 90,000 newly granted shares, ten year options with an exercise price of $2.15, with vesting period of six months, resulting from the re-election of our Board of Directors on July 27, 2006. The weighted average exercise price of the 434,000 exercisable director stock options outstanding as of September 30, 2006 is $1.92 with a weighted average contractual life of 5.8 years.

Pursuant to the adoption of SFAS 123R, during the three-month period ended March 31, 2006, we recorded stock-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. This resulted in an expense of approximately $11,000. We recorded $28,000 additional stock-based compensation expense in the third quarter as result of the 90,000 director stock option grant. For the employee 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 will recognize compensation expense using a straight-line amortization method over the three year vesting period. As SFAS 123R requires that stock-based compensation expense be based on options that are ultimately expected to vest, stock-based compensation for the three and nine month period ended September 30, 2006 has been reduced for estimated forfeitures at a rate of 5.7 %. When estimating forfeitures, we consider trends of actual option forfeitures. For the three and nine months ended September 30, 2006, we recorded approximately $60,000 and $134,000 in employee compensation expense from the 2006 grants, respectively, which included with the director compensation expense, impacted our results of operations by $88,000 and $173,000, for stock-based compensation expense for the three and nine month periods ended September 30, 2006, respectively. In total, we had $845,000 of total unrecognized compensation cost related to unvested options as of September 30, 2006.

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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%. No employee options were granted in the corresponding periods of 2005. 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 computations of expected volatility for 2006 are based on historical volatility from our traded common stock, as was the computation of expected volatility on grants prior to 2006. 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 employee grants. We utilized contractual term for the expected term of the director option grants in July 2006. 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.

Prior to the adoption of SFAS 123R, we furnished the pro forma disclosures required under SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosures." Employee stock-based compensation expense recognized under SFAS 123R was not reflected in our results of operations for the three and nine month periods ended September 30, 2005 for employee stock option grants as all options were granted with an exercise price equal to the market value of the underlying common stock on the date of grant. Previously reported amounts have not been restated.

Under the accounting provisions of SFAS 123, our net income and net income per share, for the three and nine months ended September 30, 2005 would have been decreased to the pro forma amounts indicated below (in thousands except for per share amounts):

(Unaudited)	Three Months Ended September 30, 2005	Nin Sep
Net income from continuing operations applicable to Common Stock, as reported	$ 1,225	$
Deduct: Total Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(523)	
Pro forma net income from continuing operations applicable to Common Stock	$ 702	$
Income per share		
Basic and diluted - as reported	$ .03	$
Basic and diluted - pro-forma	$ .02	$

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2. EARNINGS 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.

The following is a reconciliation of basic net income (loss) per share to diluted net income (loss) per share for the three and nine months ended Sept 30, 2006 and 2005:

	Three Months Ended September 30,		
(Amounts in thousands except per share amounts)	2006	2005	
Earnings per share from continuing operations			
Income from continuing operations	$ 461	$ 1,255	$
Preferred stock dividends	--	(30)	
Income from continuing operations applicable to Common Stock	461	1,225	

Effect of dilutive securities:			
Preferred Stock dividends	--	30	
Income- diluted	$ 461	$ 1,255	$
Basic income per share	$ .01	$ .03	$
Diluted income per share	$ .01	$ .03	$
Earnings per share from discontinued operations			
Income (loss) - basic and diluted	$ (131)	$ 751	$
Basic income (loss) per share	$ --	$ .02	$
Diluted income (loss) per share	$ --	$ .02	$
Weighted average shares outstanding - basic	50,541	42,055	
Potential shares exercisable under stock option plans	479	404	
Potential shares upon exercise of Warrants	410	1,693	
Potential shares upon conversion of Preferred Stock	--	--	
Weighted average shares outstanding - diluted	51,430	44,152	
Potential shares excluded from above weighted average share calculations due to their anti-dilutive effect include:			
Upon exercise of options	385	1,082	
Upon exercise of Warrants	1,776	1,776	

3. LONG TERM DEBT

Long-term debt consists of the following at September 30, 2006, and December 31, 2005:

(Amounts in Thousands)	September 30, 2006 (Unaudited)	Decembe 200
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 plus1/2% (8.75% at September 30, 2006), balance due in May 2008.	$ --	$
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 September 30, 2006).	5,750	
Promissory Note dated June 25, 2001, payable in semiannual installments on September 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 September 30, 2006) and is payable in		

one lump sum at the end of installment period.	1,834	
Installment Agreement 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 September 30, 2006) and is payable in one lump sum at the end of installment period.	453	
Various capital lease and promissory note obligations, payable 2006 to 2010, interest at rates ranging from 5.0% to 15.7%.	1,167	
	9,204	
Less current portion of long-term debt	2,445	
	$ 6,759	$

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 September 30, 2006, the excess availability under our Revolving Credit was $12,154,000 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 1/2%. The loans are subject to a prepayment fee of 1% until March 25, 2006, and 1/2% until March 25, 2007.

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 2006 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 September 30, 2006) and payable in one lump sum at the end of the loan period. On September 30, 2006, the outstanding balance was $3,512,000 including accrued interest of approximately $1,678,000. 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 2006 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 September 30, 2006, the rate was 10%. On September 30, 2006, the outstanding balance was $854,000 including accrued interest of approximately $401,000. The accrued interest is to be paid at the end of the term, and as such, is recorded as a long-term liability, pursuant to the terms of the agreement.

4. 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, 2005, and our Forms 10-Qs for the quarterly periods ended March 31, 2006 and June 30, 2006.

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 $35 million of financial assurance coverage of which the coverage amount totals $29,211,000 at September 30, 2006, 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 2006, we paid our third 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 September 30, 2006, we have recorded $4,471,000 in our sinking fund on the balance sheet, which includes interest earned of $264,000 on the sinking fund through September 30, 2006. Interest income for the three and nine months ended September 30, 2006, was $52,000 and $141,000, respectively.

5. 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 recognized a loss of $6,000 for the three months ended September 30, 2006, as compared to an operating loss of $109,000 and revenues of $214,000 during the three months ended September 30, 2005. PFP recorded a loss of $352,000 for the nine months ended September 30, 2006, and revenue of $607,000 and an operating loss of $249,000 for the nine months ended September 30, 2005. The loss in 2006, was partially due to early termination costs of $187,000 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 September 30, 2006 and December 31, 2005. The assets are recorded at their recoverable values as defined by SFAS 144, "Accounting for the Impairment on Disposal of Long-lived Assets", and consist of equipment of $106,000. PFP has no liabilities on the books as of September 30, 2006.

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 $125,000 for the three months ended September 30, 2006, and a income of $860,000 for the three months ended September 30, 2005. PFMI recognized a income of $817,000 for the nine months ended September 30, 2006 and a income of $571,000 for the same period in 2005. Our income for the nine months in 2006 was a result of a reduction of $1,181,000 in our environmental accrual due to our re-evaluation of the accrual we have recorded for the closure and remediation activities we are performing. 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 September 30, 2006 and December 31, 2005. As of September 30, 2006, assets are recorded at their recoverable values, and consist of property and equipment of $600,000. Liabilities as of September 30, 2006, consist of accounts payable and current accrued expenses of $92,000, environmental accruals of $656,000, and a pension payable of $1,434,000. The pension plan withdrawal liability is a result of the termination of the union employees of PFMI. The former 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 $146,418 that we expect to pay over the next year.

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, are 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 originally estimated the cost of this environmental closure and remediation liability to be $2,464,000. During 2006 we re-evaluated our estimated environmental accrual and the required activities to close and remediate the facility, and during the quarter ended June 30, 2006, we began implementing a modified methodology to remediate the facility. As a result of the reevaluation and the change in methodology we reduced the accrual by $1,181,000. We have spent approximately $627,000 for closure costs since September 30, 2004, of which approximately $72,000 has been spent during the first nine months of 2006, and $439,000 was spent in 2005. We have $656,000 accrued for the closure, as of September 30, 2006, and we anticipate spending $43,000 in the fourth quarter of 2006 with the remainder over the next two to five years.

6. 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.

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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 and nine months ended September 30, 2006 and 2005.

SEGMENT REPORTING FOR THE QUARTER ENDED SEPTEMBER 30, 2006

	Industrial	Nuclear	Engineering	Segments Total
Revenue from external customers	$ 9,178	$ 11,023(3)	$ 1,065	$ 21,266
Inter-company revenues	579	383	172	1,134
Gross profit	1,960	4,127	241	6,328
Interest income	--	--	--	--
Interest expense	55	127	-	182
Interest expense-financing fees	--	--	--	--
Depreciation and amortization	422	784	10	1,216
Segment profit (loss)	(355)	2,248	95	1,988
Segment assets(1)	22,807	67,653	2,407	92,867
Expenditures for segment assets	221	1,994	8	2,223
Total long-term debt	922	2,515	17	3,454

SEGMENT REPORTING FOR THE QUARTER ENDED SEPTEMBER 30, 2005

	Industrial	Nuclear	Engineering	Segments Total
Revenue from external customers	$ 10,884	$ 11,258(3)	$ 684	$ 22,826
Intercompany revenues	21	573	130	724
Gross profit	2,373	4,162	185	6,720
Interest income	3	1	--	4
Interest expense	19	202	5	226
Interest expense-financing fees	--	--	--	--
Depreciation and amortization	456	701	10	1,167
Segment profit (loss)	470	2,369	61	2,900
Segment assets(1)	24,791	63,671	2,136	90,598
Expenditures for segment assets	289	375	5	669
Total long-term debt	1,319	3,800	25	5,144

SEGMENT REPORTING FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

	Industrial	Nuclear	Engineering	Segments Total
Revenue from external customers	$ 26,874	$ 36,288(3)	$ 2,737	$ 65,899
Intercompany revenues	1,257	1,848	413	3,518
Gross profit	5,956	14,662	692	21,310
Interest income	6	--	--	6
Interest expense	79	362	1	442
Interest expense-financing fees	1	--	--	1
Depreciation and amortization	1,326	2,254	30	3,610
Segment profit (loss)	(1,562)	8,451	246	7,135
Segment assets(1)	22,807	67,653	2,407	92,867
Expenditures for segment assets	760	3,212	59	4,031
Total long-term debt	922	2,515	17	3,454

SEGMENT REPORTING FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

	Industrial	Nuclear	Engineering	Segments Total
Revenue from external customers	$ 31,293	$ 35,962(3)	$ 2,145	$ 69,400
Intercompany revenues	1,103	2,012	353	3,468
Gross profit	5,177	13,950	482	19,609
Interest income	5	1	--	6
Interest expense	383	549	11	943
Interest expense-financing fees	--	2	--	2
Depreciation and amortization	1,389	2,090	30	3,509
Segment profit (loss)	(638)	8,268	134	7,764
Segment assets(1)	24,791	63,671	2,136	90,598
Expenditures for segment assets	949	1249	15	2,213
Total long-term debt	1.319	3,800	25	5,144

(1) Segment assets have been adjusted for intercompany accounts to reflect actual assets for each segment, and exclude assets of discontinued operations of $706,000 for the quarter ending September 30, 2006.

(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 three and nine months ended September 30, 2006, which total $2,672,000 or 12.6% and $7,344,124 or 11.1% of total revenues, respectively. No revenues from LATA/Parallax were recorded in 2005. Consolidated revenues within the Nuclear segment also include Bechtel Jacobs revenues of $1,629,000 or 7.7% and $4,892,000 or 7.5% for the three and nine months ended September 30, 2006, respectively. Bechtel Jacobs revenues for the same periods in 2005 were $4,950,000 or 21.7% and $11,358,000 or 16.4%.

(4) Amount includes assets from Perma-Fix of Michigan, Inc., and Perma-Fix of Pittsburgh, Inc., that will be transferred to facilities in "continuing" operations.

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

7. CAPITAL STOCK

During the nine months ended September 30, 2006, we issued 6,673,290 shares of our Common Stock upon exercise of certain warrants, at exercise prices from $1.44 to $1.75 per share, of which 73,797 were issued on a cashless basis. Additionally, we issued 401,500 shares of our Common Stock upon exercises of employee stock options, at exercise prices from $1.00 to $2.19 per share. Total proceeds received during the nine months for the warrant and option exercises were $11,971,000.

On July 28, 2006, our Board of Directors has authorized a common stock repurchase program to purchase up to $2,000,000 of our Common Stock, through open market and privately negotiated transactions, with the timing, the amount of repurchase transactions and the prices paid under the program as deemed appropriate by management and dependent on market conditions and corporate and regulatory considerations. We plan to fund any repurchases under this program through our internal cash flow and/or borrowings under our line of credit.

8. SUBSEQUENT EVENT

The Company signed a letter of intent to acquire Nuvotec USA, Inc. and its wholly owned subsidiary, Pacific EcoSolutions, Inc. (PEcoS), a mixed waste management company, based in Richland, Washington. The acquisition is subject to, among other things, execution of definitive agreements, assessment of liabilities, and registration of the shares of the Company's common stock to be issued in connection with the transaction. Under the letter of intent, as consideration for the purchase, the Company would issue up to $7 million of its shares of common stock; assume certain debts and obligations of Nuvotec and PEcosS; and, based on the amount of debts and obligations assumed, pay a certain amount in cash. If this transaction is completed, at the time of closing, Nuvotec's principal asset will be PEcoS. PEcoS' facility is permitted to treat, store and process hazardous, low level radioactive, and mixed waste, and is located adjacent to the Department of Energy's (DOE) Hanford site.

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;
- 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 during 2006;
- expanding within the mixed waste market, as well as more complex waste streams;
- growth of our Nuclear segment;
- no expectation to close any facilities, other than the Michigan and Pittsburgh facilities;
- expect backlog levels to continue to fluctuate within acceptable levels throughout 2006;
- continue to position the Nuclear segment well, from a processing revenue perspective;
- accrued $656,000 of closure cost for our Michigan facility as of September 30, 2006, and we anticipate spending $43,000 in the fourth quarter of 2006 with the remainder over the next two to five years;
- continue to invest our working capital back into our facilities to fund capital additions within both the Nuclear and industrial segments;
- to remain profitable in the foreseeable future;
- anticipate that substantial additional capital expenditures will be required in order to bring PFD or PFTS facility in compliance with the requirements of a Title V air permit;
- expect to fund the expenses to remediate the sites from funds generated internally;
- entered into a letter of intent to acquire Nuvotec USA, Inc. and its wholly owned subsidiary, Pacific EcoSoultions, Inc. ("PEco'S").

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;
- termination of the Oak Ridge Contracts as a result of our lawsuit against Bechtel Jacobs or otherwise;
- 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, PFSG, or PFO was 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;
- determination that PFD is required to have a Title V air permit in connection with its operations, or is determined to have violated environmental laws or regulations in a material manner;
- risk factors contained in our 2005 Annual Report on Form 10-K and Form 10-Qs for quarters ended March 31, 2006 and June 30, 2006; and
- the acquisition is subject to, among other things, execution of definitive agreements, completion of due diligence and registration of the shares of the company's common stock to be issued in connection with the transaction

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, and with recent acquisitions, added 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 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.

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The third quarter of 2006 reflected a decrease in revenue of $1,560,000 or 6.8% from the same period of 2005. The Industrial segment experienced a decrease of 15.7% due to the loss of the home improvement chain contract in November 2005, and the elimination of non-profitable income streams. The Nuclear segment also experienced a 2.1% decrease due to decreased waste receipts. These reductions were offset by an increase in the Engineering segment of 55.7% from a large non-recurring event project. The third quarter 2006 gross profit decreased by $392,000 or 5.8% from the same period of 2005. Gross profit as a percentage of revenue increased slightly from 29.4% to 29.8%. The Industrial Segment gross profit fell 17.4% reflecting the lower revenue. Third quarter, SG&A was significantly higher than third quarter of 2005 due to costs related to the relocation of the corporate office, costs related to expensing employee and director stock options, and legal fees associated with the Dayton air emission issues. We continue to pursue growth within the Nuclear segment by, among other things, expansion within the mixed waste market, as well as more complex waste streams. This growth is demonstrated by the contract our Nuclear segment received for $9.4 million during the first quarter of 2006 for new mixed waste streams not previously handled by our Nuclear segment, which contract is scheduled to continue through September 2007. We recognized approximately $1,483,000 revenue from this contract during the quarter ended September 2006. Cash flow was significantly impacted with the addition of $10,505,000 from the issuance of 6,149,329 shares of common stock related to the exercise of warrants and options in the third quarter of 2006. This cash flow had positive impact on both interest income and interest expense. Overall net income available to common shareholders was $330,000 for the three months ended September 30, 2006, compared to $1,976,000 from the same period of 2005 or a decrease of 83.2%. Net income available to common shareholders for the three months ended September 30, 2005, included income from discontinued operations of $860,000 resulting from the receipt of insurance proceeds for business interruption at the closed facility in Detroit.

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 and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,				
Consolidated (amounts in thousands)	2006	%	2005	%	2006
Net revenues	$ 21,266	100.0	$ 22,826	100.0	$ 65,899

Cost of goods sold	14,938	70.2	16,106	70.6	44,589
Gross profit	6,328	29.7	6,720	29.4	21,310
Selling, general and administrative	5,621	26.4	4,643	20.3	17,654
Loss (gain) on disposal of property & equipment	(4)	--	4	--	(3)
Income from operations	$ 711	3.3	$ 2,073	9.1	$ 3,659
Interest expense	$ (331)	(1.6)	$ (382)	(1.7)	$(1074)
Interest expense-financing fees	(48)	(.2)	(48)	(.2)	(145)
Other income (expense)	129	(.6)	(388)	1.7	(71)
Income from continuing operations	461	2.2	1,255	5.5	2,369
Preferred Stock dividends	--	--	(30)	(.1)	--

SUMMARY - THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

Net Revenue Consolidated revenues decreased for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, as follows: %

(In thousands)	2006	% Revenue	2005	% Revenue	Change	% Change
Nuclear						
Government waste	$ 3,973	18.6	$ 2,294	10.1	$ 1,679	73.1
Hazardous/Non-hazardous	829	3.9	830	3.6	(1)	--
Other nuclear waste	1,920	9.0	3,184	13.9	(1,264)	(39.7)
LATA/Parallax	2,672	12.6	--	--	2,672	--
Bechtel Jacobs	1,629	7.7	4,950	21.7	(3,321)	(67.1)
Total	11,023	51.8	11,258	49.3	(235)	(2.1)
Industrial Revenues						
Commercial waste	6,714	31.6	8,659	37.9	(1,945)	(22.5)
Government services	1,262	5.9	716	3.2	546	76.3
Oil sales	1,202	5.7	1,509	6.6	(307)	(20.3)
Total	9,178	43.2	10,884	47.7	(1,706)	(15.7)
Engineering	1,065	5.0	684	3.0	381	55.7
Total	$ 21,266	100.0	$ 22,826	100.0	$ (1,560)	(6.8)

The Nuclear segment experienced a slight decline in revenue for the three months ended September 30, 2006 over the same period in 2005. Waste receipts were down from last year reflecting our continued efforts to streamline waste receipts throughout the year. Offsetting this reduction in receipts revenue was increased production revenue for material in inventory. We have earned significant revenues from numerous work releases under our subcontracts relating to remediation of DOE projects during the quarter. Revenues during the third quarter of 2006 under subcontracts relating to federal /DOE projects contributed approximately $8,274,000 revenues for the quarter. The Nuclear segment experienced a decrease in their hazardous and non-hazardous revenues due to the completion in 2005 of a special event soil project performed for existing industrial customers. The segment also experienced a slight decrease in other nuclear waste revenues as a result of the completion of a contract with a Fortune 500 company during 2005. See "Known Trends and Uncertainties - Significant Customers" later in this Managements' Discussion and Analysis for further discussion on our revenues and contracts with the government and their contractors. The backlog of stored waste at September 30, 2006, was $10,048,000 compared to $16,374,000 at December 31, 2005. This decrease reflects our improved efforts to process and dispose of waste streams, including the increased waste receipts received during the last quarter of 2005. We expect backlog levels to continue to fluctuate within acceptable levels throughout 2006, subject to the complexity of the waste streams and timing of receipts and processing of materials. This level of backlog material continues to position the Nuclear segment well, from a processing revenue perspective, as it provides for continued and more consistent processing during slower seasons. The Industrial segment experienced a decrease in revenues for the quarter partially as a result of the loss of our contract with a national home improvement chain in November 2005. The segment could see continued reduction in revenue in 2006 as the segment works to replace the loss of the retail customer with other sources of revenue. The Industrial segment also saw a decrease in revenue from the decision to eliminate unprofitable revenue and replace it with higher margin income. Used oil sales decreased by $307,000 from the prior years due to reductions in the cost of natural gas, which is a common alternative for many of our larger customers. Revenues from the Engineering segment increased during the third quarter of 2006, as a result of an event project that was started during the second quarter of 2006.

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Consolidated revenues decreased for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change	% Change
Nuclear						
Government waste	$ 12,267	18.6	$ 10,746	15.5	$ 1,521	14.1
Hazardous/Non-hazardous	2,538	3.9	3,614	5.2	(1,076)	(29.8)
Other nuclear waste	9,247	14	10,244	14.7	(997)	(9.7)
LATA/Parallax	7,344	11.1	--	--	7,344	--
Bechtel Jacobs	4,892	7.5	11,358	16.4	(6,466)	(56.9)
Total	36,288	55.1	35,962	51.8	326	.9
Industrial Revenues						
Commercial waste	19,815	30.0	23,967	34.5	(4,152)	(17.3)
Government services	3,429	5.2	3,513	5.1	(84)	(2.4)
Oil sales	3,630	5.5	3,813	5.5	(183)	(4.8)
Total	26,874	40.7	31,293	45.1	(4,419)	(14.1)
Engineering	2,737	4.2	2,145	3.1	592	27
Total	$ 65,899	100.0	$ 69,400	100.0	$ (3,501)	(5.0)

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The Nuclear segment realized modest revenue growth for the nine months ended September 30, 2006 over the same period in 2005. The increase is principally due to the segment's continued expansion within the mixed waste market, which includes an increase in receipts of higher activity waste liquids, a more complex and difficult waste stream that requires greater technical expertise. Revenues under subcontracts relating to remediation of waste at various DOE facilities contributed approximately $24,502,000 of the revenues for the nine months. The Nuclear segment experienced a decrease in their hazardous and non-hazardous revenues due to the completion in 2005 of a special event soil project performed for existing industrial customers. The segment additionally experienced a slight decrease in government waste revenues, as they focused on other projects. The Industrial segment experienced a decrease in revenues for the nine months primarily due to the loss of our contract with a national home improvement chain in November 2005. The segment could see continued reduction in revenue in 2006 as the segment works to replace the loss of the retail customer with other sources of revenue. The Industrial segment also saw a decrease in revenue from government services due to the expiration of one of our government contracts, in the spring of 2005, and the re-bid and subsequent lower revenues related to another government contract. Used oil sales for the Industrial segment were down $183,000 due to the impact of lower revenues in the third quarter as previously discussed. The Engineering segment experienced an increase in revenue during the first nine months of 2006, as a result of an event project that was started during the second quarter of 2006.

Cost of Goods Sold

Cost of goods sold decreased for the quarter ended September 30, 2006, compared to the quarter ended September 30, 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change
Nuclear	$ 6,896	62.6	$ 7,096	63.0	$ (200)
Industrial	7,218	78.6	8,511	78.2	(1,293)
Engineering	824	77.4	499	73.0	325
Total	$ 14,938	70.2	$ 16,106	70.6	$ (1,168)

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The Nuclear segment showed a slight decrease in cost of goods sold as a result of the reduced revenues during the quarter. The decrease in the Industrial segment is partially a result of the decrease in revenue, but is also reflective of various changes made during the quarter to streamline operations to operate more regionally, thus cutting transportation costs and other related expenses. The Engineering segment saw an increase in their cost of goods sold as a result of pass through cost related to the increased event revenues for the quarter. Included within cost of goods sold is depreciation and amortization expense of $1,148,000 and $1,095,000 for the three months ended September 30, 2006, and 2005, respectively.

Cost of goods sold decreased for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change

Nuclear	$ 21,626	59.6	$ 22,013	61.2	$ (387)
Industrial	20,918	77.8	26,116	83.5	(5,198)
Engineering	2,045	74.7	1,662	77.5	383
Total	$ 44,589	67.7	$ 49,791	71.7	$ (5,202)

We saw a decrease in cost of goods sold within both the Nuclear and Industrial segments, as we focus to streamline costs. The Nuclear segment showed a slight decrease in cost of goods sold consistent with the modest decrease in revenue. The segment continues to pursue waste streams that are more complex in nature and have higher radioactivity levels which contain greater processing risk and the potential for higher margins. This reduction is evidence of the segment's success in its efforts to process these more complex waste streams. The decrease in the Industrial segment is partially a result of the decrease in revenue, but is also reflective of various changes made during the nine months to streamline operations to operate more regionally, thus cutting transportation costs and other related expenses. The Engineering segment saw an increase in their cost of goods sold as a result of their improved revenues for the nine months. Included within cost of goods sold is depreciation and amortization expense of $3,397,000 and $3,281,000 for the nine months ended September 30, 2006, and 2005, respectively.

Gross Profit

Gross profit for the quarter ended September 30, 2006, increased over 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change
Nuclear	$ 4,127	37.4	$ 4,162	37.0	$ (35)
Industrial	1,960	21.4	2,373	21.8	(413)
Engineering	241	22.6	185	27.1	56
Total	$ 6,328	29.8	$ 6,720	29.4	$ (392)

The Nuclear segment saw a decrease in the gross profit primarily as a result of the reduced revenue for the quarter as compared to 2005. The mix of the waste streams being handled, as well as additional costs associated with the start up of our project with LATA/Parallax also impacted the gross profit as a percent of revenue. The Industrial segment saw a decrease in the gross profit primarily as a result of the reduced revenue in the quarter. Additionally, the segment continues to focus on more profitable waste streams, cutting costs and streamlining the processes. The Engineering segment gross profit increased slightly, while gross profit percentage fell, based on the event project, which produced higher than normal pass through costs.

Gross profit for the nine months ended September 30, 2006, increased over 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change
Nuclear	$ 14,662	40.4	$ 13,950	38.8	$ 712
Industrial	5,956	22.2	5,177	16.5	779
Engineering	692	25.3	482	22.5	210
Total	$ 21,310	32.3	$ 19,609	28.3	$ 1,701

The resulting increase in gross profit in the Nuclear segment is a result of the increased revenue, as well as the mix of waste to higher margin material as discussed above. The cost savings is also reflected in the increased gross profit as a percentage of revenue, which was achieved by our becoming more efficient at the treatment of the waste, as well as the type of waste streams being handled. The Industrial segment saw a significant increase in gross profit as a result of the segment's focus on more profitable waste streams, cutting costs and streamlining the processes and the elimination of last year's adverse affect of oil contamination to one of our waste streams. This was also reflected in increase in the gross profit percentage. The Engineering segment gross profit increased slightly, as did their gross profit percentage, due to their reduction of fixed payroll costs from the lower staffing levels, and from their increased revenues.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses increased for the three months ended September 30, 2006, as compared to the corresponding period for 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change
Administrative	$ 1,458	--	$ 1,117	--	$ 341
Nuclear	1,745	15.8	1,572	14.0	173
Industrial	2,273	24.8	1,832	16.8	441
Engineering	145	13.6	122	17.8	23
Total	$ 5,621	26.3	$ 4,643	20.3	$ 978

Our SG&A expenses in the administrative area increased as compared to the same three months of 2005. Payroll and other expenses related to the relocation of the Corporate office as well as expenses related to stock option expense required under FAS 123R increased administrative expense. The Nuclear segment's SG&A expenses increased as the segment has expanded its management staff to more efficiently bid on new contracts service, manage its facilities and increase its efforts towards compliance with corporate policies and regulatory agencies. The increase in the Industrial segment was a result of increased legal fees as we work to resolve certain legal issues at our facilities, as well as costs incurred in connection with environmental compliance of the facilities. The costs associated with environmental compliance were a result of our reevaluation and additional provisions made to certain of our environmental reserves. See Environmental Contingencies later in this Management's Discussion and Analysis for further discussion on our environmental reserves. The Engineering segment increase was the result of increased payroll and an adjustment to bad debt reserve of $12,000. Included in SG&A expenses is depreciation and amortization expense of $82,000 and $83,000 for the three months ended September 30, 2006, and 2005, respectively.

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SG&A expenses increased for the nine months ended September 30, 2006, as compared to the corresponding period for 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change
Administrative	$ 4,143	--	$ 3,846	--	$ 297

Nuclear	5,693	15.7	5,063	14.1	630
Industrial	7,373	27.4	5,734	18.3	1,639
Engineering	445	16.2	341	15.9	104
Total	$ 17,654	26.8	$ 14,984	21.6	$ 2,670

Our SG&A expenses increased both in the administrative area and throughout the segments. The increase in the administrative area were primarily impacted by the relocation of the Corporate office in the third quarter, and the year to date impact of accounting for stock options as required under FAS 123R. The increase within the Nuclear segment was due to their continued efforts to expand the management staff to more efficiently bid on new contracts, service and manage its facilities and increase the efforts towards compliance with corporate policies and regulatory agencies. The increase in the Industrial segment was a result of increased legal fees as we work to resolve certain legal issues at our facilities, additional provisions made to certain environmental reserves in connection with environmental compliance of the facilities, and payroll increases in sales. The Engineering segment increase was the result of increased payroll and commission expenses related to increases in revenue. Included in SG&A expenses is depreciation and amortization expense of $251,000 and $260,000 for the nine months ended September 30, 2006, and 2005, respectively.

Gain on Disposal of Property and Equipment

During June 2005, we sold property at our facility in Maryland. The sale was for net proceeds of $695,000, for land and building with a net book value of $332,000. The resulting gain of $363,000 was included in income from operations, and was partially offset by losses on disposal of other equipment of approximately $26,000.

Interest Expense

Interest expense decreased for the quarter ended September 30, 2006, and decreased for the nine months ended September 30, 2006, as compared to the corresponding periods of 2005.

	Three Months			Nine Months		
(In thousands)	2006	2005	Change	2006	2005	Change
PNC interest	$ 146	$ 199	$ (53)	$ 596	$ 553	$ 43
Other	185	183	2	478	623	(145)
Total	$ 331	$ 382	$ (51)	$ 1,074	$ 1,176	$ (102)

The decrease for the quarter ended September 30, 2006 is principally a result the overall improvement in our debt position accelerated by the exercise of warrants and options for the purchase of 6,149,329 shares of our Common Stock during the quarter, which added approximately $ 10,505,000 of cash. This cash inflow allowed us to eliminate the use of the revolver debt at the end of July 2006.

The decrease for the nine months ended September 30, 2006 is due to the full repayment of a $3.5 million unsecured promissory note in August 2005, and from the final repayment of various other debt obligations.

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Interest Expense - Financing Fees

Interest expense-financing fees remained consistent for the quarter ended September 30, 2006, as compared to the corresponding period of 2005, and decreased by $124,000 for the nine months ended September 30, 2006, from the same period during 2005. The decrease was principally a result of entering into Amendment No. 4 and Amendment No. 5 with PNC during 2005, which extended the maturity date on the term loan and revolver agreements to May 2008. The remaining financing fees are now amortized through May 2008. As of September 30, 2006, the unamortized balance of prepaid financing fees is $315,000, which is comprised of unamortized financing fees from the original PNC debt and Amendment No. 4 and Amendment No. 5. These prepaid financing fees will be amortized through May 2008 at a rate of $16,000 per month.

Preferred Stock Dividends

Preferred Stock dividends were $30,000 and $91,000 for the three and nine months ended September 30, 2005, respectively. The Preferred dividends were comprised of dividends from our Series 17 Preferred Stock, which was converted to Common Stock in September 2005.

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 recognized a loss of $6,000 for the three months ended September 30, 2006, as compared to an operating loss of $109,000 and revenues of $214,000 during the three months ended September 30, 2005. PFP recorded a loss of $352,000 for the nine months ended September 30, 2006, and revenue of $607,000 and an operating loss of $249,000 for the nine months ended September 30, 2005. The loss in 2006 was partially due to early termination 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 September 30, 2006 and December 31, 2005. 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 September 30, 2006.

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 $125,000 for the three months ended September 30, 2006, and a gain of $860,000 for the three months ended September 30, 2005. PFMI recognized a gain of $817,000 for the nine months ended September 30, 2006 and a gain of $571,000 for the same period in 2005. Our gain for the nine months in

2006 was a result of a reduction of $1,181,000 in our environmental accrual due to our re-evaluation of the accrual we have recorded for the closure and remediation activities we are performing. Our gain for the nine months of 2005 were the result of the settlement of 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 September 30, 2006 and December 31, 2005. As of September 30, 2006, assets are recorded at their estimated net realizable values, and consist of property and equipment of $600,000. Liabilities as of September 30, 2006, consist of accounts payable and current accrued expenses of $92,000, environmental accruals of $656,000, and a pension payable of $1,434,000. The pension plan withdrawal liability is a result of the termination of the union employees of PFMI. The former 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 $125,000 that we expect to pay over the next year.

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, are 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 originally estimated the cost of this environmental closure and remediation liability to be $2,464,000. During 2006 we re-evaluated our estimated environmental accrual and the required activities to close and remediate the facility, and during the quarter ended June 30, 2006, we began implementing a modified methodology to remediate the facility. As a result of the reevaluation and the change in methodology we reduced the accrual by $1,181,000. We have spent approximately $627,000 for closure costs since September 30, 2004, of which approximately $72,000 has been spent during the first half of 2006, and $439,000 was spent in 2005. We have $656,000 accrued for the closure, as of September 30, 2006, and we anticipate spending $43,000 in the fourth quarter of 2006 with the remainder over the next two to five years.

LIQUIDITY AND CAPITAL RESOURCES OF THE COMPANY

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

At September 30, 2006, we had cash of $2,549,000. The following table reflects the cash flow activities during the first nine months of 2006.

(In thousands)	2006
Cash used by operations	$ (746)
Cash used in investing activities	(4,548)
Cash provided by financing activities	7,749
Increase in cash	$ 2,455

Due to the cash proceeds from the issuance of common stock in July 2006, we are not currently in a net borrowing position. We attempt to move all excess funds 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 remittance lock boxes and is structured to accelerate collection activities and reduce cash balances, as idle cash is moved without delay to the Money Market account or the revolving credit facility if applicable. The cash balance at September 30, 2006, primarily represents payments received during July 2006 for warrant exercises, as well as, minor petty cash and local account balances used for miscellaneous services and supplies.

Operating Activities

Accounts receivable, net of allowances for doubtful accounts, totaled $13,591,000, a decrease of $3,018,000 over the December 31, 2005, balance of $16,609,000. The Nuclear segment experienced a decrease of $3,290,000 as a result of increased collection efforts and improved turnaround of certain government and commercial accounts receivable. The segment's invoicing was also affected by timing issues related to the final sampling and shipment of wastes to end disposal sites that are delayed due to the complexity of the documentation required for invoicing and the approvals to ship from our generators. The Engineering segment and Industrial segment showed minimal change from December 31, 2005 balance.

Unbilled receivables are generated by differences between invoicing timing and the percentage of completion methodology used for revenue recognition purposes. As major processing phases are completed and the costs incurred, we recognize the corresponding percentage of revenue. We experience delays in processing invoices due to the complexity of the documentation that is required for invoicing, as well as the difference between completion of revenue recognition milestones and agreed upon invoicing terms, which results in unbilled receivables. The timing differences occur for several reasons, partially from delays in the final processing of all wastes associated with certain work orders and partially from delays for analytical testing that is required after we have processed waste but prior to our release of waste for disposal. The difference also occurs due to our end disposal sites requirement of pre-approval prior to our shipping waste for disposal and our contract terms with the customer that we dispose of the waste prior to invoicing. These delays usually take several months to complete. As of September 30, 2006, unbilled receivables totaled $17,226,000, an increase of $5,278,000 from the December 31, 2005, balance of $11,948,000. This increase is principally due to a backlog for analytical testing that is required after we have processed the waste but prior to disposal, and the complexity of the current contracts, which requires greater levels of documentation and additional testing for final invoicing.

As of September 30, 2006, total consolidated accounts payable was $4,764,000, a decrease of $1,289,000 from the December 31, 2005, balance of $6,053,000. Accounts payable decreased in conjunction with decreased revenues in the Industrial segment due to the loss of the contract with a major home improvement chain effective November 2005. Additionally, accounts payable decreased as a result of improved profitability.

Accrued Expenses as of September 30, 2006, totaled $11,189,000, a decrease of $477,000 over the December 31, 2005, balance of $11,666,000. Accrued expenses are made up of disposal and processing cost accruals, accrued compensation, interest payable, insurance payable and certain tax accruals. The decrease is primarily due to the reduction in insurance payable reflecting the September payment of our insurance premium. In 2005, we used external financing to pay the premium. This decrease is partially offset by increases to disposal accrual from Nuclear facilities related to the timing of our shipments of processed waste.

The working capital position at September 30, 2006, was $15,097,000, as compared to a working capital position of $5,916,000 at December 31, 2005. The increase in this position of $9,181,000 is principally a result of the cash inflow provided from the issuance of 7,074,790 shares of common stock from the exercise of warrants and options primarily in June and July 2006. Our working capital position continues to experience the negative impact of certain liabilities associated with discontinued operations.

Investing Activities

Our purchases of new capital equipment for the nine-month period ended September 30, 2006, totaled approximately $4,084,000 of which, $94,000 was financed, resulting in $3,990,000 funded out of cash flow. These expenditures were for expansion and improvements to the operations principally within the Nuclear segment. These capital expenditures were funded primarily from the proceeds from the exercise of warrants and stock options as previously discussed. We budgeted capital expenditures of approximately $6,800,000 for fiscal year 2006, which includes an estimated $3,570,000 to complete certain current projects committed at December 31, 2005, as well as other identified capital and permit compliance purchases. Our purchases during the first nine months of 2006 include approximately $1,343,000 of those projects committed at December 31, 2005. 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 initial budget amount. The initiation and timing of projects are also determined by financing alternatives or funds available for such capital projects. We anticipate funding these capital expenditures by a combination of lease financing, internally generated funds, and/or the proceeds received from Warrant exercises.

We have obtained 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 $35 million of financial assurance coverage of which the coverage amount totals $29,211,000 at September 30, 2006, 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 2006, we paid our third 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 September 30, 2006, we have recorded $4,471,000 in our sinking fund on the balance sheet, which includes interest earned of $264,000 on the sinking fund as of September 30, 2006. Interest income for the three and nine months ended September 30, 2006, was $52,000 and $141,000, respectively. On the fourth and subsequent anniversaries of the contract inception, we may elect to terminate this contract. If we so elect, the Insurer will 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.

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.

Financing Activities

On December 22, 2000, we entered into a Revolving Credit, Term Loan and Security Agreement ("Agreement") with PNC Bank, National Association, a national banking association ("PNC") acting as agent ("Agent") for lenders, and as issuing bank, as amended. The Agreement 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 September 30, 2006, the excess availability under our Revolving Credit was $12,154,000 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 1/2%. The loans are subject to a prepayment fee of 1% until March 25, 2006, and 1/2% until March 25, 2007.

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 2006 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 September 30, 2006) and payable in one lump sum at the end of the loan period. On September 30, 2006, the outstanding balance was $3,512,000 including accrued interest of approximately $1,678,000. 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.

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 2006 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 September 30, 2006, the rate was 10%. On September 30, 2006, the outstanding balance was $854,000 including accrued interest of approximately $401,000. The accrued interest is to be paid at the end of the term, and as such, is recorded as a long-term liability, pursuant to the terms of the agreement.

During the nine months ended September 30, 2006, we issued 6,673,290 shares of our Common Stock upon exercise of certain warrants, at exercise prices from $1.44 to $1.75 per share, of which 73,797 were issued on a cashless basis. Additionally, we issued 401,500 shares of our Common Stock upon exercises of employee stock options, at exercise prices from $1.00 to $2.19 per share. Total proceeds received during the nine months for the warrant and option exercises were $11,971,000.

In summary, we have continued to take steps to improve our operations and liquidity, as discussed above. However, we continue to invest our working capital back into our facilities to fund capital additions within both the Nuclear and Industrial segments. We have experienced the positive impact of increased accounts receivable collections and increased availability under our Revolving Credit. Additionally, accounts payable have remained relatively steady and within terms. Offsetting these positives is the continued negative impact of current reserves recorded on discontinued operations. The reserves recorded on discontinued operations could be reduced or paid over a longer period of time than initially anticipated. If we are unable to remain profitable in the foreseeable future, such could have a material adverse effect on our liquidity position.

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CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at September 30, 2006, 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	2006	2007 - 2009	2010 - 2011	After 2011
Long-term debt	$ 8,839	$ 1,595	$ 7,190	$ 54	$ --
Interest on long-term debt (1)	2,079	--	2,079	--	--
Interest on variable rate debt (2)	781	131	650	--	--

Operating leases	3,587	595	2,268	632	92
Finite risk policy (3)	6,022	--	3,011	2,008	1,003
Pension withdrawal liability (4)	1,434	--	476	403	555
Environmental contingencies (5)	3,476	169	1,964	601	742
Purchase obligations (6)	--	--	--	--	--
Total contractual obligations	$ 26,218	$ 2,490	$ 17,638	$ 3,698	$ 2,392

(1) Our IRS Note and PDC Note agreements call for interest to be paid at the end of the term, December 2008.

(2) We have variable interest rates on our Term Loan and Revolving Credit of 1% and 1/2% over the prime rate of interest, respectively, and as such we have made certain assumptions in estimating future interest payments on this variable interest rate debt. We assume an increase in prime rate of 0.25% in each of the years 2006 through 2008. We anticipate full repayment of our Term Loan by May 2008. Our Revolver balance was zero as of September 30, 2006.

(3) Our finite risk insurance policy provides financial assurance guarantees to the states in the event of unforeseen closure of our permitted facilities. See Liquidity and Capital Resources - Investing activities earlier in this Management's Discussion and Analysis for further discussion on our finite risk policy.

(4) The pension withdrawal liability is the estimated liability to us upon termination of our union employees at our discontinued operation, PFMI. See Discontinued Operations earlier in this section for discussion on our discontinued operation.

(5) The environmental contingencies and related assumptions are discussed further in the Environmental Contingencies section of this Management's Discussion and Analysis, and are based on estimated cash flow spending for these liabilities.

(6) We are not a party to any significant long-term service or supply contracts with respect to our processes. We refrain from entering into any long-term purchase commitments in the ordinary course of business.

CRITICAL ACCOUNTING ESTIMATES

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

Revenue Recognition Estimates. We use the percentage of completion methodology for purposes of revenue recognition in our Nuclear Segment. As we accept more complex waste streams in this segment, the treatment of those waste streams becomes more complicated and more time consuming. We continue to enhance our waste tracking capabilities and systems, which has enabled us to better match the revenue earned to the processing phases achieved. The major processing phases are receipt, treatment/processing and shipment/final disposition. Upon receiving mixed waste we recognize a certain percentage (33%) of revenue as we incur costs for transportation, analytical and labor associated with the receipt of mixed wastes. As the waste is processed, shipped and disposed of we recognize the remaining 67% of revenue and the associated costs of transportation and burial. The waste streams in our Industrial segment are much less complicated, and services are generally rendered shortly after receipt, therefore, percentage of completion estimates are not used in our Industrial segment. However, we continue to review and evaluate our revenue recognition estimates and policies on a quarterly basis.

Allowance for Doubtful Accounts. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts, which is a valuation allowance that reflects management's best estimate of un-collectable amounts. All accounts receivable balances after 60 days from the invoice date are regularly reviewed based on current credit worthiness, and that portion, deemed un-collectable, if any, are computed. Specific accounts deemed to be uncollectible are reserved at 100% of their outstanding balance. The remaining balances aged over 60 days have a percentage applied by aging category (5% for balances 61-90 days, 20% for 91-120 days, and 40% over 120 days), based on a historical valuation, that allows us to calculate the total reserve required. This allowance was approximately 0.6%, and 0.7% of revenue and approximately 3.1%, and 3.2% of accounts receivable for 2005, and 2004, respectively.

Intangible Assets. Intangible assets relating to acquired businesses consist primarily of the cost of purchased businesses in excess of the estimated fair value of net assets acquired ("goodwill") and the recognized permit value of the business. We continually reevaluate the reasonableness of the carrying amount of permits and goodwill to determine whether current events and circumstances warrant adjustments to the carrying value. We utilize an independent appraisal firm to test goodwill and permits, separately, for impairment, annually as of October 1. Our annual impairment test as of October 1, 2005, resulted in no impairment of goodwill and permits. The appraisers estimate the fair value of our operating segments using a discounted cash flow valuation approach. This approach is dependent on estimates for future sales, operating income, depreciation and amortization, working capital changes, and capital expenditures, as well as, expected growth rates for cash flows and long-term interest rates, all of which are impacted by economic conditions related to our industry as well as conditions in the U.S. capital markets.

Accrued Closure Costs. Accrued closure costs represent an environmental liability to clean up a facility in the event we cease operations in an existing facility. The accrued closure costs are estimates based on guidelines developed by federal and/or state regulatory authorities under Resource Conservation and Recovery Act ("RCRA"). Such costs are evaluated annually and adjusted for inflationary factors and for approved changes or expansions to the facilities. Increases due to inflationary factors for 2006 and 2005, have been approximately 2.7%, and 2.1%, respectively, and based on the historical information, we do not expect future inflationary changes to differ materially from the last three years. Increases or decreases in accrued closure costs resulting from changes or expansions at the facilities are determined based on specific RCRA guidelines applied to the requested change. This calculation includes certain estimates, such as disposal pricing, external labor, analytical costs and processing costs, which are based on current market conditions. However, except for the Michigan and Pittsburgh facilities, we have no current intention to close any of our facilities.

Accrued Environmental Liabilities. We have five remediation projects currently in progress. The current and long-term accrual amounts for the projects are our best estimates based on proposed or approved processes for clean-up. Circumstances that could affect the outcome include new technologies being developed every day to reduce our overall costs, or increased contamination levels that could arise as we complete remediation which could increase our costs, neither of which we anticipate at this time.

Significant changes in regulations could also adversely or favorably affect our costs to remediate existing sites or potential future sites, which cannot be reasonably quantified. We have also accrued a long-term environmental liability for our PFMD facility acquired in March 2004, which is not a permitted facility, so we are currently under no obligation to clean up the contamination.

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

KNOWN TRENDS AND UNCERTAINTIES

Seasonality. Historically, we have experienced reduced revenues, operating losses and/or decreased operating profits during the first and fourth quarters of our fiscal years due to a seasonal slowdown in operations from poor weather conditions and overall reduced holiday season activities. In the Industrial Segment, our second and third fiscal quarters historically experienced increased revenue and operating profits. In 2006, the Nuclear Segment has worked diligently with the U.S Department of Energy ("DOE") to schedule shipments on a more consistent basis throughout the year. However, as a result of our efforts to schedule shipments on a more consistent basis, we may not experience this seasonality going forward. The maturing process of our Nuclear segment continues to lessen the impact of seasonal fluctuations in all quarters.

Economic Conditions. Economic downturns or recessionary conditions can adversely affect the demand for our services, principally within the Industrial segment. Reductions in industrial production generally follow such economic conditions, resulting in reduced levels of waste being generated and/or sent off for treatment. We feel that recessionary conditions stabilized in 2005 as evidenced by increases in commercial waste revenues, and continue to improve in the first half of 2006.

Significant Customers. While our revenues are principally derived from numerous and varied customers, we have a significant relationship with the federal government and its contractors. During the three and nine months ended September 30, 2006, our Nuclear and Industrial segment performed services relating to waste generated by the federal government, either directly or indirectly as a subcontractor to the federal government, representing approximately $9,536,000 or 44.8%, and $27,932,000 or 42.4% of our consolidated revenues for the respective periods in 2006. Most, if not all, contracts with the federal government or with others as a subcontractor to the federal government provide that the government may terminate or renegotiate the contracts at the government's option at any time.

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

Certain Legal Proceedings. Our subsidiaries, PFD and PFTS are involved in legal proceedings alleging that they had not obtained certain air permits in order to operate its facility in violation of the Clean Air Act and applicable state statutes and regulations. If it is determined that PFD is or was required to operate under a Title V air permit, this determination could result in substantial fines and penalties being assessed against PFD, which could have a material adverse effect on our financial conditions and liquidity. In addition, a determination that either PFD or PFTS is in violation of the applicable Clean Air Act and/or applicable state statutes could have a material adverse effect on the operation of that particular facility.

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The above budgeted amounts for capital expenditures relating to environmental contingencies assumes that neither of our subsidiaries, PFD or PFTS, is required to obtain a Title V air permit in connection with its operations. If it is determined that either PFD or PFTS is required to have a Title V air permit in order to operate that facility, we anticipate that substantial additional capital expenditures will be required in order to bring that facility in compliance with the requirements of a Title V air permit. We do not have reliable estimates of the cost of additional capital expenditures to comply with Title V air permit.

ACQUISITION - LETTER OF INTENT

We have entered into a letter of intent to acquire Nuvotec USA, Inc. ("Nuvotec") and its wholly owned subsidiary, Pacific EcoSolutions, Inc. ("PEcoS"). PEcoS is a hazardous waste, low level radioactive waste and mixed waste (containing both hazardous waste and low level radioactive waste) management company based in Richard, Washington, adjacent to the DOE's Hanford facility. Under the letter of intent, as consideration for the purchase, we would issue $7 million of our shares of common stock, assume certain liabilities of Nuvotec and PEcoS, and based on the amount of debt assumed, pay a certain amount of cash. The acquisition is subject to, among other things, execution of definitive agreements, completion of due diligence and registration of the shares of the Company's common stock to be issued in connection with the transaction. If the transaction is completed, at the closing, Nuvotec's principal asset will be PEcoS. The PEcoS facility is permitted to treat, store, and process hazardous waste, low level radioactive waste and mixed waste, and is located adjacent to the DOE's Hanford site. If the transaction is completed, we intend to fund any consideration consisting of cash payments from our working capital or from borrowings under our Revolving Credit facility.

The Department of Energy'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, but vast 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 until 2030.

The PEcoS facility is located on 45 acres adjacent to the 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.

ENVIRONMENTAL CONTINGENCIES

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

We routinely use third party disposal companies, who ultimately destroy or secure landfill residual materials generated at our facilities or at a client's site. Compared with certain of our competitors, we dispose of significantly less hazardous or industrial by-products from our operations due to rendering material non-hazardous, discharging treated wastewaters to publicly-owned treatment works and/or processing wastes into saleable products. In the past, numerous third party disposal sites have improperly managed wastes and consequently require remedial action; consequently, any party utilizing these sites may be liable for some or all of the remedial costs. Despite our aggressive compliance and auditing procedures for disposal of wastes, we could, in the future, be notified that we are a PRP at a remedial action site, which could have a material adverse effect.

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For 2006, $1,107,000 is budgeted in environmental remediation expenditures to comply with federal, state and local regulations in connection with remediation of certain contaminates at our facilities. Our facilities where the remediation expenditures will be made are the Leased Property in Dayton, Ohio (EPS), a former RCRA storage facility as operated by the former owners of PFD, PFM's facility in Memphis, Tennessee, PFSG's facility in Valdosta, Georgia, PFTS's facility in Tulsa, Oklahoma, PFMD's facility in Baltimore, Maryland, and PFMI's facility in Detroit, Michigan. While no assurances can be made that we will be able to do so, we expect to fund the expenses to remediate the sites from funds generated internally.

At September 30, 2006, we had total accrued environmental remediation liabilities of $3,476,000, of which $1,447,000 is recorded as a current liability, a decrease of $919,000 from the December 31, 2005, balance of $4,395,000. During the quarter ended September 30, 2006, we decreased environmental liabilities by $192,000 for payments on the remediation projects. The September 30, 2006, current and long-term accrued environmental balance is as follows:

	Current Accrual	Long-term Accrual	Total
PFD	$ 280,000	$ 464,000	$ 744,000
PFM	451,000	368,000	819,000
PFSG	167,000	662,000	829,000
PFTS	7,000	30,000	37,000
PFMD	--	391,000	391,000
	905,000	1,915,000	2,820,000
PFMI	542,000	114,000	656,000
	$ 1,447,000	$ 2,029,000	$ 3,476,000

RECENTLY ADOPTED ACCOUNTING STANDARDS

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 will be effective for fiscal years beginning after December 15, 2006 and the provisions of FIN 48 will be applied to all tax positions upon initial adoption of the Interpretation. The cumulative effect of applying the provisions of this Interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. We are currently evaluating the potential impact of FIN 48 on our financial statements

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 September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plan - an amendment of FASB Statement No. 87, 88, 106 and 132(R)." SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status in the year in which the changes occur. SFAS 158 is effective for fiscal years ending after December 15, 2006. We believe that the adoption of SFAS 158 will not have a material impact on our financial position, results of operations or cash flows.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

PART I, ITEM 3

We are exposed to certain market risks arising from adverse changes in interest rates, primarily due to the potential effect of such changes on our variable rate loan arrangements with PNC. As of September 30, 2006, we have no interest swap agreement outstanding, and we were exposed to variable interest rates under our loan arrangements with PNC. The interest rates payable to PNC are based on a spread over prime rate. If our floating rates of interest experienced an upward increase of 1%, our debt service would have increased by approximately $67,000 for the nine months ended September 30, 2006.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONTROLS AND PROCEDURES

PART I, ITEM 4

(a) Evaluation of disclosure controls, and procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission (the "SEC") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management. Based on their most recent evaluation, which was completed as of the end of the period covered by this Quarterly Report on Form 10-Q, we have evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended) and believe that such are effective, as reported in our Annual Report on Form 10-K for the year ended December 31, 2005, (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)).

(b) Changes in internal control over financial reporting.

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are likely to materially affect, our internal control over financial reporting.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no additional material legal proceedings pending against us and/or our subsidiaries not previously reported by us in Item 3 of our Form 10-K for the year ended December 31, 2005, and Item 1, Part II, of our Form 10-Q for the periods ended March 31, and June 30, 2006.which are incorporated herein by reference.

Item1A. RISK FACTORS

There have been no material changes from risk factors previously disclosed in our Form 10-K for year ended December 31, 2005.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(c) During the quarter ended September 30, 2006, we sold equity securities, as such term is defined under 12b-2 of the Exchange Act of 1934, as amended, that were not registered under the Securities Act of 1933, as amended, other than as previously reported in a Form 8-K, as follows:

On July 10, Paul Cronson exercised various warrants to purchase an aggregate of 23,622 shares of our Common Stock, of which 7,599 were issued at a total exercise price of approximately $13,300, or $1.75 per share, and the remaining 16,023 shares were issued utilizing a cashless exercise provision, in accordance with the terms of the warrants.

On July 7, Herbert Strauss exercised warrants to purchase an aggregate of 102,300 shares of Common Stock, of which 42,300 were issued at a total exercise price of approximately $74,000 or $1.75 per share, and the remaining 60,000 were issued in accordance with the terms of the warrants at a total exercise price of $105,000. The funds utilized by Mr. Strauss for the payment of the exercise price were loaned by the Company to Mr. Strauss on an arms length basis.

On July 10, Joseph LaMotta exercised warrants to purchase an aggregate of 28,571 shares of Common Stock, at a total exercise price of approximately $50,000 or $1.75 per share, in accordance with the term of the warrants.

On July 7, Harvey Gelfenbein exercised warrants to purchase an aggregate of 28,571 shares of Common Stock, at a total exercise price of approximately $50,000 or $1.75 per share, in accordance with the term of the warrants.

On July 5, Jay Langner exercised warrants to purchase an aggregate of 28,571 shares of Common Stock, at a total exercise price of approximately $50,000 or $1.75 per share, in accordance with the term of the warrants.

On July 10, Ralph Richart exercised warrants to purchase an aggregate of 225,000 shares of Common Stock, at a total exercise price of approximately $394,000 or $1.75 per share, in accordance with the term of the warrants.

On July 7, Craig Eckenthal exercised warrants to purchase an aggregate of 57,143 shares of Common Stock, at a total exercise price of approximately $100,000 or $1.75 per share, in accordance with the term of the warrants.

On July 12, Yariv Sapir exercised warrants to purchase an aggregate of

85,714 shares of Common Stock, at a total exercise price of approximately $150,000 or $1.75 per share, in accordance with the term of the warrants.

Only July 7, Pamela Equities Corporation exercised warrants to purchase an aggregate of 42,857 shares of Common Stock, at a total exercise price of approximately $75,000 or $1.75 per share, in accordance with the term of the warrants.

On July 5, 2006, Edward Rosenthal exercised warrants to purchase an aggregate of 28,571 shares of Common Stock, at a total exercise price of approximately 50,000 or $1.75 per share, in accordance with the term of the warrants.

On July 7, Gerald Cramer exercised warrants to purchase an aggregate of 85,715 shares of Common Stock, at a total exercise price of approximately $150,000 or $1.75 per share, in accordance with the term of the warrants.

On July 7, CICI 1999 Qualified Annuity Trust exercised warrants to purchase an aggregate of 85,715 shares of Common Stock, at a total exercise price of approximately $150,000 or $1.75 per share, in accordance with the term of the warrants.

On July 7, Jay Whitehall Properties, LLC exercised warrants to purchase an aggregate of 42,857 shares of Common Stock, at a total exercise price of approximately $75,000 or $1.75 per share, in accordance with the term of the warrants.

On July 14, CRM 1999 Enterprise Fund exercised warrants to purchase an aggregate of 200,000 shares of Common Stock, at a total exercise price of approximately $350,000 or $1.75 per share, in accordance with the term of the warrants.

On July 20, Kuekenhof Equity Fund, L.P. exercised warrants to purchase an aggregate of 60,000 shares of Common Stock, at a total exercise price of approximately $105,000 or $1.75 per share, in accordance with the term of the warrants.

On July 20, Kuekenhof Partners L.P. exercised warrants to purchase an aggregate of 40,000 shares of Common Stock, at a total exercise price of approximately $70,000 or $1.75 per share, in accordance with the term of the warrants.

On July 24, AC Israel Enterprises Inc. exercised warrants to purchase an aggregate of 285,715 shares of Common Stock, at a total exercise price of approximately $500,000 or $1.75 per share, in accordance with the term of the warrants.

On July 21, Michael Kollender exercised warrants to purchase an aggregate of 6,636 shares of Common Stock, at a total exercise price of approximately $11,613 or $1.75 per share, in accordance with the term of the warrants.

On July 21, Jeffrey Sherry exercised warrants to purchase an aggregate of 936 shares of Common Stock, at a total exercise price of approximately $1,640 or $1.75 per share, in accordance with the term of the warrants.

On July 26, Robert Goodwin exercised warrants to purchase an aggregate of 7,601 shares of Common Stock, at a total exercise price of approximately $13,302 or $1.75 per share, in accordance with the term of the warrants.

On July 20, The Danny Ellis Living Trust exercised warrants to purchase an aggregate of 250,000 shares of Common Stock, at a total exercise price of approximately $437,500 or $1.75 per share, in accordance with the term of the warrants.

On July 27, Bruce Wrobel exercised warrants to purchase an aggregate of 150,000 shares of Common Stock, at a total exercise price of approximately $262,500 or $1.75 per share, in accordance with the term of the warrants.

On July 26, Meera Murdeshwar exercised warrants to purchase an aggregate of 8,037 shares of Common Stock, with 1,200 shares @ $1.75 per share and 6,837 @ 1.44 per share, totaling exercise price of approximately $11,950, in accordance with the term of the warrants.

On July 27, Joseph Paradis exercised warrants to purchase an aggregate of 143,000 shares of Common Stock, at a total exercise price of approximately $250,250 or $1.75 per share, in accordance with the term of the warrants.

On July 21, David Avital exercised warrants to purchase an aggregate of 143,000 shares of Common Stock, at a total exercise price of approximately $250,250 or $1.75 per share, in accordance with the term of the warrants.

We used the proceeds from the exercise of the above warrants to reduce its debt and for general working capital. All of the shares of Common Stock described above have been registered for resale by the holders of such Common Stock under a Form S-3 Registration Statement, No. 333-70676.

The issuance of the above securities by the Company were deemed to be exempt from registration under the Act in reliance upon section 4 (2) of the Securities Act of 1933, as amended (the "Act"), or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering. Recipients of the securities in each such transaction represented their intentions to acquire such securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the instruments issued in such transaction.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's annual meeting of stockholders ("Annual Meeting") was held on July 27, 2006. At the Annual Meeting, the following matters were voted on and approved by the stockholders.

1. The election of seven directors to serve until the next annual meeting of stockholders or until their respective successors are duly elected and qualified.

2. Ratification of the appointment of BDO Seidman, LLP as the independent auditors of the Company for fiscal 2006.

The Directors elected at the Annual Meeting and the votes cast for and against or withheld authority for each director are as follows:

DIRECTORS	FOR	AGAINST OR WITHHOLD AUTHORITY
Dr. Louis F. Centofanti	31,804,716	1,164,678
Jon Colin	31,962,137	1,007,257
Jack Lahav	31,946,837	1,022,557
Joe R. Reeder	30,078,402	2,890,992
Larry Shelton	32,087,435	881,959
Dr. Charles E. Young	30,306,376	2,663,018
Mark A. Zwecker	31,945,037	1,024,357

Also, at the Annual Meeting the stockholders ratified the appointment of BDO Seidman, LLP as the independent auditors of the Company for fiscal 2006 The votes for, against, abstentions and broker non-votes are as follows:

	FOR	AGAINST OR WITHHOLD AUTHORITY	ABSTENTIONS AND BROKER NON-VOTES
Ratification of the Appointment of BDO Seidman, LLP as the Independent Auditors	32,939,998	14,198	15,198

Item 6. EXHIBITS

(a) EXHIBITS

31.1 Certification by Dr. Louis F. Centofanti, Chief Executive Officer of the Company pursuant to Rule 13a-14(a) or 15d-14(a).

31.2 Certification by Steven Baughman, Vice President and Chief Financial Officer of the Company pursuant to Rule 13a-14(a) or 15d-14(a).

32.1 Certification by Dr. Louis F. Centofanti, Chief Executive Officer of the Company furnished pursuant to 18 U.S.C. Section 1350.

32.2 Certification by Steven Baughman, Vice President and Chief Financial Officer of the Company furnished pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

PERMA-FIX ENVIRONMENTAL SERVICES

Date: November 9, 2006

By: /s/ Dr. Louis F. Centofanti

Dr. Louis F. Centofanti
Chairman of the Board
Chief Executive Officer

Date: November 9, 2006

By: /s/ Steven Baughman

Steven Baughman
Vice President and
Chief Financial Officer