PERMA FIX ENVIRONMENTAL SERVICES INC
Form 10-K/A
April 21, 2008

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

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2007

or

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

For the transition period from _____ to _____

Commission File No. 1-11596

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

Delaware	**58-1954497**
State or other jurisdiction of incorporation or organization	*(IRS Employer Identification Number)*

8302 Dunwoody Place, #250, Atlanta, GA	**30350**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Act) Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the Registrant's voting and non-voting common equity held by nonaffiliates of the Registrant computed by reference to the closing sale price of such stock as reported by NASDAQ as of the last business day of the most recently completed second fiscal quarter (June 30, 2007), was approximately $152,855,000. For the purposes of this calculation, all executive officers and directors of the Registrant (as indicated in Item 12) are deemed to be affiliates. Such determination should not be deemed an admission that such directors or officers, are, in fact, affiliates of the Registrant. The Company's Common Stock is listed on the NASDAQ Capital Markets.

As of March 10, 2008, there were 53,704,516 shares of the registrant's Common Stock, $.001 par value, outstanding.

Documents incorporated by reference: none

Explanatory Note

This Amendment ("Form 10-K/A – Amendment No.1") is being filed to amend our Form 10-K for the year ended December 31, 2007 which was originally filed on April 1, 2008.

We are filing this Form 10-K/A – Amendment No.1 to amend Part I, Item 1A, Risk Factors; Part II, Item 6, Selected Financial Data; Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; Special Note Regarding Forward-Looking Statements contained in Part II; Item 8, Financial Statements and Supplementary Data; and Item 9A, Controls and Procedures.

As disclosed in our Form 10-K filed on April 1, 2008, our fixed charge coverage ratio fell below the minimum requirement pursuant to our PNC loan covenant as of December 31, 2007. Although we obtained a waiver from our lender for this non-compliance as of December 31, 2007, we were not able to demonstrate that we would be able to comply with the fixed charge coverage ratio in our loan agreement as of the end of the first and second quarters of 2008. As a result, we were required under generally accepted accounting principles to reclassify approximately $11.4 million of our indebtedness to certain of our lenders from long-term to current as of December 31, 2007. As a result of our inability to demonstrate that we would be able to comply with the fixed charge coverage ratio as of the end of the first and second quarters of 2008 and our working deficit of approximately $17.2 million, our independent registered public accounting firm included an explanatory paragraph addressing the Company's ability to continue as a going concern, as disclosed in our Form 10-K, filed with the Securities and Exchange Commission on April 1, 2008. On April 4, 2008 however, our lender further revised our loan covenant which has now enabled us to demonstrate, based on our projections, the likelihood of us meeting our minimum fixed charge coverage ratio in 2008. Consequently, our independent registered public accounting firm amended its report as of December 31, 2007 to exclude the explanatory paragraph on the Company's ability to continue as a going concern.

For the convenience of the reader, this Form 10-K/A – Amendment No. 1, sets forth the original Form 10-K in its entirely, as filed on April 1, 2008, as amended by this 10-K/A – Amendment No. 1. However, this Form 10-K/A – Amendment No. 1 amends only the Parts and Items as noted above solely as a result of the April 4th, 2008 revision to our loan covenants and modification of our independent registered public accounting firm's report. In addition, exhibit 4.15 and exhibit 23.1 as filed originally in our Form 10-K on April 1, 2008, have been amended by this Form 10K/A - Amendment No.1. All other exhibits as filed in our Form 10-K on April 1, 2008 are hereby incorporated by reference as to such.

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

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PART I

ITEM 1. BUSINESS

Company Overview and Principal Products and Services

Perma-Fix Environmental Services, Inc. (the Company, which may be referred to as we, us, or our), an environmental and technology know-how company, is a Delaware corporation organized in 1990, and is engaged through its subsidiaries, in:

- Nuclear Waste Management Services ("Nuclear Segment"), which includes:
  - Treatment, storage, processing and disposal of mixed waste (which is waste that contains both low-level radioactive and hazardous waste) including on and off-site waste remediation and processing;
  - Nuclear, low-level radioactive, and mixed waste treatment, processing and disposal; and
  - Research and development of innovative ways to process low-level radioactive and mixed waste.
- Consulting Engineering Services ("Engineering Segment"), which includes:
  - Consulting services regarding broad-scope environmental issues, including environmental management programs, regulatory permitting, compliance and auditing, landfill design, field testing and characterization.

On May 18, 2007, our Board of Directors authorized the divestiture of our Industrial Segment. Our Industrial Segment provides treatment, storage, processing, and disposal of hazardous and non-hazardous waste, wastewater management services, and environmental services, which includes emergency response, vacuum services, marine environmental and other remediation services. The decision to sell our Industrial Segment is based on our belief that our Nuclear Segment represents a sustainable long-term growth driver of our business. During 2007, we have entered into several letters of intent to sell various portions of our Industrial Segment. All of the letters of intent have expired or terminated without being completed, except: we completed, on January 8, 2008, the sale of substantially all of the assets of Perma-Fix Maryland, Inc. ("PFMD") for $3,825,000 in cash, subject to a working capital adjustment during 2008, and assumption by the buyer of certain liabilities of PFMD, and during March 2008, we completed the sale of substantially all of the assets of Perma-Fix of Dayton, Inc. ("PFD") for approximately $2,143,000 in cash, subject to certain working capital adjustments after the closing, plus assumption by the buyer of certain of PFD's liabilities and obligations, (including, without limitation, certain obligations under the Settlement Agreement entered into by PFD in connection with the settlement of plaintiff's claims under the Fisher Lawsuit, as discussed and defined in "Legal Proceedings", and approximately $562,000 in PFD's obligations for and relating to supplemental environmental projects that PFD is obligated to perform under the Consent Decree entered into with the federal government in settlement of the Government's Lawsuit as discussed and defined in "Legal Proceedings") in connection with the Fisher Lawsuit. We are negotiating the sale of Perma-Fix South Georgia, Inc. ("PFSG"). We anticipate that the sale of PFSG will be completed by end of May 2008. The terms of the sale of PFSG are subject to being finalized. We are attempting to sell the other companies and/or operations within our Industrial Segment, but as of the date of this report, we have not entered into any agreements regarding these other companies or operations within our Industrial Segment.

At May 25, 2007, the Industrial Segment met the held for sale criteria under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and therefore, certain assets and liabilities of the Industrial Segment are reclassified as discontinued operations in the Consolidated Balance Sheets, and we have ceased depreciation of the Industrial Segment's long-lived assets classified as held for sale. The results of operations and cash flows of the Industrial Segment have been reported in the Consolidated Financial Statements as discontinued operations for all periods presented.

We believe that the divestiture of certain facilities within our Industrial Segment has not occurred within the anticipated time period due to the current state of our economy which has impacted potential buyers' ability to obtain financing. In addition, the original letter of intent entered between us and a potential buyer included the majority of the companies within our Industrial Segment. This sale did not materialize, leading us to pursue the potential sale of

each company individually. Although this process has taken more time than anticipated for numerous reasons, we continue to market the facilities within our Industrial Segment for eventual sale.

Our present objective is to focus on the efficient operation of our existing facilities within our Nuclear and Engineering Segments, evaluate strategic acquisitions within the Nuclear Segments, and to continue the research and development of innovative technologies for the treatment of nuclear waste, mixed waste and industrial waste. On June 13, 2007, we completed the acquisition of Nuvotec USA, Inc. (k/n/a Perma-Fix of Northwest, Inc. – "PFNW") and its wholly owned subsidiary, Pacific EcoSolutions, Inc (PEcoS) (k/n/a Perma-Fix of Northwest Richland, Inc. – "PFNWR") for $17.3 million. PFNWR is a hazardous waste, low level radioactive waste and mixed waste (containing both hazardous waste and low level radioactive waste) management company based in Richland, Washington, adjacent to the Department of Energy's ("DOE") Hanford facility. This acquisition provides us with a number of strategic benefits. Foremost, this acquisition secured PFNWR's radioactive and hazardous waste permits and licenses, which further solidified our position within the mixed waste industry. Additionally, the PFNWR facility is located adjacent to the Hanford site, which represents one of the largest environmental clean-up projects in the nation and is expected to be one of the most expansive of DOE's nuclear weapons' facilities to remediate. In addition, the acquisition of PFNWR facility introduced our west coast presence and increases our treatment capacity for radioactive only waste. For 2007, PFNWR generated $8,439,000 in revenue, which represents 15.6% of our consolidated revenue from continuing operations.

We service research institutions, commercial companies, public utilities and governmental agencies nationwide. The distribution channels for our services are through direct sales to customers or via intermediaries.

We were incorporated in December of 1990. Our executive offices are located at 8302 Dunwoody Place, Suite 250, Atlanta, Georgia 30350.

Website access to Company's reports

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

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

Segment Information and Foreign and Domestic Operations and Export Sales

During 2007, we were engaged in two 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 president and chief operating officer to make decisions about resources to be allocated and assess its performance; and
· for which discrete financial information is available.

We therefore define our operating segments as each business line that we operate. These segments, however, exclude the corporate and operation headquarters, which do not generate revenue and our Industrial Segment, our discontinued operations, as discussed above.

Most of our activities are conducted nationwide. We do not own any foreign operations and we had no export sales during 2007.

Operating Segments
We have two operating segments, which represent each business line that we operate. The Nuclear Segment, which operates four facilities (including our newly acquired PFNWR facility, as mentioned below), and the Consulting Engineering Services Segment as described below:

NUCLEAR WASTE MANAGEMENT SERVICES, which includes nuclear, low-level radioactive, mixed (waste containing both hazardous and low-level radioactive constituents) hazardous and non-hazardous waste treatment, processing and disposal services through four uniquely licensed (Nuclear Regulatory Commission or state equivalent) and permitted (Environmental Protection Agency or state equivalent) treatment and storage facilities. The presence of nuclear and low-level radioactive constituents within the waste streams processed by this segment creates different and unique operational, processing and permitting/licensing requirements, as discussed below.

Perma-Fix of Florida, Inc. ("PFF"), located in Gainesville, Florida, specializes in the storage, processing, and treatment of certain types of wastes containing both low-level radioactive and hazardous wastes, which are known in the industry as mixed waste ("mixed waste"). PFF is one of the first facilities nationally to operate under both a hazardous waste permit and a radioactive materials license, from which it has built its reputation based on its ability to treat difficult waste streams using its unique processing technologies and its ability to provide related research and development services. PFF has substantially increased the amount and type of mixed waste and low level radioactive waste that it can store and treat. Its mixed waste services have included the treatment and processing of waste Liquid Scintillation Vials (LSVs) since the mid 1980's. LSVs are used for the counting of certain radionuclides. The LSVs are generated primarily by institutional research agencies and biotechnical companies. The business has expanded into receiving and handling other types of mixed waste, primarily from the nuclear utilities, commercial generators, prominent pharmaceutical companies, the Department of Energy ("DOE") and other government facilities as well as select mixed waste field remediation projects. PFF also continues to receive and process certain hazardous and non-hazardous waste streams as a compliment to its expanded nuclear and mixed waste processing activities.

Diversified Scientific Services, Inc. ("DSSI") located in Kingston, Tennessee, specializes in the storage, processing, and destruction of certain types of mixed waste. DSSI, like PFF, is one of only a few facilities nationally to operate under both a hazardous waste permit and a radioactive materials license. Additionally, DSSI is the only commercial facility of its kind in the U.S. that is currently operating and licensed to destroy liquid organic mixed waste, through such a treatment unit. DSSI provides mixed waste disposal services for nuclear utilities, commercial generators, prominent pharmaceutical companies, and agencies and contractors of the U.S. government, including the DOE and the Department of Defense ("DOD"). We are currently working toward permitting the facility for Polychlorinated Biphenyls (PCB) destruction.

East Tennessee Materials & Energy Corporation ("M&EC"), located in Oak Ridge, Tennessee, is another mixed waste facility. M&EC also operates under both a hazardous waste permit and radioactive materials license. M&EC represents the largest of our four mixed waste facilities, covering 150,000 sq. ft., and is located in leased facilities at the DOE East Tennessee Technology Park. In addition to providing mixed waste treatment services to commercial generators, nuclear utilities and various agencies and contractors of the U.S. Government, including the DOD, M&EC was awarded three contracts to treat DOE mixed waste by Bechtel-Jacobs Company, LLC, DOE's Environmental Program Manager, which covers the treatment of mixed waste throughout all DOE facilities. Two of these contracts have been extended through September 2009. In 2007, M&EC completed its facility expansion ("SouthBay") to treat DOE special process wastes from the DOE Portsmouth Gaseous Diffusion Plant located in Piketon, Ohio under the subcontract awarded by LATA/Parallax Portsmouth LLC to our Nuclear Segment in 2006. LATA/Parallax performs environmental remediation services, including groundwater cleanup and waste management activities, under contract to DOE at the Portsmouth site.

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PFNWR, which we acquired in June 2007, is located in Richland, Washington. PFNWR is a permitted hazardous, low level radioactive and mixed waste treatment, storage and disposal facility located at the Hanford U.S. DOE site in the eastern part of the state of Washington. The DOE's Hanford site is subject to one of the largest, most complex, and most costly DOE clean up plans. The strategic addition of PFNWR facility provides the Company with immediate access to treat some of the most complex nuclear waste streams in the nation. PFNWR predominately provides waste treatment services to contractors of government agencies, in addition to commercial generators.

For 2007, the Nuclear business (including $8,439,000 in revenue of our PFNWR facility) accounted for $51,704,000 (or 95.6%) of total revenue from continuing operations, as compared to $49,423,000 (or 93.6%) of total revenue for 2006. See " – Dependence Upon a Single or Few Customers" and "Financial Statements and Supplementary Data" for further details and a discussion as to our Nuclear Segment's contracts with the federal government or with others as a subcontractor to the federal government.

CONSULTING ENGINEERING SERVICES, which provides environmental engineering and regulatory compliance consulting services through one subsidiary, as discussed below.

Schreiber, Yonley & Associates ("SYA") is located in Ellisville, Missouri. SYA specializes in environmental management programs, permitting, compliance and auditing, in addition to landfill design, field investigation, testing and monitoring. SYA clients are primarily industrial, including many within the cement manufacturing industry. SYA also provides the necessary support, compliance and training as required by our operating facilities.

During 2007, environmental engineering and regulatory compliance consulting services accounted for approximately $2,398,000 (or 4.4%) of our total revenue from continuing operations, as compared to approximately $3,358,000 (or 6.4%) in 2006. See "Financial Statements and Supplementary Data" for further details.

Discontinued Operations

As stated above, our Industrial Segment, which provides management of hazardous waste, non-hazardous waste, and waste water, are classified as discontinued operations. At the beginning of 2007, the Industrial Segment consisted of six (6) operating companies, as well as two non-operational companies. As stated above, during the first quarter of 2008, we sold PFMD and PFD and are attempting to sell the remaining companies/operations within the Industrial Segment.

Our discontinued operations generated $30,407,000, $35,148,000 and $41,489,000 of revenue in 2007, 2006, and 2005, respectively.

Importance of Patents, Trademarks and Proprietary Technology

We do not believe we are dependent on any particular trademark in order to operate our business or any significant segment thereof. We have received registration to the year 2010 and 2012 for the service marks "Perma-Fix" and "Perma-Fix Environmental Services," respectively, by the U.S. Patent and Trademark Office.

We are active in the research and development ("R&D") of technologies that allow us to address certain of our customers' environmental needs. To date, our R&D efforts have resulted in the granting of six active patents and the filing of several pending patent applications. Our flagship technology, the Perma-Fix Process, is a proprietary, cost effective, treatment technology that converts hazardous waste into non-hazardous material. Subsequently, we developed the Perma-Fix II process, a multi-step treatment process that converts hazardous organic components into non-hazardous material. The Perma-Fix II process is particularly important to our mixed waste strategy. We believe that at least one third of DOE mixed waste contains organic components.

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

Permits and Licenses

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

Operating Segments:

PFF operates its hazardous, mixed and low-level radioactive waste activities under a RCRA Part B permit and a radioactive materials license issued by the State of Florida.

DSSI operates hazardous, mixed and low-level radioactive waste activities under a RCRA Part B permit and a radioactive materials license issued by the State of Tennessee. We are working toward permitting our DSSI facility for PCB destruction. The permit is expected by mid year 2008.

M&EC operates hazardous and low-level radioactive waste activities under a RCRA Part B permit and a radioactive materials license issued by the State of Tennessee.

PFNWR operates its hazardous, mixed and low-level radioactive waste activities under a RCRA Part B permit and a radioactive materials license issued by the State of Washington.

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

Perma-Fix of South Georgia, Inc (“PFSG”)

Our internal consulting firm, SYA, concluded that a certain air permit at PFSG had expired. PFSG is part of the Industrial Segment, which has been classified as a discontinued operation. An inquiry to the Georgia Environmental Protection Division (“GaEPD”) resulted in their determination that the permit was still valid. However, since changes to the operations of the facility had occurred since approval of the air permit, the Company submitted a revised permit application in January 2008. The review of the submitted revised permit application with GaEPD indicated that the changes were deemed relatively minor, as determined by GaEPD. GaEPD has subsequently notified PFSG that the application would be given a low priority for review.

Seasonality
Historically, we have experienced reduced activities and related billable hours throughout the November and December holiday periods within our Engineering Segment. The DOE and DOD represent major customers for the Nuclear Segment. In conjunction with the federal government's September 30 fiscal year-end, the Nuclear Segment historically experienced seasonably large shipments during the third quarter, leading up to this government fiscal year-end, as a result of incentives and other quota requirements. Correspondingly for a period of approximately three months following September 30, the Nuclear Segment is generally seasonably slow, as the government budgets are still being finalized, planning for the new year is occurring and we enter the holiday season. Since 2005, due to our efforts to work with the various government customers to smooth these shipments more evenly throughout the year, we have seen less fluctuation in the quarters. In 2007, the US Congress did not pass the fiscal year 2007 budget which resulted in no increase of funding to DOE from the previous years 2006 budget allocation. This resulted in a decrease of the start up of new projects; however, we continued to see shipments at expected levels as compared to 2006. The 2008 budget was signed by the President in December 2007 which provides funding for the start of new projects in 2008. We do not anticipate big fluctuations within 2008 even with the passing of the 2008 budget; however, we cannot provide assurance this will be the case.

Backlog
The Nuclear Segment of our Company maintains a backlog of stored waste, which represents waste that has not been processed. The backlog is principally a result of the timing and complexity of the waste being brought into the facilities and the selling price per container. As of December 31, 2007, our Nuclear Segment had a backlog of approximately $14.6 million, which includes $4.7 million for our newly acquired PFNWR facility, as compared to approximately $12.5 million, as of December 31, 2006. Additionally the time it takes to process mixed waste from the time it arrives may increase due to the types and complexities of the waste we are currently receiving. We typically process our backlog during periods of low waste receipts, which historically has been in the first or fourth quarter.

Dependence Upon a Single or Few Customers
Our Nuclear Segment is not dependent upon a single customer, or a few customers; however, our Nuclear Segment has a significant relationship with the federal government, and continues to enter into, contracts with (directly or indirectly as a subcontractor) the federal government. The contracts that we are a party to with the federal government or with others as a subcontractor to the federal government generally provide that the government may terminate on 30 days notice or renegotiate the contracts, at the government's election. Our inability to continue under existing contracts that we have with the federal government (directly or indirectly as a subcontractor) could have a material adverse effect on our operations and financial condition.

We performed services relating to waste generated by the federal government, either directly or indirectly as a subcontractor to the federal government, which represented approximately $30,000,000 (includes approximately $5,568,000 from PFNWR facility) or 55.5% of our total revenue from continuing operations during 2007, as compared to $33,226,000 or 63.0% of our total revenue from continuing operations during 2006, and $29,555,000 or 59.0% of our total revenue from continuing operations during 2005.

Included in the amounts discussed above, are revenues from LATA/Parallax Portsmouth LLC ("LATA/Parallax"). LATA/Parallax is a manager for environmental programs for various agencies of the federal government. Our revenues from LATA/Parallax, as a subcontractor to perform remediation services at certain federal sites, contributed $8,784,000 or 16.2% and $10,341,000 or 19.6% of our revenues from continuing operations for 2007 and 2006, respectively. Our contract with LATA/Parallax is expected to be completed in September 2008. As with most contracts relating to the federal government, LATA/Parallax can terminate the contract with us at any time for convenience, which could have a material adverse effect on our operations.

Our Nuclear Segment has had a significant relationship with Bechtel Jacobs Company, LLC. (“Bechtel Jacobs”). Bechtel Jacobs is the government-appointed manager of the environmental program for Oak Ridge, Tennessee to perform certain treatment and disposal services relating to Oak Ridge, and our Nuclear Segment has been awarded three subcontracts by Bechtel Jacobs to perform certain environmental services at DOE’s Oak Ridge, Tennessee sites. Two of our Oak Ridge contracts have been amended for pricing modifications in 2007 and have been extended through September 2009. Our revenues from Bechtel Jacobs have continued to decrease as the DOE site in Oak Ridge continues to complete certain of its clean-up milestones and moves toward completing its closure efforts. As with most such blanket processing agreements, the Oak Ridge contracts contain no minimum or maximum processing guarantees, and may be terminated at any time pursuant to federal contracting terms and conditions. The Nuclear Segment continues to pursue other similar or related services for environmental programs at other DOE and government sites. Consolidated revenues from Bechtel Jacobs for 2007, total $1,812,000 or 3.3% of total revenues from continuing operations, as compared to $6,705,000 or 12.6% for the year ended December 31, 2006 and $14,940,000 or 29.8% for the year ended December 31, 2005.

Our Nuclear Segment has provided treatment of mixed low-level waste, as a subcontractor, for Fluor Hanford since 2004. However, with the acquisition of our PFNWR facility, we now have a significant relationship with Fluor Hanford, a prime contractor to the DOE since 1996. Fluor Hanford manages several major activities at the DOE’s Hanford Site, including dismantling former nuclear processing facilities, monitoring and cleaning up the site’s contaminated groundwater, and retrieving and processing transuranic waste for off-site shipment. The Hanford site is one of DOE’s largest nuclear weapon environmental remediation projects. Our PFNWR facility is located adjacent to the Hanford site and provides treatment of low level radioactive and mixed wastes. We currently have three contracts with Fluor Hanford at our PFNWR facility, with the initial contract dating back to 2003. These three contracts have since been extended to September 2008. As the DOE is currently in the process of re-bidding its contracts with current prime contractors, our future revenue beyond September 2008 from Fluor Hanford is uncertain at this time. Revenues from Fluor Hanford totaled $6,985,000 (approximately $3,100,000 from PFNWR) or 12.9%, $1,229,000 or 2.3%, and $1,732,000 or 3.5% of consolidated revenue from continuing operations for the year ended December 31, 2007, 2006, and 2005, respectively. As with most contracts relating to the federal government, Fluor Hanford can terminate the contracts with us at any time for convenience, which could have a material adverse effect on our operations. See “Management's Discussion and Analysis of Financial Conditions and Results of Operations” — “Significant Customers” for discussion on our relationship with Bechtel Jacobs, LATA/Parallax, Fluor Hanford, and our government contract or subcontracts involving the federal government.

Competitive Conditions

The Nuclear Segment has few competitors and in some niche area does not currently experience significant competitive pressures. This segment’s largest competitor is EnergySolutions, which provides treatment and disposal at its Clive, Utah disposal facility and presents the largest challenge in the market. At present, EnergySolutions’ Clive, Utah facility is one of the few radioactive disposal sites in the country in which our Nuclear Segment can dispose of its nuclear waste. If EnergySolutions should refuse to accept our waste or cease operations at its Clive, Utah facility, such would have a material adverse effect on us. Our Nuclear Segment solicits business on a nationwide basis.

The permitting and licensing requirements, and the cost to obtain such permits, are barriers to the entry of hazardous waste TSD facilities and radioactive and mixed waste activities as presently operated by our subsidiaries. We believe that there are no formidable barriers to entry into certain of the on-site treatment businesses, and certain of the non-hazardous waste operations, which do not require such permits. If the permit requirements for hazardous waste storage, treatment, and disposal activities and/or the licensing requirements for the handling of low level radioactive matters are eliminated or if such licenses or permits were made less rigorous to obtain, such would allow companies to enter into these markets and provide greater competition.

Environmental engineering and consulting services provided by us through SYA involve competition with larger engineering and consulting firms. We believe that we are able to compete with these firms based on our established reputation in these market areas and our expertise in several specific elements of environmental engineering and consulting such as environmental applications in the cement industry.

Capital Spending, Certain Environmental Expenditures and Potential Environmental Liabilities

Capital Spending

During 2007, our purchases of capital equipment totaled approximately $3,988,000 of which $2,982,000 and $1,006,000 was for our continuing and discontinued operations, respectively. Of the total capital spending, $258,000 and $356,000 was financed for our continuing and discontinued operations, respectively, resulting in total net purchases of $3,374,000 funded out of cash flow. These expenditures were for expansion and improvements to the operations principally within the Nuclear and Industrial Segments. These capital expenditures were funded by the cash provided by operations. We have budgeted approximately $3.1 million for 2008 capital expenditures for our operating segments to expand our operations into new markets, reduce the cost of waste processing and handling, expand the range of wastes that can be accepted for treatment and processing, and to maintain permit compliance requirements. Certain of these budgeted projects are discretionary and may either be delayed until later in the year or deferred altogether. We have traditionally incurred actual capital spending totals for a given year less than the initial budget amount. The initiation and timing of projects are also determined by financing alternatives or funds available for such capital projects.

Environmental Liabilities

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

In June 1994, we acquired PFD. PFD is part of our Industrial Segment, which we have classified as discontinued operation. The former owners of PFD had merged Environmental Processing Services, Inc. ("EPS") with PFD. The party that sold PFD to us agreed to indemnify us for costs associated with remediating the property leased by EPS ("Leased Property"). Such remediation involves soil and/or groundwater restoration. The Leased Property used by EPS to operate its facility is separate and apart from the property on which PFD's facility is located. The contamination of the Leased Property occurred prior to PFD being acquired by us. During 1995, in conjunction with the bankruptcy filing by the selling party, we recognized an environmental liability of approximately $1.2 million for remedial activities at the Leased Property. We have accrued approximately $702,000, at December 31, 2007, for the estimated, remaining costs of remediating the Leased Property used by EPS, which will extend over the next five years. This liability was retained by the Company upon the sale of PFD in March 2008. See "Business-Company Overview and Principal Products and Services" for a discussion of certain obligations that the buyer of PFD assumed when we sold substantially all of the assets of PFD.

In conjunction with the acquisition of Perma-Fix of Memphis, Inc. ("PFM"), we assumed and recorded certain liabilities to remediate gasoline contaminated groundwater and investigate, under the hazardous and solid waste amendments, potential areas of soil contamination on PFM's property. Prior to our ownership of PFM, the owners installed monitoring and treatment equipment to restore the groundwater to acceptable standards in accordance with federal, state and local authorities. We have accrued approximately $476,000 at December 31, 2007, for the estimated, remaining costs of remediating the groundwater contamination, which will extend over the next five years. This environmental liability is included in our continuing operations and will remain the financial obligation of the Company.

In conjunction with the acquisition of PFSG, a subsidiary within our Industrial Segment that has been classified as a discontinued operation, we initially recognized an environmental accrual of $2.2 million for estimated long-term costs to remove contaminated soil and to undergo ground water remediation activities at the acquired facility in Valdosta, Georgia. Initial valuation has been completed, along with the selection of the remedial process, and the planning and approval process. The remedial activities began in 2003. We have accrued approximately $704,000, at December 31, 2007, to complete remediation of the facility, which we anticipate spending over the next six years. If we complete the sale of PFSG facility, we anticipate that the buyer will assume our obligation to remediate the facility.

In conjunction with an oil spill at PFTS, a subsidiary within our Industrial Segment that has been classified as a discontinued operation, we accrued approximately $69,000 to remediate the contaminated soil and ground water at this location. As of December 31, 2007, we have accrued approximately $37,000, for the estimated remaining cost to remediate the area. We expect to complete spending on this remedial project over the next five years.

In conjunction with the acquisition of PFMD in March 2004, we accrued for long-term environmental liabilities of $391,000 as a best estimate of the cost to remediate the hazardous and/or non-hazardous contamination on certain properties owned by PFMD. As previously discussed, we sold substantially all of the assets of the Maryland facility during the first part of 2008. In connection with this sale, the buyer agreed to assume all obligations and liabilities for environmental conditions at the Maryland facility except for fines, assessments, or judgments to governmental authorities prior to the closing of the transaction or third party tort claims existing prior to the closing of the sale.

As a result of the discontinued operations at the PFMI facility, a non-operational facility which is also part of our discontinued operations, we were required to complete certain closure and remediation activities pursuant to our RCRA permit, which were completed in January 2006. In September 2006, PFMI signed a Corrective Action Consent Order with the State of Michigan, requiring performance of studies and development and execution of plans related to the potential clean-up of soils in portions of the property. The level and cost of the clean-up and remediation are determined by state mandated requirements. Upon discontinuation of operations in 2004, we engaged our engineering firm, SYA, to perform an analysis and related estimate of the cost to complete the RCRA portion of the closure/clean-up costs and the potential long-term remediation costs. Based upon this analysis, we estimated the cost of this environmental closure and remediation liability to be $2,464,000. During 2006, based on state-mandated criteria, we re-evaluated our required activities to close and remediate the facility, and during the quarter ended June 30, 2006, we began implementing the modified methodology to remediate the facility. As a result of the reevaluation and the change in methodology, we reduced the accrual by $1,182,000. We have spent approximately $710,000 for closure costs since September 30, 2004, of which $81,000 has been spent during 2007 and $74,000 was spent in 2006. In the 4th quarter of 2007, we reduced our reserve by $9,000 as a result of our reassessment of the cost of remediation. We have $563,000 accrued for the closure, as of December 31, 2007, and we anticipate spending $401,000 in 2008 with the remainder over the next five years. Based on the current status of the Corrective Action, we believe that the remaining reserve is adequate to cover the liability.

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

The nature of our business exposes us to significant risk of liability for damages. Such potential liability could involve, for example, claims for cleanup costs, personal injury or damage to the environment in cases where we are held responsible for the release of hazardous materials; claims of employees, customers or third parties for personal injury or property damage occurring in the course of our operations; and claims alleging negligence or professional errors or omissions in the planning or performance of our services. In addition, we could be deemed a responsible party for the costs of required cleanup of any property, which may be contaminated by hazardous substances generated or transported by us to a site we selected, including properties owned or leased by us (see “Legal Proceedings” in Part I, Item 3). We could also be subject to fines and civil penalties in connection with violations of regulatory requirements.

Research and Development
Innovation and technical know-how by our operations is very important to the success of our business. Our goal is to discover, develop and bring to market innovative ways to process waste that address unmet environmental needs. We conduct research internally, and also through collaborations with other third parties. The majority of our research activities are performed as we receive new and unique waste to treat; as such, we recognize these expenses as a part of our processing costs. We feel that our investments in research have been rewarded by the discovery of the Perma-Fix Process and the Perma-Fix II process. Our competitors also devote resources to research and development and many such competitors have greater resources at their disposal than we do. We have estimated that during 2005, 2006, and 2007, we spent approximately $489,000, $422,000, and $715,000 respectively, in Company-sponsored research and development activities.

Number of Employees
In our service-driven business, our employees are vital to our success. We believe we have good relationships with our employees. As of December 31, 2007, we employed approximately 522 full time persons, of which approximately 16 were assigned to our corporate office, approximately 23 were assigned to our Operations Headquarters, approximately 23 to our Engineering Segment, approximately 286 to the Nuclear Segment, and approximately 174 to the Industrial Segment. We have no union employees at any of our segments.

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

The Resource Conservation and Recovery Act of 1976, as amended ("RCRA")
RCRA and its associated regulations establish a strict and comprehensive permitting and regulatory program applicable to hazardous waste. The EPA has promulgated regulations under RCRA for new and existing treatment, storage and disposal facilities including incinerators, storage and treatment tanks, storage containers, storage and treatment surface impoundments, waste piles and landfills. Every facility that treats, stores or disposes of hazardous waste must obtain a RCRA permit or must obtain interim status from the EPA, or a state agency, which has been authorized by the EPA to administer its program, and must comply with certain operating, financial responsibility and closure requirements

The Safe Drinking Water Act, as amended (the "SDW Act")
SDW Act regulates, among other items, the underground injection of liquid wastes in order to protect usable groundwater from contamination. The SDW Act established the Underground Injection Control Program ("UIC Program") that provides for the classification of injection wells into five classes. Class I wells are those which inject industrial, municipal, nuclear and hazardous wastes below all underground sources of drinking water in an area. Class I wells are divided into non-hazardous and hazardous categories with more stringent regulations imposed on Class I wells which inject hazardous wastes. PFTS' permit to operate its underground injection disposal wells is limited to non-hazardous wastewaters.

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

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

Health and Safety Regulations

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

Atomic Energy Act

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

Other Laws

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

Insurance

We believe we maintain insurance coverage adequate for our needs and similar to, or greater than, the coverage maintained by other companies of our size in the industry. There can be no assurances, however, that liabilities, which we may incur will be covered by our insurance or that the dollar amount of such liabilities, which are covered will not exceed our policy limits. Under our insurance contracts, we usually accept self-insured retentions, which we believe is appropriate for our specific business risks. 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 million per occurrence and $2 million 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, and at all times while operating under our permits, we are required to provide financial assurance that guarantees to the states that, in the event of closure, our permitted facilities will be closed in accordance with the regulations. The policy provides a maximum $35 million of financial assurance coverage, and thus far has provided $30.1 million in financial assurance.

In August 2007, we entered into a second finite risk insurance policy for our Perma-Fix Northwest Richland, Inc. facility, which was acquired on June 13, 2007. The policy provides an initial $7.8 million of financial assurance coverage with annual growth rate of 1.5%, which at the end of the four year term policy, will provide maximum coverage of $8.2 million. The policy will renew automatically on an annual basis at the end of the four year term and will not be subject to any renewal fees.

ITEM 1A. RISK FACTORS

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

Risk Factors Regarding Our Business:

Our Industrial Segment (discontinued operations) has sustained losses for the past eight years, including 2007.
Our Industrial Segment has sustained losses in each year since 2000. On May 18, 2007, our Board of Directors authorized management to sell all, or a part of, our Industrial Segment. During the first quarter of 2008, we completed the sale of PFMD and sale of PFD and are negotiating the sale of PFSG within our Industrial Segment. We are also attempting to sell the remaining operations within the Industrial Segment. If we fail to divest the majority of our remaining facilities within our Industrial Segment and the majority of our Industrial Segment facilities fails to become profitable on an annualized basis in the foreseeable future, this could have a material adverse effect on our results of operations, liquidity and our potential growth.

The inability to maintain existing government contracts or win new government contracts over an extended period could have a material adverse effect on our operations and adversely affect our future revenues.
A material amount of our Nuclear Segment's revenues are generated through various U.S. government contracts or subcontracts involving the U.S. government. Our revenues from government sources were approximately $30,000,000 and $33,226,000, representing 55.5% and 63.0%, respectively, of our consolidated operating revenues from continuing operations for 2007 and 2006. Most of our government contracts or our subcontracts granted under government contracts are awarded through a regulated competitive bidding process. Some government contracts are awarded to multiple competitors, which increase overall competition and pricing pressure and may require us to make sustained post-award efforts to realize revenues under these government contracts. In addition, government clients can generally terminate or modify their contracts at their convenience. If we fail to maintain or replace these relationships, our revenues and future operations could be adversely affected.

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

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

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

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

The refusal to accept our waste for disposal by, or a closure of, the end disposal site that our Nuclear Segment utilizes to dispose of its waste could subject us to significant risk and limit our operations.
Our Nuclear Segment has limited options available for disposal of its waste. If this disposal site ceases to accept waste or closes for any reason or refuses to accept the waste of our Nuclear Segment, for any reason, we could have nowhere to dispose of our Nuclear waste or have significantly increased costs from disposal alternatives. With nowhere to dispose of our nuclear waste, we would be subject to significant risk from the implications of storing the waste on our site, and we would have to limit our operations to accept only waste that we can dispose of.

Our Nuclear Segment and Industrial Segment (discontinued operations) subject us to substantial potential environmental liability.
Our business of rendering services in connection with management of waste, including certain types of hazardous waste, low-level radioactive waste, and mixed waste (waste containing both hazardous and low-level radioactive

waste), subjects us to risks of liability for damages. Such liability could involve, without limitation:

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

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

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

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

Breach of financial covenants in existing credit facility could result in a default, triggering repayment of outstanding debt under the credit facility.
Our credit facility with our bank contains financial covenants. A breach of any of these covenants could result in a default under our credit facility triggering our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. In the past, none of our covenants have been restrictive to our operations; however, in 2007, our fixed charge coverage ratio fell below the minimum requirement pursuant to the covenant. We obtained a waiver from our lender for this non-compliance as of December 31, 2007. In addition to the waiver that we obtained, our lender, on April 4, 2008, further amended the methodology in calculating our quarterly fixed charge coverage ratio which has enabled us to demonstrate, based on our projections, the likelihood of us meeting our fixed charge coverage ratio in 2008. In the event that we are unable to meet any of the covenants contained in our loan agreement in the future and our lender accelerates the repayment of borrowings under our credit facility, we may not have sufficient liquidity to repay our debt under the credit facility and other indebtedness.

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Failure of our Nuclear Segment to be profitable could have a material adverse effect.
Our Nuclear Segment has historically been profitable. With the divestiture and impending divestiture of certain facilities within our Industrial Segment and the acquisition of our PFNWR facility in June 2007, the Nuclear Segment represents the Company's largest revenue segment. The Company's main objectives are to increase focus on the efficient operation of our existing facilities within our Nuclear Segment and to further evaluate strategic acquisitions within the Nuclear Segment. If our Nuclear Segment fails to continue to be profitable in the future, this could have a material adverse effect on the Company's results of operations, liquidity and our potential growth.

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

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

Our amount of debt and floating rates of interest could adversely affect our operations.
At December 31, 2007, our aggregate consolidated debt was approximately $18.8 million. If our floating rates of interest experienced an upward increase of 1%, our debt service would increase by approximately $189,000 annually. Our secured revolving credit facility (the "Credit Facility") provides for an aggregate commitment of $25 million, consisting of an $18 million revolving line of credit and a term loan of $7 million. The maximum we can borrow under the revolving part of the Credit Facility is based on a percentage of the amount of our eligible receivables outstanding at any one time. The Credit Facility is due September 30, 2009. As of December 31, 2007, we have borrowings under the revolving part of our Credit Facility of $6.9 million and borrowing availability of up to an additional $5.7 million based on our outstanding eligible receivables. A lack of operating results could have material adverse consequences on our ability to operate our business. Our ability to make principal and interest payments, or to refinance indebtedness, will depend on both our and our subsidiaries' future operating performance and cash flow. Prevailing economic conditions, interest rate levels, and financial, competitive, business, and other factors affect us. Many of these factors are beyond our control.

We may be unable to utilize loss carryforwards in the future.
We have approximately $22.7 million in net operating loss carryforwards which will expire from 2008 to 2024 if not used against future federal income tax liabilities. Our net loss carryforwards are subject to various limitations. We anticipate the net loss carryforwards will be used to reduce the federal income tax payments which we would otherwise be required to make with respect to income, if any, generated in future years.

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

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

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

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

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

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

These events also could adversely affect us to the extent that they result in the reduction or elimination of contractual requirements, lower demand for nuclear services, burdensome regulation, disruptions of shipments or production, increased operational costs or difficulties or increased liability for actual or threatened property damage or personal injury.

Economic downturns and reductions in government funding could have a negative impact on our businesses.
Demand for our services has been, and we expect that demand will continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including economic conditions, inability of the federal government to adopt its budget or reductions in the budget for spending to remediate federal sites. During economic downturns, the ability of private and government entities to spend on nuclear services may decline significantly. We cannot be certain that economic or political conditions will be generally favorable or that there will not be significant fluctuations adversely affecting our industry as a whole. In addition, our operations depend, in part, upon government funding, particularly funding levels at the DOE. Significant changes in the level of government funding (for example, the annual budget of the DOE) or specifically mandated levels for different programs that are important to our business could have an unfavorable impact on our business, financial position, results of operations and cash flows.

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

As a government contractor, we are subject to extensive government regulation, and our failure to comply with applicable regulations could subject us to penalties that may restrict our ability to conduct our business.
Our government contracts, which are primarily with the DOE, are a significant part of our business. Allowable costs under U.S. government contracts are subject to audit by the U.S. government. If these audits result in determinations that costs claimed as reimbursable are not allowed costs or were not allocated in accordance with applicable regulations, we could be required to reimburse the U.S. government for amounts previously received.

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

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

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

We have a material weakness in our Internal Controls over Financial Reporting ("ICFR") as of December 31, 2007.
During our evaluation of our ICFR, we noted that the monitoring of pricing, invoicing, and the corresponding inventory for transportation and disposal process controls at certain facilities within the Company's Industrial Segment were ineffective and were not being applied consistently, which resulted in a material weakness to our ICFR, and could result in sales being priced and invoiced at amounts which were not approved by the customer, or the appropriate level of management, and inaccurate, corresponding transportation and disposal expense. This has resulted in our disclosure that our ICFR were ineffective as of December 31, 2007. Although this material weakness did not result in an adjustment to our quarterly or annual financial statements, if we are unable to remediate this material weakness, there is a reasonable possibility that a misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

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

We have authorized and unissued 21,295,484 shares of Common Stock and 2,000,000 shares of Preferred Stock as of December 31, 2007. These unissued shares could be used by our management to make it more difficult, and thereby discourage, an attempt to acquire control of us.

Risk Factors Regarding our Common Stock:

The significant amount of outstanding options could affect our stock performance.
As of December 31, 2007, we had outstanding options to purchase 2,590,026 shares of Common Stock at exercise prices from $1.22 to $2.98 per share. The existence of this quantity of rights to purchase our Common Stock could result in a significant dilution in the percentage ownership interest of our stockholders and the dilution in ownership value. Future sales of the shares issuable could also depress the market price of our Common Stock.

The price of our Common Stock is volatile.
The trading price of our Common Stock has historically been volatile, and subject to large swings over short periods of time. As a result of the volatility of our Common Stock, an investment in our stock holds significant risk.

We do not intend to pay dividends on our Common Stock in the foreseeable future.
Since our inception, we have not paid cash dividends on our Common Stock, and we do not anticipate paying any cash dividends in the foreseeable future. Our credit facility prohibits us from paying cash dividends on our Common Stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our principal executive office is in Atlanta, Georgia. Our Operations headquarters is located in Oak Ridge, Tennessee. Our Nuclear Segment facilities are located in Gainesville, Florida; Kingston, Tennessee; Oak Ridge, Tennessee, and our newly acquired facility in Richland, Washington. Our Consulting Engineering Services is located in Ellisville, Missouri. Our Industrial Segment facilities are located in Orlando and Ft. Lauderdale, Florida; Dayton, Ohio; Tulsa, Oklahoma; Valdosta, Georgia; and Baltimore, Maryland. Our Industrial Segment also has two non-operational facilities: Brownstown, Michigan, where we still maintain the property; and Pittsburgh, Pennsylvania, for which the leased property was released back to the owner in 2006 upon final remedation of the leased property. We also maintain Field Service offices in Stafford, Virginia; and Salisbury, Maryland.

We operate eleven facilities, five within our continuing operations with the remaining facilities within our discontinued operations. All of the facilities are in the United States. Five of our facilities are subject to mortgages as placed by our senior lender, with two (Kingston, Tennessee and Gainesville, Florida) within our continuing operations and three (Dayton, Ohio; Orlando, Florida; and Baltimore, Maryland) within our discontinued operations. On January 8, 2008, and March 14, 2008, we completed the sale of our Perma-Fix of Maryland, Inc. and Perma-Fix of Dayton, Inc. facilities, respectively, resulting in the release of the mortgages as placed by our senior lender for these facilities. As a result, four of our facilities now are subject to mortgages as placed by our senior lender. With the sale of our Perma-Fix Maryland, Inc., we no longer maintain Field Service offices.

We also lease properties for office space, all of which are located in the United States as described above. Included in our leased properties is M&EC's 150,000 square-foot facility, located on the grounds of the DOE East Tennessee Technology Park located in Oak Ridge, Tennessee.

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

ITEM 3. LEGAL PROCEEDINGS

Perma-Fix of Dayton, Inc. ("PFD")
A subsidiary within our Industrial Segment, PFD was defending a lawsuit styled *Barbara Fisher v. Perma-Fix of Dayton, Inc.*, in the United States District Court, Southern District of Ohio (the "Fisher Lawsuit"). This citizen's suit was brought under the Clean Air Act alleging, among other things, violations by PFD of state and federal clean air statutes connected with the operation of PFD's facility located in Dayton, Ohio. As further previously disclosed, the U.S. Department of Justice, on behalf of the Environmental Protection Agency, intervened in the Fisher Lawsuit alleging, among other things, substantially similar violations alleged in the Fisher Lawsuit (the "Government's Lawsuit").

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During December, 2007, PFD and the federal government entered into a Consent Decree formalizing settlement of the government's portion of the above described lawsuit, which Consent Decree was approved by the federal court during the first quarter of 2008. Pursuant to the Consent Decree, the settlement with the federal government resolved the government's claims against PFD and requires PFD to:

- pay a civil penalty of $360,000;
- complete three supplemental environmental projects costing not less than $562,000 to achieve air emission controls that go above and beyond those required by any current environmental regulations.
- implement a variety of state and federal air permit pollution control measures; and
- take a variety of voluntary steps to reduce the potential for emissions of air pollutants.

During December 2007, PFD and Plaintiff, Fisher, entered into a Settlement Agreement formalizing settlement of the Plaintiff's claims in the above lawsuit. The settlement with Plaintiff Fisher resolved the Plaintiff's claims against PFD and, subject to certain conditions set forth in the Settlement Agreement, requires PFD to pay a total of $1,325,000. Our insurer has agreed to contribute $662,500 toward the settlement cost of the citizen's suit portion of the litigation, which we received on March 13, 2008. Based on discussion with our insurer, our insurer will not pay any portion of the settlement with the federal government in the Government Lawsuit.

In connection with PFD's sale of substantially all of its assets during March, 2008, as discussed in "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", the buyer has agreed to assume certain of PFD's obligations under the Consent Decree and Settlement Agreement, including, without limitation, PFD's obligation to implement supplemental environmental projects costing not less than $562,000, implement a variety of state and federal air permit control measures and reduce the potential for emissions of air pollutants.

As previously reported, on April 12, 2007 our insurer agreed to reimburse PFD for reasonable defense costs of litigation incurred prior to our insurer's assumption of the defense, but this agreement to defend and indemnify PFD was subject to the our insurer's reservation of its rights to deny indemnity pursuant to various policy provisions and exclusions, including, without limitation, payment of any civil penalties and fines, as well as our insurer's right to recoup any defense cost it has advanced if our insurer later determines that its policy provides no coverage. When, our insurer withdrew its prior coverage denial and agreed to defend and indemnify PFD in the above described lawsuits, subject to certain reservation of rights, we had incurred more than $2.5 million in costs in vigorously defending against the Fisher and the Government Lawsuits. To date, our insurer has reimbursed PFD approximately $2.5 million for legal defense fees and disbursements, which we recorded as a recovery within our discontinued operations in the second quarter of 2007. Partial reimbursement from our insurer of $750,000 was received on July 11, 2007. A second reimbursement of approximately $1.75 million was received on August 17, 2007. Our insurer has advised us that they will reimburse us for approximately another $82,000 in legal fees and disbursements, which we recorded as a recovery within our discontinued operations in the 4th quarter 2007. This reimbursement is subject to our insurer's reservation of rights as noted above. On February 12, 2008, we received reimbursement of approximately $24,000 from our insurer. We anticipate receiving the remaining reimbursement by the end of the second quarter of 2008.

Perma-Fix of Orlando, Inc. ("PFO")
In 2007, PFO was named as a defendant in four cases related to a series of toxic tort cases, the "Brottem Litigation" that are pending in the Circuit Court of Seminole County, Florida. All of the cases involve allegations of toxic chemical exposure at a former telecommunications manufacturing facility located in Lake Mary, Florida, known generally as the "Rinehart Road Plant". PFO is presently a defendant, together with numerous other defendants, in the following four cases: *Brottem v. Siemens, et al.; Canada v. Siemens et al.; Bennett v. Siemens et al.* and the recently filed *Culbreath v. Siemens et al*. All of the cases seek unspecified money damages for alleged personal injuries or wrongful death. With the exception of PFO, the named defendants are all present or former owners of the subject property, including several prominent manufacturers that operated the Rinehart Road Plant. The allegations in all of the cases are essentially identical.

The basic allegations are that PFO provided "industrial waste management services" to the Defendants and that PFO negligently "failed to prevent" the discharge of toxic chemicals or negligently "failed to warn" the plaintiffs about the dangers presented by the improper handling and disposal of chemicals at the facility. The complaints make no attempt to specify the time and manner of the alleged exposures in connection with PFO's "industrial waste management services." PFO has moved to dismiss for failure to state a cause of action.

At this time, the cases involve a large number of claims involving personal injuries. At this very early stage, it is not possible to accurately assess PFO's potential liability. Our insurer has agreed to defend and indemnify us in these lawsuits, excluding our deductible of $250,000, subject to a reservation of rights to deny indemnity pursuant to various provisions and exclusions under our policy.

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

As of the date of this report, Louisiana DEQ ("LDEQ") has collected approximately $8.4 million for the remediation of the site and is proceeding with the remediation of the site. The EPA's unofficial estimate to remediate the site is between $9 and $12 million; however, based on preliminary outside consulting work hired by the PRP group, which we are a party to, the remediation costs can be below EPA's estimation. As part of the PRP Group, we have paid an initial assessment of $10,000 in the fourth quarter of 2007, which was allocated among the facilities. As of the date of this report, we cannot accurately access our liability.

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

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

None

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

NAME	AGE	POSITION
Dr. Louis F. Centofanti	64	Chairman of the Board, President and Chief Executive Officer
Mr. Steven T. Baughman	49	Chief Financial Officer, Vice President, and Secretary
Mr. Larry McNamara	58	Chief Operating Officer
Mr. Robert Schreiber, Jr.	57	President of SYA, Schreiber, Yonley & Associates, a subsidiary of the Company, and Principal Engineer

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

Mr. Steven T. Baughman
Mr. Baughman was appointed as Vice President and Chief Financial Officer of the Company by the Company's Board of Directors in May 2006. Mr. Baughman was previously employed by Waste Management, Inc. from 1994 to 2005, serving in various capacities, including: Vice President Finance, Control and Analysis from 2001 to 2005, and Vice President, International Controller from 1999 to 2001. Mr. Baughman has BS degrees in Accounting and Finance from Miami University (Ohio), and is a Certified Public Accountant.

Mr. Larry McNamara
Mr. McNamara has served as Chief Operating Officer since October 2005. From October 2000 to October 2005, he served as President of the Nuclear Waste Management Services segment. From December 1998 to October 2000, he served as Vice President of the Company's Nuclear Waste Management Services Segment. Between 1997 and 1998, he served as Mixed Waste Program Manager for Waste Control Specialists (WCS) developing plans for the WCS mixed waste processing facilities, identifying markets and directing proposal activities. Between 1995 and 1996, Mr. McNamara was the single point of contact for the DOD to all state and federal regulators for issues related to disposal of Low Level Radioactive Waste and served on various National Committees and advisory groups. Mr. McNamara served, from 1992 to 1995, as Chief of the Department of Defense Low Level Radioactive Waste office. Between 1986 and 1992, he served as the Chief of Planning for the Department of Army overseeing project management and program policy for the Army program. Mr. McNamara has a B.S. from the University of Iowa.

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

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Certain Relationships

There are no family relationships between any of our Directors or executive officers. Dr. Centofanti is the only Director who is our employee.

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PART II

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

Our Common Stock is traded on the NASDAQ Capital Markets (“NASDAQ”) under the symbol “PESI” on NASDAQ. The following table sets forth the high and low market trade prices quoted for the Common Stock during the periods shown. The source of such quotations and information is the NASDAQ online trading history reports.

		2007		2006	
		Low	High	Low	High
Common Stock	1st Quarter	$ 2.07	$ 2.57	$ 1.31	$ 2.15
	2nd Quarter	2.13	3.25	1.70	2.20
	3rd Quarter	1.74	3.40	2.01	2.60
	4th Quarter	2.25	3.05	1.90	2.40

As of March 10, 2008, there were approximately 300 stockholders of record of our Common Stock, including brokerage firms and/or clearing houses holding shares of our Common Stock for their clientele (with each brokerage house and/or clearing house being considered as one holder). However, the total number of beneficial stockholders as of March 10, 2008, was approximately 3,472.

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

No sales of unregistered securities, other than the securities sold by us during 2007, as reported in our Forms 10-Q for the quarters ended March 31, 2007, June 30, 2007, September 30, 2007, and Form 8-K filed with the SEC on January 2, 2008, which were not registered under the Securities Act of 1933, as amended, were issued during 2007. There were no purchases made by us or on behalf of us or any of our affiliated members of shares of our Common Stock during the last quarter of 2007.

Common Stock Price Performance Graph

The following Common Stock price performance graph compares the yearly change in the Company's cumulative total stockholders' returns on the Common Stock during the years 2003 through 2007, with the cumulative total return of the NASDAQ Market Index and the published industry index prepared by Hemscott and known as Hemscott Industry Group 637-Waste Management Index ("Industry Index") assuming the investment of $100 on January 1, 2003.

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

Assumes $100 invested in the Company on January 1, 2003, the Industry Index and the NASDAQ Market Index, and the reinvestment of dividends. The above five-year Cumulative Total Return Graph shall not be deemed to be "soliciting material" or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 (collectively, the "Acts"), except to the extent that the Company specifically incorporates this information by reference, and shall not be deemed to be soliciting material or to be filed under such Acts.

ITEM 6. SELECTED FINANCIAL DATA

The financial data included in this table has been derived from our audited consolidated financial statements, which have been audited by BDO Seidman, LLP. As a result of the Company's Industrial Segment meeting the held for sale criteria under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company's previously reported consolidated statement of operations data for the years noted below have been reclassified to present discontinued operations separately from continuing operations. Certain prior year amounts have been reclassified to conform with current year presentations. Amounts are in thousands, except for per share amounts. The information set forth below should be read in conjunction with "Management's Discussion Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of the Company and the notes thereto included elsewhere herein.

Statement of Operations Data:

	2007[1][2]	2006[1]	2005	2004[3]	2003
Revenues	$ 54,102	$ 52,781	$ 50,098	$ 45,883	$ 40,641
Income from continuing operations	517	5,644	4,501	3,322	3,500
Loss from discontinued operations	(9,727)	(933)	(762)	(22,683)	(382)
Net (loss) income	(9,210)	4,711	3,739	(19,361)	3,118
Preferred stock dividends	¾	¾	(156)	(190)	(189)
Net (loss) income applicable to Common Stock	(9,210)	4,711	3,583	(19,551)	2,929
Income (loss) per common share - Basic					
Continuing operations	.01	.12	.10	.08	.09
Discontinued operations	(.19)	(.02)	(.02)	(.56)	(.01)
Net income (loss) per share	(.18)	.10	.08	(.48)	.08
Income (loss) per common share - Diluted					
Continuing operations	.01	.12	.10	.07	.08
Discontinued operations	(.18)	(.02)	(.02)	(.51)	(.01)
Net income (loss) per share	(.17)	.10	.08	(.44)	.07
Basic number of shares used in computing net income (loss) per share	52,549	48,157	42,605	40,478	34,982
Diluted number of shares and potential common shares used in computing net income (loss) per share	53,294	48,768	44,804	44,377	39,436

Balance Sheet Data:

	December 31,				
	2007	2006	2005	2004	2003
Working capital (deficit)	$ (17,154)	$ 12,810	$ 5,916	$ (497)	$ 4,159
Total assets	126,031	106,662	98,525	100,455	110,215
Current and long-term debt	18,836	8,329	13,375	18,956	29,088
Total liabilities	66,018	40,924	50,087	56,922	58,488
Preferred Stock of subsidiary	1,285	1,285	1,285	1,285	1,285
Stockholders' equity	58,728	64,453	47,153	42,248	50,442

(1)

Includes recognized stock option expense of $457,000 and $338,000 for 2007 and 2006, respectively pursuant to the adoption of SFAS 123R which became effective January 1, 2006.

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(2) Includes financial data of PFNWR acquired during 2007 and accounted for using the purchase method of accounting in which the results of operations are reported from the date of acquisition, June 13, 2007 (see "Note 5 – Acquisition" in "Notes to Consolidated Financial Statement" for accounting treatment).

(3) Includes financial data of PFMD and PFP acquired during 2004 and accounted for using the purchase method of accounting in which the results of operations are reported from the date of acquisition, March 23, 2004.

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

Certain statements contained within this “Management's Discussion and Analysis of Financial Condition and Results of Operations” may be deemed “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (collectively, the “Private Securities Litigation Reform Act of 1995”). See “Special Note regarding Forward-Looking Statements” contained in this report.

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

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

Overview

2007 has been a year of many changes for us starting with the decision of the Company to divest our Industrial Segment and the acquisition of Nuvotec USA, Inc. and its subsidiary, which we now call Perma-Fix Northwest Richland, Inc. (“PFNWR”), on June 13, 2007. Excluding the results of our discontinued operations, we reported revenue of $54,102,000 and income from continuing operations applicable to Common Stock of $517,000 for the year ended December 31, 2007. Excluding the revenue of our newly acquired PFNWR facility of $8,439,000, our Nuclear Segment revenue decreased $6,158,000 or 12.5% from 2006. The primary driver of this decrease was reduction in waste receipts from the federal government and brokers. The acquisition of our PFNWR facility positions the Nuclear Segment’s future revenue stream well as the facility is located adjacent to the Hanford site, which represents one of the most expansive of DOE’s nuclear weapons’ facilities to remediate. Our Engineering Segment had revenues of $2,398,000, a decrease of $960,000 from 2006, representing a 28.6% decrease from the previous year. The decrease was due to lower billable hours as more resources were internalized to support the acquisition of the PFNWR facility and the divestiture of the Industrial Segment. The backlog of stored waste within the Nuclear Segment was reduced to $9,964,000, which excludes $4,683,000 in backlog from our PFNWR facility at December 31, 2007, down from $12,492,000 in 2006, reflecting our emphasis on improved processing and disposal.

In 2007, our balance sheet was heavily impacted by the acquisition of the PFNWR facility, as well as the reclassification of approximately $11,403,000 of debt owed to certain of our lenders from long term to current. Working capital at December 31, 2007 is a negative $17,154,000 as compared to positive $12,810,000 at December 31, 2006. As of December 31, 2007, our fixed charge coverage ratio contained in our PNC loan agreement fell below the minimum requirement. We obtained a waiver from our lender for this non-compliance as of December 31, 2007. On April 1, 2008, the date our Form 10-K was originally filed, we did not expect to be in compliance with this fixed charge coverage ratio as of the end of the first and second quarters of 2008 and, as a result, we were required under generally accepted accounting principles to reclassify the long term portion of this debt to current due to this likelihood of future default. Furthermore, we have a cross default provision on our 8.625% promissory note with a separate bank and have reclassified the long term portion of that debt to current as well. These reclassifications negatively impacted our working capital. On April 4, 2008 however, our lender further revised our loan covenant which has now enabled us to demonstrate, based on our projections, the likelihood of us meeting our fixed charge coverage ratio in 2008. As a result, absent any future events causing the classification of this debt to be current, we expect this debt to be reflected as long term (less current maturities) in our next reporting period. We anticipate restructuring certain debt in 2008 to increase our available borrowings. Our working capital continues to be impacted by certain liabilities associated with our discontinued operations.

Results of Operations
The reporting of financial results and pertinent discussions are tailored to two reportable segments: Nuclear Waste Management Services ("Nuclear") and Consulting Engineering Services ("Engineering").

Below are the results of continuing operations for our years ended December 31, 2007, 2006, and 2005 (amounts in thousands):

(Consolidated)	2007	%	2006	%	2005	%
Net Revenues	$ 54,102	100.0	$ 52,781	100.0	$ 50,098	100.0
Cost of goods sold	36,837	68.1	31,054	58.8	31,328	62.5
Gross Profit	17,265	31.9	21,727	41.2	18,770	37.5
Selling, general and administrative	15,406	28.5	14,320	27.1	12,136	24.3
Loss on disposal of property and equipment	71	.1	48	¾	6	¾
Income from operations	1,788	3.3	7,359	14.1	6,628	13.2
Interest income	312	.6	280	.5	126	.2
Interest expense	(1,302)	(2.4)	(1,241)	(2.4)	(1,502)	(3.0)
Interest expense – financing fees	(196)	(.4)	(192)	(.4)	(318)	(.6)
Other	(85)	(.1)	(55)	(.1)	(1)	¾
Income from continuing operations before taxes	517	1.0	6,151	11.7	4,933	9.8
Income tax expense	¾	¾	507	1.0	432	.9
Income from continuing operations	517	1.0	5,644	10.7	4,501	8.9
Preferred Stock dividends	¾	¾	¾	¾	(156)	(.3)

Summary - Years Ended December 31, 2007 and 2006

Net Revenue
Consolidated revenues from continuing operations increased $1,321,000 for the year ended December 31, 2007, compared to the year ended December 31, 2006, as follows:

(In thousands)	2007	% Revenue	2006	% Revenue	Change	% Change
Nuclear						
Bechtel Jacobs	$ 1,812	3.3	$ 6,705	12.7	$ (4,893)	(73.0)
LATA/Parallax	8,784	16.2	10,341	19.6	(1,557)	(15.1)
Fluor Hanford	3,885(1)	7.2	1,229	2.3	2,656	216.1
Government waste	9,951	18.5	14,951	28.3	(5,000)	(33.4)
Hazardous/non-hazardous	5,068	9.4	3,343	6.3	1,725	51.6
Other nuclear waste	13,765	25.4	12,854	24.4	911	7.1
Recent acquisition 6/07 (PFNWR)	8,439(1)	15.6	¾	¾	8,439	100.0
Total	51,704	95.6	49,423	93.6	2,281	4.6
Engineering	2,398	4.4	3,358	6.4	(960)	(28.6)

Total	$	54,102	100.0	$	52,781	100.0	$	1,321	2.5

[1] Revenue of $8,439,000 from PFNWR for 2007 includes approximately $5,568,000 relating to wastes generated by the federal government, either directly or indirectly as a subcontractor to the federal government. Of the $5,568,000 in revenue, approximately $3,100,000 was from Fluor Hanford, a contractor to the federal government. Revenue in 2007 from Fluor Hanford totaled approximately $6,985,000 or 12.9 % of total consolidated revenue.

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The Nuclear Segment experienced a $2,281,000 increase in revenue for the year ended December 31, 2007 over the same period in 2006. Total revenue within the Nuclear Segment included $8,439,000 of revenue from our PFNWR facility, which was acquired on June 13, 2007. Excluding the revenue of our PFNWR facility, revenue from our Nuclear Segment decreased approximately $6,158,000 or 12.5% as compared to the same period of 2006. Revenue from government generators (which includes Bechtel Jacobs, LATA/Parallax and Fluor Hanford) decreased $8,794,000 (excluding government revenue of $5,568,000 from our PFNWR facility) or 26.5% due to overall lower government receipts. Due to varying waste constituencies, waste received and its related pricing can vary. 2007 saw a decline in average pricing of 21.6% while volume increased 7.9%. Although our receipts were down, the increase in volume was the result of the Company's continued effort to process and dispose more of its backlog. The backlog of stored waste within the Nuclear Segment was reduced to $9,964,000, excluding the backlog of our PFNWR facility of $4,683,000 at December 31, 2007, down from $12,492,000 in 2006, which reflects increases in processing and disposal for the year. Waste backlog will continue to fluctuate in 2008 depending on the complexity of waste streams and the timing of receipts and processing of materials. The high levels of backlog material continue to position the segment well for increases in future processing revenue prospective. The Bechtel Jacobs contract in Oak Ridge is continuing at reduced waste volumes due to the large legacy waste clean-up project completion in 2005. 2006 revenues of our Nuclear Segment include approximately $1.1 million recognized from Bechtel Jacobs as a result of a settlement of a lawsuit in connection with a dispute over surcharges from waste treated in 2003. The decrease for LATA/Parallax is due to significant progress made by LATA/Parallax in completing legacy waste removal actions as part of their clean-up project at Portsmouth for the Department of Energy. Fluor Hanford revenue increased approximately $2,656,000 (excluding approximately $3,100,000 from PFNWR) or 216.1% due mainly to increased receipts at our DSSI facility. Hazardous and non-hazardous revenue increased approximately $1,725,000 or 51.6% as compared to the same period of 2006 due to a combination of increased volume of 19.6% and price increases of 26.7% in per drum equivalent of waste processed. Revenue from the Engineering Segment decreased $960,000 or 28.6% due to less billable hours and related reimbursable costs in part to a large event project in 2006 which did not repeat in 2007 and more hours spent supporting the divestiture of the Industrial Segment facilities that are for sale.

Cost of Goods Sold

Cost of goods sold increased $5,783,000 for the year ended December 31, 2007, as compared to the year ended December 31, 2006, as follows:

(In thousands)	2007	% Revenue	2006	% Revenue	Change
Nuclear	$ 30,261	69.9	$ 28,493	57.7	$ 1,768
Engineering	1,638	68.3	2,561	76.3	(923)
Acquisition (PFNWR)	4,938	58.5	—	—	4,938
Total	$ 36,837	68.1	$ 31,054	58.8	$ 5,783

Excluding the cost of goods sold of approximately $4,938,000 for the PFNWR facility, the Nuclear Segment's cost of goods sold for the year ending December 31, 2007 were up approximately $1,768,000. Processing and disposal costs increased due to increased volume as well as different mix of waste. In addition, costs related to the new "SouthBay" area at M&EC increased due to labor and analytical expenses. In 2007, M&EC completed its facility expansion ("SouthBay") to treat DOE special process wastes from the DOE Portsmouth Gaseous Diffusion Plant located in Piketon, Ohio under the subcontract awarded by LATA/Parallax Portsmouth LLC to our Nuclear Segment in 2006. The Engineering Segment costs fell due to lower reimbursable expenses related to a large event project in 2006. Included within cost of goods sold is depreciation and amortization expense of $3,750,000 and $2,919,000 for the year ended December 31, 2007 and 2006, respectively, reflecting an increase of $831,000 over 2006 resulting primarily from the completion of the "SouthBay" area and the acquisition of PFNWR.

Gross Profit

Gross profit for the year ended December 31, 2007, decreased $4,462,000 over 2006, as follows:

(In thousands)		2007	% Revenue		2006	% Revenue		Change
Nuclear	$	13,004	30.1	$	20,930	42.3	$	(7,926)
Engineering		760	31.7		797	23.7		(37)
Acquisition (PFNWR)		3,501	41.5		—	—		3,501
Total	$	17,265	31.9	$	21,727	41.2	$	(4,462)

The Nuclear Segment gross profit, excluding approximately $3,501,000 from PFNWR facility, saw a decrease of 13% from 2006 primarily due to lower volume of waste received. In addition, revenue mix shifted to processing and disposal of higher volumes of lower price waste resulting in higher costs of sales. In addition, surcharges were significantly lower in 2007 which impacted gross profit and gross margin. The Bechtel Jacobs surcharge of $1.1 million in 2006 had no associated costs which increased prior year's gross profit. The Engineering Segment gross profit decreased though its gross profit percentage increased. The sizable portion of the large event project in 2006 included low margin pass through expenses, resulting in higher gross profit and lower margins in 2006.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses increased $1,086,000 for the year ended December 31, 2007, as compared to the corresponding period for 2006, as follows:

(In thousands)		2007	% Revenue		2006	% Revenue		Change
Administrative	$	5,457	¾	$	5,627	¾	$	(170)
Nuclear		7,754	17.9		8,147	16.5		(393)
Engineering		517	21.6		546	16.3		(29)
Acquisition (PFNWR)		1,678	19.9		¾	¾		1,678
Total	$	15,406	28.5	$	14,320	27.1	$	1,086

Excluding the SG&A of our PFNWR facility, our 2007 SG&A expenses decreased throughout the Company over 2006. The decrease in administrative SG&A was the result of lower payroll related expense totaling approximately $688,000 related to a reduction in general labor and bonus expenses. This decrease was offset by higher public company expense totaling approximately $250,000 due to an increase in director fees for our Board of Director services and payment of a one time fee to a member of our Board of Directors as compensation for his service in negotiating the agreement in principal to resolve a certain legal matter with the EPA against our PFD facility. In addition, we had higher outside service fees of approximately $268,000 related to consulting and the adoption of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB No.109" ("FIN 48") and other tax related issues. The Nuclear Segment's SG&A decrease is due to lower payroll related expenses as commissions were down consistent with reduced revenues and severance expense was down from 2006. The Engineering Segment decrease was the result of a decrease in payroll related expenses as commissions and headcount were down but were offset by an increase in bad debt expense. Included in SG&A expenses is depreciation and amortization expense of $117,000 and $127,000 for the years ended December 31, 2007 and 2006, respectively.

Loss (Gain) on Disposal of Property and Equipment

The loss on fixed asset disposal for the year ended December 31, 2007, was $71,000, as compared to a loss of $48,000 for the same period in 2006. The loss for 2007 was attributed mainly to the disposal of idle equipment at our M&EC and DSSI facilities and the loss for 2006 was attributed mainly to the disposal of idle equipment at our DSSI facility.

Interest Income

Interest income increased $32,000 for the year ended December 31, 2007, as compared to 2006. The increase is attributable to interest on the finite risk sinking fund which was increased by $1,000,000 in February of 2007, as well as an additional increase of $258,000 for our PFNWR facility closure policy. In addition, the increase in 2007 is also attributed to interest earned from additional cash in the Company's sweep account during the first six months of 2007.

Interest Expense

Interest expense increased $61,000 for the year ended December 31, 2007, as compared to the corresponding period of 2006.

(In thousands)		2007		2006		Change	%
PNC interest	$	702	$	728	$	(26)	(3.6)
Other		600		513		87	17.0
Total	$	1,302	$	1,241	$	61	4.9

The increase in 2007 is due primarily to increased external debt related to the Nuvotec acquisition of approximately $272,000. In addition, revolver debt at PNC increased due to increased borrowings made necessary for the acquisition, resulting in approximately $59,000 in additional interest expense. Offsetting these increases were reduced interest expense of approximately $85,000 on term note, capitalized interest of approximately $144,000 related to the "SouthBay" construction completed in 2007, and reduced interest expense from diminishing principal on other equipment related loans.

Interest Expense - Financing Fees

Interest expense-financing fees remained constant for the year ended December 31, 2007, as compared to the corresponding period of 2006.

Income Tax

We have provided a valuation allowance on substantially all of our deferred tax assets. We will continue to monitor the realizability of these net deferred tax assets and will reverse some or all of the valuation allowance as appropriate. In making this determination, we consider a number of factors including whether there is a historical pattern of consistent and significant profitability in combination with our assessment of forecasted profitability in the future periods. Such patterns and forecasts allow us to determine whether our most significant deferred tax assets such as net operating losses will be realizable in future years, in whole or in part. These deferred tax assets in particular will require us to generate taxable income in the applicable jurisdictions in future years in order to recognize their economic benefits. We do not believe that we have sufficient evidence to conclude that some or all of the valuation allowance on deferred tax assets should be reversed. However, facts and circumstances could change in future years and at such point we may reverse the allowance as appropriate. For the years ended December 31, 2007 and 2006, we had $0 and approximately $83,000, respectively, in federal income tax expense, as a result of a 100% valuation allowance against the deferred tax asset and our alternative minimum tax liability at December 31, 2007, and $0 and $424,000, respectively, in state income taxes primarily for our subsidiary, M&EC, in Oak Ridge, Tennessee. See "Note 12" to "Notes to Consolidated Financial Statements" for a reconciliation between taxes at the statutory rate and the provision for income taxes as reported.

Summary - Years Ended December 31, 2006 and 2005

Net Revenue

Consolidated revenues from continuing operations increased for the year ended December 31, 2006, compared to the year ended December 31, 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change	% Change
Nuclear						
Bechtel Jacobs	$ 6,705	12.6	$ 14,940	29.8	$ (8,235)	(55.1)
LATA/Parallax	10,341	19.6	¾	¾	10,341	100.0
Fluor Hanford	1,229	2.3	1,732	3.5	(503)	(29.0)
Government waste	14,951	28.3	12,883	25.7	2,068	16.1
Hazardous/non-hazardous	3,343	6.3	4,308	8.6	(965)	(22.4)
Other nuclear waste	12,854	24.4	13,382	26.7	(528)	(3.9)
Total	49,423	93.6	47,245	94.3	2,178	4.6
Engineering	3,358	6.4	2,853	5.7	505	17.7
Total	$ 52,781	100.0	$ 50,098	100.0	$ 2,683	5.4

Nuclear Segment revenue for the year ended December 31, 2006 improved over 2005 by 4.6% of consolidated revenue or $2,178,000. Revenue of our Nuclear Segment under contracts with Bechtel Jacobs is decreasing as projects at Oak Ridge are near completion and as a result of certain other projects with the federal government in which we have been issued subcontracts previously managed by Bechtel Jacobs being assumed by LATA/Parallax. 2006 revenues of our Nuclear Segment include approximately $1.1 million recognized as a result of a settlement of a lawsuit in connection with a dispute over surcharges from waste treated in 2003. While this settlement was finalized in January 2007, it was estimatable and probable as of December 31, 2006. This amount did not exceed contract costs through December 31, 2006 and no contingencies existed in regards to this matter at year-end. Waste received directly from the government increased as government volume normally varies year over year due to funding, volume, and other factors. Hazardous and non hazardous revenue was down reflecting the completion of a special event soil project from existing industrial customers in 2005 which did not repeat in 2006. 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 December 31, 2006 was $12,492,000 compared to $16,374,000 at December 31, 2005. Waste receipts were consistent with 2005, but the backlog reflects increases in processing and disposal for the year. The high levels of backlog material continue to position the segment well from future processing revenue prospective. The Engineering Segment experienced an increase in revenue in 2006 as a result of a special event project.

Cost of Goods Sold

Cost of goods sold decreased $274,000 for the year ended December 31, 2006, as compared to the year ended December 31, 2005, as follows:

(In thousands)	2006	% Revenue	2005	% Revenue	Change
Nuclear	$ 28,493	57.7	$ 29,144	61.7	$ (651)
Engineering	2,561	76.3	2,184	76.6	377
Total	$ 31,054	58.8	$ 31,328	62.5	$ (274)

The Nuclear Segment's cost of goods sold for the year ended December 31, 2006 was down slightly from 2005 despite increased revenue. Transportation and disposal costs were down due to increased government revenue, where disposal and transportation costs are often paid for by the customer. In addition, we recognized all costs related to the Bechtel Jacobs surcharge settlement when they were incurred, and therefore we did not have any costs in the current year related to $1,119,000 in revenue in 2006. The Engineering Segment expense increases reflected increased reimbursable expenses related to the large event project in 2006. Included within cost of goods sold is depreciation and amortization expense of $2,919,000 and $2,765,000 for the year ended December 31, 2006 and 2005, respectively, reflecting an increase of $154,000 over 2005.

Gross Profit

Gross profit for the year ended December 31, 2006, increased $2,957,000 over 2005, as follows:

(In thousands)		2006	% Revenue		2005	% Revenue		Change
Nuclear	$	20,930	42.3	$	18,101	38.3	$	2,829
Engineering		797	23.7		669	23.4	$	128
Total	$	21,727	41.2	$	18,770	37.5	$	2,957

The gross profit for the Nuclear Segment increased $2,829,000 in 2006 over 2005 as we received more government waste, which typically does not require transportation and disposal expense, and produces higher margins. In addition, the surcharge settlement with Bechtel Jacobs did not have any costs of goods sold, and thus increased the gross margin. The gross profit of the Engineering Segment increased as a result of increased revenue.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses increased approximately $2,184,000 for the year ended December 31, 2006, as compared to the corresponding period for 2005, as follows:

(In thousands)		2006	% Revenue		2005	% Revenue		Change
Administrative	$	5,627	¾	$	4,800	¾	$	827
Nuclear		8,147	16.5		6,863	14.5		1,284
Engineering		546	16.3		473	16.6		73
Total	$	14,320	27.1	$	12,136	24.2	$	2,184

We experienced an increase in SG&A expenses throughout the Company over 2005. The increase in corporate administrative overhead was primarily payroll related. We incurred corporate expenses that were higher than 2005 for management incentives, costs related to expensing of stock options under SFAS 123R (see "Note 3 – Share Based Compensation" of Consolidated Financial Statements), costs related to the relocation of the corporate office and internal costs related to the due diligence of a potential acquisition. The Nuclear Segment increased its SG&A expenses to expand its management staff to more effectively bid on new contracts, manage its facilities and increase its efforts towards compliance with corporate policies and regulatory agencies. The increase in SG&A costs in our Engineering Segment were payroll related. Included in SG&A expenses is depreciation and amortization expense of $127,000 and $135,000 for the years ended December 31, 2006 and 2005, respectively.

Loss (Gain) on Disposal of Property and Equipment

The loss on fixed asset disposal/impairment for the year ended December 31, 2006, was $48,000, as compared to a loss of $6,000 for the same period in 2005. The losses for 2006 and 2005 were attributed mainly to the disposal of idle equipment at our Nuclear facility, specifically our DSSI facility.

Interest Income

Interest income increased $154,000 for the year ended December 31, 2006, as compared to the 2005. The increase was due to proceeds from warrants and options exercised and employee stock purchase plan proceeds which totaled $12,079,000. Also, an additional funding of our finite risk insurance policy resulted in additional interest earned for the year. See later in this Management's Discussion and Analysis – "Liquidity and Capital Resources" for further discussion on the finite risk insurance policy.

Interest Expense

Interest expense decreased $261,000 for the year ended December 31, 2006, as compared to the corresponding period of 2005.

(In thousands)	2006	2005	Change	%
PNC interest	$ 728	$ 834	$ (106)	(12.7)
Other	513	668	(155)	(23.2)
Total	$ 1,241	$ 1,502	$ (261)	(17.4)

The decrease in 2006 is principally a result of the overall improvement in our debt position accelerated by the exercise of warrants and options for purchase of 7,106,790 shares of our Common Stock, as well as proceeds from our employee stock purchase plan, which added $12,709,000 in cash. Reduced borrowing on the revolver, along with diminishing principal on other equipment related loans continues to reduce our interest expense.

Interest Expense - Financing Fees

Interest expense-financing fees decreased $126,000 for the year ended December 31, 2006, as compared to the corresponding period of 2005. Expenses in 2006 reflect the amortization of our prepaid financing fee for our term loan which expires in May of 2008. Expense for 2005 includes a fee paid to PNC for the increase in the term note by approximately $4,400,000 (See "Financing Activities" in this Management Discussion & Analysis). The remaining financing fees are principally associated with the PNC revolving credit and term loan and are amortized to expense over the term of the loan agreements. As of December 31, 2006, the unamortized balance of prepaid financing fees is $267,000. These prepaid financing fees will be amortized through May 2008 at a rate of $16,000 per month which approximates the rate using the effective interest method.

Income Tax

For the years ended December 31, 2006 and 2005, we had approximately $83,000 and $50,000, respectively, in federal income tax expense, as a result of a 100% valuation allowance against the deferred tax asset resulting from our alternative minimum tax liability at December 31, 2006, and $424,000 and $382,000, respectively, in state income taxes primarily for our subsidiary, M&EC, in Oak Ridge, Tennessee. See "Note 12" to "Notes to Consolidated Financial Statements" for a reconciliation between taxes at the statutory rate and the provision for income taxes as reported.

Discontinued Operations

Our Industrial Segment has sustained losses in each year since 2000. The facilities in our Industrial Segment provide on-and-off site treatment, storage, processing and disposal of hazardous and non-hazardous industrial waste, and wastewater. Certain of our facilities within the Industrial Segment provide waste management services to governmental agencies. On May 18, 2007, our Board of Directors authorized management to divest all or a part of our Industrial Segment. The decision to consider the possible sale of all, or a part of, our Industrial Segment is based on our belief that our Nuclear Segment represents a sustainable long-term growth driver of our business. During 2007, we have entered into several letters of intent to sell various portions of our Industrial Segment. All of the letters of intent have expired or terminated without being completed, except for the following: we completed, on January 8, 2008, the sale of substantially all of the assets of Perma-Fix Maryland, Inc. ("PFMD") for $3,825,000 in cash, subject to a working capital adjustment during 2008, and assumption by the buyer of certain liabilities of PFMD and during March 2008, we completed the sale of substantially all of the assets of Perma-Fix of Dayton, Inc. ("PFD") for approximately $2,143,000 in cash, subject to certain working capital adjustments after the closing, plus assumption of certain of PFD's liabilities and obligations by the buyer, (including, without limitation, certain obligations under the Settlement Agreement entered into by PFD in connection with the settlement of plaintiff's claims under the Fisher Lawsuit, as discussed and defined below, and approximately $562,000 in PFD's obligations for and relating to supplemental environmental projects that PFD is obligated to perform under the Consent Decree entered into with the federal government in settlement of the Government's Lawsuit as discussed and defined below) in connection with the Fisher Lawsuit. We are negotiating the sale of Perma-Fix South Georgia, Inc. ("PFSG"). We anticipate that the sale of PFSG will be completed by the end of May 2008. The terms of the sale of PFSG are subject to being finalized. We are attempting to sell the other companies and/or operations within our Industrial Segment, but as of the date of this report, we have not entered into any agreements regarding these other companies or operations within our Industrial Segment.

At May 25, 2007, the Industrial Segment met the held for sale criteria under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and therefore, certain assets and liabilities of the Industrial Segment reclassified as discontinued operations in the Consolidated Balance Sheets, and we have ceased depreciation of the Industrial Segment's long-lived assets classified as held for sale. The results of operations and cash flows of the Industrial Segment have been reported in the Consolidated Financial Statements as discontinued operations for all periods presented.

We believe that the divestiture of certain facilities within our Industrial Segment has not occurred within the anticipated time period due to the current state of our economy which has impacted potential buyers' ability to obtain financing. In addition, the original letter of intent entered between us and a potential buyer included the majority of the companies within our Industrial Segment. This sale did not materialize, leading us to pursue the potential sale of each company individually. Although this process has taken more time than anticipated for numerous reasons, we continue to market the facilities within our Industrial Segment for eventual sale.

Our Industrial Segment generated revenues of $30,407,000, $35,148,000, and $41,489,000 for the years ended December 31, 2007, 2006, and 2005, respectively, and had net loss, net of taxes, of $9,727,000, $933,000 and $762,000 for the same periods, respectively. Our net loss, net of taxes, for 2007 was impacted by a number of items listed below. The decline in revenues since 2005 is due to termination of certain government and commercial contracts.

A subsidiary within our Industrial Segment, PFD, was defending a lawsuit styled *Barbara Fisher v. Perma-Fix of Dayton, Inc.*, in the United States District Court, Southern District of Ohio (the "Fisher Lawsuit"). This citizen's suit was brought under the Clean Air Act alleging, among other things, violations by PFD of state and federal clean air statutes connected with the operation of PFD's facility located in Dayton, Ohio. As further previously disclosed, the U.S. Department of Justice, on behalf of the Environmental Protection Agency, intervened in the Fisher Lawsuit alleging, among other things, substantially similar violations alleged in the Fisher Lawsuit (the "Government's Lawsuit").

During December, 2007, PFD and the federal government entered into a Consent Decree formalizing settlement of the government's portion of the above described lawsuit, which Consent Decree was approved by the federal court during the first quarter of 2008. Pursuant to the Consent Decree, the settlement with the federal government resolved the government's claims against PFD and requires PFD to:

- pay a civil penalty of $360,000;

- complete three supplemental environmental projects costing not less than $562,000 to achieve air emission controls that go above and beyond those required by any current environmental regulations.
- implement a variety of state and federal air permit pollution control measures; and
- take a variety of voluntary steps to reduce the potential for emissions of air pollutants.

During December 2007, PFD and Plaintiff, Fisher, entered into a Settlement Agreement formalizing settlement of the Plaintiff's claims in the above lawsuit. The settlement with Plaintiff Fisher resolved the Plaintiff's claims against PFD and, subject to certain conditions set forth in the Settlement Agreement, requires PFD to pay a total of $1,325,000. Our insurer has agreed to contribute $662,500 toward the settlement cost of the citizen's suit portion of the litigation, which we received on March 13, 2008. Based on discussion with our insurer, our insurer will not pay any portion of the settlement with the federal government in the Government Lawsuit.

As of December 31, 2007, we have recorded a total of $1,625,000 of charges in our discontinued operations for settlement by PFD of the Fisher Lawsuit and the Government Lawsuit.

In connection with PFD's sale of substantially all of its assets during March, 2008, as discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations", the buyer has agreed to assume certain of PFD's obligations under the Consent Decree and Settlement Agreement, including, without limitation, PFD's obligation to implement supplemental environmental projects costing not less than $562,000, implement a variety of state and federal air permit control measures and reduce the potential for emissions of air pollutants.

As previously reported, on April 12, 2007 our insurer agreed to reimburse PFD for reasonable defense costs of litigation incurred prior to our insurer's assumption of the defense, but this agreement to defend and indemnify PFD was subject to the our insurer's reservation of its rights to deny indemnity pursuant to various policy provisions and exclusions, including, without limitation, payment of any civil penalties and fines, as well as our insurer's right to recoup any defense cost it has advanced if our insurer later determines that its policy provides no coverage. When, our insurer withdrew its prior coverage denial and agreed to defend and indemnify PFD in the above described lawsuits, subject to certain reservation of rights, we had incurred more than $2.5 million in costs in vigorously defending against the Fisher and the Government Lawsuits. To date, our insurer has reimbursed PFD approximately $2.5 million for legal defense fees and disbursements, which we recorded as a recovery within our discontinued operations in the second quarter of 2007. Partial reimbursement from our insurer of $750,000 was received on July 11, 2007. A second reimbursement of approximately $1.75 million was received on August 17, 2007. Our insurer has advised us that they will reimburse us for approximately another $82,000 in legal fees and disbursements, which we recorded as a recovery within our discontinued operations in the 4th quarter 2007. This reimbursement is subject to our insurer's reservation of rights as noted above. On February 12, 2008, we received reimbursement of approximately $24,000 from our insurer. We anticipate receiving the remaining reimbursement by the end of the second quarter of 2008.

As conditions warranted, we performed an updated internal analysis on the tangible and intangible assets to test for impairment in the Industrial Segment as required by Statement of Financial Accounting Standard (SFAS) 144, "Accounting for the Impairment or disposal of Long-Lived Assets" and SFAS 142, "Goodwill and Other Intangible Assets". Our analysis, as required by SFAS 144, included the comparison of the offered sale price less cost to sell to the carrying value of the investment under each LOI separately. Based on our analysis, we concluded that the carrying value of the tangible assets for Perma-Fix Dayton, Inc., Perma-Fix of Treatment Services, Inc., Perma-Fix of Orlando, Inc., and Perma-Fix of South Georgia, Inc. facilities exceeded its fair value, less cost to sell. Consequently, in 2007, we recorded $2,727,000, $1,804,000, $507,000 and $1,329,000, respectively, in tangible asset impairment loss for each of the facilities, which are included in "Loss from discontinued operations, net of taxes" on our Consolidated Statements of Operations for the year ended December 31, 2007. We also performed financial valuations on the intangible assets of the Industrial Segment as a whole to test for impairment as required by SFAS 142. We concluded

that no other tangible and intangible impairments existed as of December 31, 2007.

Assets related to discontinued operations total $14,341,000 and $22,750,000 as of December 31, 2007, and 2006, respectively, and liabilities related to discontinued operations total $11,949,000 and $10,632,000 as of December 31, 2007 and 2006, respectively (see “Note 6 – Discontinued Operations” in “Notes to Consolidated Financial Statements” for assets and liabilities of discontinued operations held for sale).

Non Operational Facilities
The Industrial Segment includes two previously shut-down facilities which were and continue to be presented as discontinued operations in prior years. These facilities include Perma-Fix of Pittsburgh, Inc. (“PFP”) and Perma-Fix of Michigan, Inc (“PFMI”). Our decision to discontinue operations at PFP was due to our reevaluation of the facility and our inability to achieve profitability at the facility. During February 2006, we completed the remediation of the leased property and the equipment at PFP, and released the property back to the owner. Our decision to discontinue operations at PFMI was principally a result of two fires that significantly disrupted operations at the facility in 2003, and the facility’s continued drain on the financial resources of our Industrial Segment. As a result of the discontinued operations at the PFMI facility, we were required to complete certain closure and remediation activities pursuant to our RCRA permit, which were completed in January 2006. In September 2006, PFMI signed a Corrective Action Consent Order with the State of Michigan, requiring performance of studies and development and execution of plans related to the potential clean-up of soils in portions of the property. The level and cost of the clean-up and remediation are determined by state mandated requirements. Upon discontinuation of operations in 2004, we engaged our engineering firm, SYA, to perform an analysis and related estimate of the cost to complete the RCRA portion of the closure/clean-up costs and the potential long-term remediation costs. Based upon this analysis, we estimated the cost of this environmental closure and remediation liability to be $2,464,000. During 2006, based on state-mandated criteria, we re-evaluated our required activities to close and remediate the facility, and during the quarter ended June 30, 2006, we began implementing the modified methodology to remediate the facility. As a result of the reevaluation and the change in methodology, we reduced the accrual by $1,182,000. We have spent approximately $710,000 for closure costs since September 30, 2004, of which $81,000 has been spent during 2007 and $74,000 was spent in 2006. In the 4th quarter of 2007, we reduced our reserve by $9,000 as a result of our reassessment of the cost of remediation. We have $563,000 accrued for the closure, as of December 31, 2007, and we anticipate spending $401,000 in 2008 with the remainder over the next five years. Based on the current status of the Corrective Action, we believe that the remaining reserve is adequate to cover the liability.

As of December 31, 2007, PFMI has a pension payable of $1,287,000. The pension plan withdrawal liability is a result of the termination of the union employees of PFMI. The PFMI union employees participate in the Central States Teamsters Pension Fund ("CST"), which provides that a partial or full termination of union employees may result in a withdrawal liability, due from PFMI to CST. The recorded liability is based upon a demand letter received from CST in August 2005 that provided for the payment of $22,000 per month over an eight year period. This obligation is recorded as a long-term liability, with a current portion of $158,000 that we expect to pay over the next year.

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

At December 31, 2007, we had cash of $102,000. The following table reflects the cash flow activities during 2007.

(In thousands)		2007
Cash provided by continuing operations	$	5,927
Cash provided by discontinued operations		771
Cash used in investing activities of continuing operations		(7,218)
Cash used in investing activities of discontinued operations		(359)
Cash used in financing activities of continuing operations		(1,181)
Principal repayment of long-term debt for discontinued operations		(366)
Decrease in cash	$	(2,426)

We are in a net borrowing position and therefore attempt to move all excess cash balances immediately to the revolving credit facility, so as to reduce debt and interest expense. We utilize a centralized cash management system, which includes remittance lock boxes and is structured to accelerate collection activities and reduce cash balances, as idle cash is moved without delay to the revolving credit facility or the Money Market account, if applicable. The cash balance at December 31, 2007, primarily represents minor petty cash and local account balances used for miscellaneous services and supplies.

Operating Activities

Accounts Receivable, net of allowances for doubtful accounts, totaled $13,536,000, an increase of $4,048,000 over the December 31, 2006, balance of $9,488,000. Our newly acquired PFNWR facility accounted for $1,373,000 of the increase. Excluding the increase of PFNWR facility, the increase of approximately $2,886,000 in account receivables in our Nuclear Segment relates to an increase in billing of unbilled receivables of approximately $1,200,000 and a large shipment received late in the year resulting in invoicing totaling approximately $1,500,000. The Engineering Segment decreased by $211,000 which relates to lower revenue in 2007.

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 December 31, 2007, unbilled receivables totaled $14,093,000, a decrease of $820,000 from the December 31, 2006, balance of $14,913,000. Perma-Fix Northwest Richland, Inc. facility accounted for $1,712,000 of the unbilled as of December 31, 2007. Excluding the unbilled receivables of our Perma-Fix Northwest Richland, Inc. facility, the reduction of $2,532,000 of the unbilled receivable was the result of continued efforts to reduce this balance. The delays in processing invoices, as mentioned above, usually take several months to complete but are normally considered collectible within twelve months. However, as we now have historical data to review the timing of these delays, we realize that certain issues, including but not limited to delays at our third party disposal site, can exacerbate collection of some of these receivables greater than twelve months. Therefore, we have segregated the unbilled receivables between current and long term. The current portion of the unbilled receivables as of December 31, 2007 is $10,321,000, a decrease of $1,992,000 from the balance of $12,313,000 as of December 31, 2006. The long term portion as of December 31, 2007 is $3,772,000, an increase of $1,172,000 from the balance of $2,600,000 as of December 31, 2006.

As of December 31, 2007, total consolidated accounts payable was $5,010,000, an increase of $2,555,000 from the December 31, 2006, balance of $2,455,000. Perma-Fix Northwest Richland, Inc. accounted for $1,110,000 of this increase. The remaining increase of $1,445,000 is the result of our continued efforts to manage payment terms with our vendors to maximize our cash position throughout all segments. Accounts payable can increase in conjunction with decreases in accrued expenses depending on the timing of vendor invoices. We continue to manage payment terms with our vendors to maximize our cash position throughout all segments.

Accrued Expenses as of December 31, 2007, totaled $9,207,000, an increase of $4,457,000 over the December 31, 2006, balance of $4,750,000. Accrued expenses are made up of accrued compensation, interest payable, insurance payable, certain tax accruals, and other miscellaneous accruals. Perma-Fix Northwest Richland, Inc. accounted for $362,000 of this balance. The remainder of the increase is primarily due to reclass of interests payable of approximately $2,568,000 from long term to current for two notes due to the IRS payable by December 31, 2008, resulting from the acquisition of M&EC in 2001 (see "Financing Activities in this Management's Discussion and Analysis of Financial Condition and Results of Operations"). The remaining increase is due primarily to our insurance payable resulting from renewal of the Company's general insurance policies.

Disposal/transportation accrual as of December 31, 2007, totaled $6,677,000, an increase of $3,309,000 over the December 31, 2006 balance of $3,368,000. Perma-Fix Northwest Richland, Inc. accounted for $4,118,000 of the accrual. Excluding the accrual of Perma-Fix Northwest Richland, Inc., the decrease of $809,000 was attributable to the Company's continued efforts to dispose of waste at the lowest possible cost. Disposal accrual can vary based on revenue mix as government waste generally is disposed of by the generator and is not an expense to us. In 2007, we established a new disposal outlet at the Nevada Test Site which eliminated our disposal expense for certain waste streams.

Our working capital position at December 31, 2007 was a negative $17,154,000, which includes the working capital of our discontinued operations, as compared to our positive working capital position of $12,810,000 at December 31, 2006. Our working capital in 2007 was negatively impacted by the reclassification of approximately $11,403,000 of debt owed to certain of our lenders from long term to current. As of December 31, 2007, the fixed charge coverage ratio contained in our PNC loan agreement fell below the minimum requirement. We obtained a waiver from our lender for this non-compliance as of December 31, 2007. On April 1, 2008, the date our Form 10-K was originally filed, we did not expect to be in compliance with the fixed charge coverage ratio as of the end of the first and second quarters of 2008 and, as a result, we were required under generally accepted accounting principles to reclassify the long term portion of this debt to current due to the likelihood of future default. Furthermore, we have a cross default provision on our 8.625% promissory note with a separate bank and have reclassified the long term portion of that debt to current as well. On April 4, 2008 however, our lender further revised our loan covenant which has now enabled us to demonstrate, based on our projections, the likelihood of us meeting our fixed charge coverage ratio in 2008. As a result, absent any future events causing the classification of this debt to be current, we expect this debt to be reflected as long term (less current maturities) in our next reporting period. Our working capital for the year was also impacted by approximately $8,600,000 expended to acquire PFNWR. The working capital of PFNWR was also impacted by the current portion of a short term loan of $2,000,000 which was set up for the acquisition as a "bridge" until we restructure our credit facility. In addition, a large disposal accrual related to the legacy waste acquired increased our current liabilities by approximately $3,300,000. We are required to dispose of this legacy waste on or before August 31, 2008. Other reductions to our current assets or increases to our current liabilities which impacted our working capital was the annual cash payment to the finite risk sinking fund of $1,000,000, our semi-annual payment to the IRS related to our two notes at our M&EC facility of approximately $1,000,000 and the reclassification of interest on the two notes from long term to current of approximately $2,568,000. Our working capital position continues to experience the negative impact of certain liabilities associated with discontinued operations.

Investing Activities
Our purchases of capital equipment for the year ended December 31, 2007 totaled approximately $3,988,000 of which $2,982,000 and $1,006,000 was for our continuing and discontinued operations, respectively. Of the total capital spending, $258,000 and $356,000 was financed for our continuing and discontinued operations, respectively, resulting in total net purchases of $3,374,000 funded out of cash flow. These expenditures were for expansion and improvements to the operations principally within the Nuclear and Industrial Segments. These capital expenditures were funded by the cash provided by operations. We have budgeted capital expenditures of approximately $3,100,000 for fiscal year 2008 for our operating segments to expand our operations into new markets, reduce the cost of waste processing and handling, expand the range of wastes that can be accepted for treatment and processing, and to maintain permit compliance requirements. We expect to fund these capital expenditures through our operations. Certain of these budgeted projects are discretionary and may either be delayed until later in the year or deferred altogether. We have traditionally incurred actual capital spending totals for a given year less than the initial budget amount. The initiation and timing of projects are also determined by financing alternatives or funds available for such capital projects. We anticipate funding these capital expenditures by a combination of lease financing and internally generated funds.

In June 2003, we entered into a 25-year finite risk insurance policy, which provides financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure. Prior to obtaining or renewing operating permits we are required to provide financial assurance that guarantees to the states that in the event of closure our permitted facilities will be closed in accordance with the regulations. The policy provides a maximum $35 million of financial assurance coverage of which the coverage amount totals $30,096,000 at December 31, 2007, and has available capacity to allow for annual inflation and other performance and surety bond requirements. This finite risk insurance policy required an upfront payment of $4.0 million, of which $2,766,000 represented the full premium for the 25-year term of the policy, and the remaining $1,234,000, was deposited in a sinking fund account representing a restricted cash account. In February 2007, we paid our fourth of nine required annual installments of $1,004,000, of which $991,000 was deposited in the sinking fund account, the remaining $13,000 represents a terrorism premium. As of December 31, 2007, we have recorded $5,772,000 in our sinking fund on the balance sheet, which includes interest earned of $575,000 on the sinking fund as of December 31, 2007. We recorded $264,000 of interest income during 2007 on the sinking fund for 2007. 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.

In August 2007, we entered into a second finite risk insurance policy for our Perma-Fix Northwest Richland, Inc. facility, which was acquired on June 13, 2007. The policy provides an initial $7.8 million of financial assurance coverage with annual growth rate of 1.5%, which at the end of the four year term policy, will provide maximum coverage of $8.2 million. The policy will renew automatically on an annual basis at the end of the four year term and will not be subject to any renewal fees. The policy requires total payment of $4.4 million, consisting of an annual payment of $1.4 million, and two annual payments of $1.5 million, starting July 31, 2007. In July 2007, we paid the first of our three annual payments of $1.4 million, of which $1.1 million represented premium on the policy and the remaining $258,000 was deposited into a sinking fund account. Each of the two remaining $1.5 million payments will consist of $176,000 in premium with the remaining $1.3 million to be deposited into a sinking fund. As of December 31, 2007, we have recorded $262,000 in our sinking fund on the balance sheet, which includes interest earned of $4,000 on the sinking fund for the year ended December 31, 2007.

On June 13, 2007, the Company completed its acquisition of Nuvotec and its wholly owned subsidiary, Pacific EcoSolutions, Inc (PEcoS), pursuant to the terms of the Merger Agreement, between Perma-Fix, Perma-Fix's wholly owned subsidiary, Transitory, Nuvotec, and PEcoS, dated April 27, 2007, which was subsequently amended on June 13, 2007. The Company acquired 100% of the voting shares of Nuvotec. The acquisition was structured as a reverse subsidiary merger, with Transitory being merged into Nuvotec, and Nuvotec being the surviving corporation. As a result of the merger, Nuvotec became a wholly owned subsidiary of Perma-Fix Environmental Services Inc. (PESI). Nuvotec's name was changed to Perma-Fix Northwest, Inc. ("PFNW"). PEcoS, whose name was changed to Perma-Fix Northwest Richland, Inc. ("PFNWR") on August 2, 2007, is a wholly-owned subsidiary of PFNW. PEcoS is a permitted hazardous, low level radioactive and mixed waste treatment, storage and disposal facility located in the Hanford U.S. Department of Energy site in the eastern part of the state of Washington. The strategic addition of Nuvotec and its wholly owned subsidiary, PEcoS provides the Company with immediate access to treat some of the most complex nuclear waste streams in the nation and should provide significant growth opportunity in the coming years.

Under the terms of the Merger Agreement, the purchase price paid by the Company in connection with the acquisition was $17.3 million, consisting of as follows:

(a) $2.3 million in cash at closing of the merger, with $1.5 million payable to unaccredited shareholders and $0.8 million payable to shareholders of Nuvotec that qualified as accredited investors pursuant to Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Act").

(b) Also payable only to the shareholders of Nuvotec that qualified as accredited investors:

- $2.5 million, payable over a four year period, unsecured and nonnegotiable and bearing an annual rate of interest of 8.25%, with (i) accrued interest only payable on June 30, 2008, (ii) $833,333.33, plus accrued and unpaid interest, payable on June 30, 2009, (iii) $833,333.33, plus accrued and unpaid interest, payable on June 30, 2010, and (iv) the remaining unpaid principal balance, plus accrued and unpaid interest, payable on June 30, 2011 (collectively, the "Installment Payments"). The Installment Payments may be prepaid at any time by Perma-Fix without penalty; and

- 709,207 shares of Perma-Fix common stock, which were issued on July 23, 2007, with such number of shares determined by dividing $2.0 million by 95% of average of the closing price of the common stock as quoted on the NASDAQ during the 20 trading days period ending five business days prior to the closing of the merger. The value of these shares on June 13, 2007 was $2.2 million, which was determined by the average closing price of the common stock as quoted on the NASDAQ four days prior to and following the completion date of the acquisition, which was June 13, 2007.

(c) The assumption of $9.4 million of debt, $8.9 million of which was payable to KeyBank National Association which represents debt owed by PFNW under a credit facility. As part of the closing, the Company paid down $5.4 million of this debt resulting in debt remaining of $4.0 million.

(d) Transaction costs totaling $0.9 million.

In addition to the above, an agreement to a contingency of an earn-out amount not to exceed $4.4 million over a four year period ("Earn-Out Amount"). The earn-out amounts will be earned if certain annual revenue targets are met by the Company's Nuclear Segment. The first $1.0 million of the earn-out amount, when earned, will be placed in an escrow account to satisfy certain indemnification obligations under the Merger Agreement of Nuvotec, PEcoS, and the shareholders of Nuvotec to Perma-Fix that are identified by Perma-Fix within the escrow period as provided in the Merger Agreement. The earn-out amount, if and when paid, will increase goodwill. As of December 31, 2007 the Company has not made or accrued any earn-out payments to Nuvotec shareholders because such revenue targets have not been met.

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

Financing Activities

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. The Agreement provided for a term loan ("Term Loan") in the amount of $7,000,000, which requires principal repayments based upon a seven-year amortization, payable over five years, with monthly installments of $83,000 and the remaining unpaid principal balance due on November 27, 2008. The Agreement also provided for a revolving line of credit ("Revolving Credit") with a maximum principal amount outstanding at any one time of $18,000,000. 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 December 31, 2007, the excess availability under our revolving credit was $5,700,000 based on our eligible receivables.

On March 26, 2008, we entered into an amendment with PNC, which extended the due date of the $25 million credit facility from November 27, 2008 to September 30, 2009. Pursuant to the amendment, we may terminate the agreement upon 60 days' prior written notice upon payment in full of the obligation. The amendment also waived the Company's violation of the fixed charge coverage ratio as of December 31, 2007, as discussed below. On April 4, 2008, this amendment was modified by PNC to change the methodology in calculating our fixed charge coverage ratio in each quarter of 2008. As a condition to this amendment, we have agreed to pay PNC a fee of $25,000.

Our credit facility with PNC contains financial covenants. A breach of any of these covenants, unless waived by PNC, could result in a default under our credit facility triggering our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. In the past, none of our covenants have been restrictive to our operations; however, in 2007, our fixed charge coverage ratio fell below the minimum requirement pursuant to the covenant. We obtained a waiver from our lender for this non-compliance as of December 31, 2007. On April 1, 2008, the date our Form 10-K was originally filed, we did not expect to be in compliance with the fixed charge coverage ratio as of the end of the first and second quarters of 2008 and as a result, we were required under generally accepted accounting principles to reclassify the long term portion of debt to current. Furthermore, we have a cross default provision on our 8.625% KeyBank National Association promissory note and have reclassified the long term portion of that debt to current as well. The April 4th 2008 modification to our fixed charge coverage ratio has resulted in an expectation that we will now be able to comply with our financial covenants in 2008, based on our projections.

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 note is due on December 31, 2008, with principal repayment of $400,000 to be made in June 2008 and the remaining $235,000 to be made by December 31, 2008. 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 December 31, 2007) and payable in one lump sum at the end of the loan period. On December 31, 2007, the outstanding balance was $2,704,000 including accrued interest of approximately $2,069,000. PDC has directed

M&EC to make all payments under the promissory note directly to the 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 Internal Revenue Service ("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 agreement is due on December 31, 2008, with principal repayments of approximately $100,000 to be made in June 2008 and the remaining $53,000 to be made by December 31, 2008. 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 December 31, 2007, the rate was 10%. On December 31, 2007, the outstanding balance was $652,000 including accrued interest of approximately $499,000.

In conjunction with our acquisition of Nuvotec (n/k/a Perma-Fix of Northwest, Inc.) and PEcoS (n/k/a Perma-Fix of Northwest Richland, Inc.), (collectively called "PFNWR") which was completed on June 13, 2007, we entered into a promissory note for a principal amount of $4.0 million to KeyBank National Association, dated June 13, 2007, which represents debt assumed by us as result of the acquisition. The promissory note is payable over a two years period with monthly principal repayment of $160,000 starting July 2007 and $173,000 starting July 2008, along with accrued interest. Interest is accrued at prime rate plus 1.125%. On December 31, 2007, the outstanding principal balance was $3,039,000 and has been classified as current due to this note's cross default provisions addressed above.

Additionally, in conjunction with our acquisition of PFNWR, we agreed to pay shareholders of Nuvotec that qualified as accredited investors pursuant to Rule 501 of Regulation D promulgated under the Securities Act of 1933, $2.5 million, with principal payable in equal installment of $833,333 on June 30, 2009, June 30, 2010, and June 30, 2011. Interest is accrued on outstanding principal balance at 8.25% starting in June 2007 and is payable on June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011. As of December 31, 2007, we had accrued interest of approximately $110,000.

During 2007, we issued 234,927 shares of our Common Stock upon exercise of 237,225 employee stock options, at exercise prices from $1.25 to $2.19 per share. An optionee surrendered 2,298 shares of personally held Common Stock of the Company as payment for the exercise of the 4,000 options. We also issued 563,633 shares of our Common Stock upon exercise of 1,281,731 Warrants on a cashless basis by two investors, pursuant to the Note and Warrant Purchase Agreements issued by the Company on July 31, 2001, resulting in surrender of the remaining 718,098 Warrants. Total proceeds received during 2007 related to warrant and option exercises totaled approximately $472,000, which includes $418,000 from employee stock option exercises and $54,000 from repayment of stock subscription resulting from exercise of warrants to purchase 60,000 shares of our Common Stock on a loan by the Company at an arms length basis in 2006.

In summary, the acquisition of PFNWR has impacted our liquidity. We continue to draw funds from our revolver to make the payments on debt that we assumed as result of the acquisition. Cash (net of collateralized portion held by our credit facility) received from the sale of PFMD and PFD in the first quarter of 2008 was used to reduce our term note, with the remaining cash used to reduce our revolver. Cash to be received subject from the sale of any remaining facilities/operations within our Industrial Segment (net of the collateralized portion held by our credit facility) will be used to further reduce our term note, with any remaining cash used to reduce our revolver. We continue to take steps to improve our operations and liquidity and to invest working capital into our facilities to fund capital additions in the Nuclear Segment. We have initiated discussions with our lender to restructure our credit facility to better support the needs of the Company once the remaining Industrial Segment facilities/operations are sold. Should this restructuring not occur in the short term, we believe that our cash flows from operations are sufficient to service the Company's current obligations.

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2007, 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	2008	2009-2011	2012-2013	After 2013
Long-term debt [7]	$ 18,016	$ 15,292	$ 2,714	$ 10	$ —
Interest on long-term debt [1]	3,195	2,782	413	¾	¾
Interest on variable rate debt [2]	595	422	173	¾	¾
Operating leases	2,245	677	1,418	150	¾
Finite risk policy [3]	10,814	5,278	4,532	1,004	¾
Pension withdrawal liability [4]	1,287	158	574	483	72
Environmental contingencies [5]	1,741	911	608	222	¾
Purchase obligations [6]	—	—	—	—	—
Total contractual obligations	$ 37,893	$ 25,520	$ 10,432	$ 1,869	$ 72

[1] Our IRS Note and PDC Note agreements call for interest to be paid at the end of the term, December 2008. In conjunction with our acquisition of PFNWR, which was completed on June 13, 2007, we agreed to pay shareholders of Nuvotec that qualified as accredited investors pursuant to Rule 501 of Regulation D promulgated under the Securities Act of 1933, $2.5 million, with principal payable in equal installment of $833,333 on June 30, 2009, June 30, 2010, and June 30, 2011. Interest is accrued on outstanding principal balance at 8.25% starting in June 2007 and is payable on June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011.

[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 2008 through 2009. Pursuant to the terms of our credit facility, proceeds from the sale of our Industrial Segment facilities must be used to pay down our term note first, with the remaining to pay down our revolver. As such, we anticipate a full repayment of our Term Loan by June 2008. In addition, we anticipate a full repayment of our Revolver by September 30, 2009. As result of the acquisition of our new Perma-Fix Northwest facility on June 13, 2007, we have entered into a promissory note for a principal amount $4.0 million to KeyBank National Association which has variable interest rate of 1.125% over the prime rate, and as such, we also have assumed an increase in prime rate of 0.25% through July 2009, when the note is due.

[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. The environmental contingencies noted are for Perma-Fix of Michigan, Inc., Perma-Fix of Memphis, Inc., and Perma-Fix of Dayton, Inc., which are the financial obligations of the Company. The environmental liability of PFD was retained by the Company upon the sale of PFD in March 2008.

(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.

(7) On April 1, 2008, the date our Form 10-K was originally filed, we were required to reclassify approximately $11,403,000 of debt owed to certain of our lenders from long term to current as a result of our inability to demonstrate that we would be in compliance with our fixed charge coverage ratio contained in our PNC loan agreement as of the end of the first and second quarters of 2008. Furthermore, we have a cross default provision on our 8.625% KeyBank National Association promissory note and have reclassified the long term portion of that debt to current as well. On April 4, 2008, our lender amended the methodology in calculating our quarterly fixed charge coverage ratio which has enabled us to demonstrate, based on our projections, the likelihood of us meeting our fixed charge coverage ratio in 2008. As a result, absent any future events causing the classification of this debt to be current, we expect this debt to be reflected as long term (less current maturities) in our next reporting period.

Critical Accounting Estimates

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

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

Allowance for Doubtful Accounts. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts, which is a valuation allowance that reflects management's best estimate of the amounts that are uncollectible. We regularly review all accounts receivable balances that exceed 60 days from the invoice date and based on an assessment of current credit worthiness, estimate the portion, if any, of the balances that are uncollectible. Specific accounts that are deemed to be uncollectible are reserved at 100% of their outstanding balance. The remaining balances aged over 60 days have a percentage applied by aging category (5% for balances 61-90 days, 20% for balances 91-120 days and 40% for balances over 120 days aged), based on a historical valuation, that allows us to calculate the total reserve required. This allowance was approximately 0.3% of revenue for 2007 and 1.0%, of accounts receivable as of December 31, 2007. Additionally, this allowance was approximately 0.3% of revenue for 2006 and 1.7% of accounts receivable as of December 31, 2006.

Intangible Assets. Intangible assets relating to acquired businesses consist primarily of the cost of purchased businesses in excess of the estimated fair value of net identifiable assets acquired ("goodwill") and the recognized permit value of the business. We continually reevaluate the propriety of the carrying amount of permits and goodwill to determine whether current events and circumstances warrant adjustments to the carrying value. We test goodwill and permits, separately, for impairment, annually as of October 1. Our annual impairment test as of October 1, 2007 and 2006 resulted in no impairment of goodwill and permits. The methodology utilized in performing this test estimates the fair value of our operating segments using a discounted cash flow valuation approach. This approach is dependent on estimates for future sales, operating income, 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.

As result of classifying our Industrial Segment as discontinued operations in 2007, we performed internal financial valuations on the intangible assets of the Industrial Segment as a whole based on the LOIs and offers received to test for impairment as required by SFAS 142. We concluded that no intangible impairments existed as of December 31, 2007.

Property and Equipment
Property and equipment expenditures are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets for financial statement purposes, while accelerated depreciation methods are principally used for income tax purposes. Generally, annual depreciation rates range from ten to forty years for buildings (including improvements and asset retirement costs) and three to seven years for office furniture and equipment, vehicles, and decontamination and processing equipment. Leasehold improvements are capitalized and amortized over the lesser of the term of the lease or the life of the asset. Maintenance and repairs are charged directly to expense as incurred. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts, and any gain or loss from sale or retirement is recognized in the accompanying consolidated statements of operations.

In accordance with Statement 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", long-lived assets, such as property, plant and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. As result of the approved divestiture of our Industrial Segment by our Board of Directors and the subsequent letters of intent entered and prospective interests received, we performed updated financial valuations on the tangibles on the Industrial Segment to test for impairment as required by Statement of Financial Accounting Standards 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Our analysis included the comparison of the offered sale price less cost to sell to the carrying value of the investment under each LOI separately in the Industrial Segment. Based on our analysis, we concluded that the carrying value of the tangible assets for Perma-Fix Dayton, Inc., Perma-Fix of Treatment Services, Inc., Perma-Fix of Orlando, Inc., and Perma-Fix of South Georgia, Inc. facilities exceeded its fair value, less cost to sell. Consequently, we recorded $2,727,000, $1,804,000, $507,000 and $1,329,000, respectively, in tangible asset impairment loss for each of the facilities, which are included in "loss from discontinued operations, net of taxes" on our Consolidated Statements of Operations for the year ended December 31, 2007.

Accrued Closure Costs. Accrued closure costs represent a contingent environmental liability to clean up a facility in the event we cease operations in an existing facility. The accrued closure costs are estimates based on guidelines developed by federal and/or state regulatory authorities under Resource Conservation and Recovery Act (“RCRA”). Such costs are evaluated annually and adjusted for inflationary factors and for approved changes or expansions to the facilities. Increases due to inflationary factors for 2007 and 2006, have been approximately 2.9%, and 2.77%, 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 within our discontinued operations. The current and long-term accrual amounts for the projects are our best estimates based on proposed or approved processes for clean-up. It is contemplated that the remediation project at PFSG will be assumed by the buyer of the facility if the proposed sale of the facility is completed. The circumstances that could affect the outcome range from new technologies that are being developed every day to reduce our overall costs, to increased contamination levels that could arise as we complete remediation which could increase our costs, neither of which we anticipate at this time. In addition, significant changes in regulations could adversely or favorably affect our costs to remediate existing sites or potential future sites, which cannot be reasonably quantified. Our environmental liabilities also include $391,000 in accrued long-term environmental liability for our Maryland facility acquired in March 2004. As previously discussed, we sold substantially all of the assets of the Maryland facility during the first part of 2008. In connection with this sale, the buyer agreed to assume all obligations and liabilities for environmental conditions at the Maryland facility except for fines, assessments, or judgments to governmental authorities prior to the closing of the transaction or third party tort claims existing prior to the closing of the sale.

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

Share-Based Compensation. 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.

Pursuant to the adoption of SFAS 123R, we recorded stock-based compensation expense for the director stock options granted prior to, but not yet vested, as of January 1, 2006, using the fair value method required under SFAS 123R. For the employee stock option grants on March 2, 2006 and May 15, 2006, and the director stock option grant on July 27, 2006 and August 2, 2007, we have estimated compensation expense based on the fair value at grant date using the Black-Scholes valuation model and have recognized compensation expense using a straight-line amortization method over the 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 March 2, 2006 grant has been reduced for estimated forfeitures at a rate of 8.5% for the second year of vesting. We estimated forfeiture rate of 5.7% for the first year of vesting on the March 2, 2006 grant, however, our actual rate of forfeiture was approximately 1.7%, resulting in employee option expense of approximately $30,000. We estimated 0% forfeiture rate for our March 15, 2006 employee option grant and director stock option grants of July 27, 2006 and August 2, 2007. When estimating forfeitures, we considered trends of actual option forfeitures.

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 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%. For the director option grant of August 2, 2007, we calculated a fair value of $2.30 for each option grant with the following assumptions using the Black-Scholes option pricing model: no dividend yield; an expected life of ten years; an expected volatility of 67.60%; and a risk free interest rate of 4.77%.

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

FIN 48

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

Known Trends and Uncertainties

Seasonality. Historically, we have experienced reduced activities and related billable hours throughout the November and December holiday periods within our Engineering Segment. The DOE and DOD represent major customers for the Nuclear Segment. In conjunction with the federal government's September 30 fiscal year-end, the Nuclear Segment historically experienced seasonably large shipments during the third quarter, leading up to this government fiscal year-end, as a result of incentives and other quota requirements. Correspondingly for a period of approximately three months following September 30, the Nuclear Segment is generally seasonably slow, as the government budgets are still being finalized, planning for the new year is occurring and we enter the holiday season. Since 2005, due to our efforts to work with the various government customers to smooth these shipments more evenly throughout the year, we have seen smaller fluctuation in the quarters. In 2007, the US Congress did not pass the fiscal year 2007 budget which resulted in no increase of funding to DOE from the previous years 2006 budget allocation. This resulted in a decrease of the start up of new projects; however, we continued to see shipments at expected levels as compared to 2006. The 2008 budget was signed by the President in December 2007 which provides funding for the start of new projects in 2008. We do not anticipate big fluctuations within 2008 even with the passing of the 2008 budget; however, we cannot provide assurance this will be the case. In addition, our revenue recognition policy further reduces this impact on our revenue. See "Revenue Recognition Estimates" in this "Management Discussion and Analysis of Financial Condition and Results of Operations".

Economic Conditions. With much of our Nuclear Segment customer base being government or prime contractors treating government waste, economic upturns or downturns do not usually have a significant impact on the demand for our services. Our Engineering Segment relies more on commercial customers though this segment makes up a very small percentage of our revenue.

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

We performed services relating to waste generated by the federal government, either directly or indirectly as a subcontractor (including LATA/Parallax, Bechtel Jacobs, and Fluor Hanford as discussed below) to the federal government, representing approximately $30,000,000 (includes approximately $5,568,000 from PFNWR facility) or 55.5% of our total revenue from continuing operations during 2007, as compared to $33,226,000 or 63.0% of our total revenue from continuing operations during 2006, and $29,555,000 or 59.0% of our total revenue from continuing operations during 2005.

Included in the amounts discussed above, are revenues from LATA/Parallax Portsmouth LLC ("LATA/Parallax"). LATA/Parallax is a manager for environmental programs for various agencies of the federal government. Our revenues from LATA/Parallax, as a subcontractor to perform remediation services at certain federal sites, contributed $8,784,000 or 16.2% and $10,341,000 or 19.6% of our revenues from continuing operations for 2007 and 2006, respectively. Our contract with LATA/Parallax is expected to be completed in September 2008. As with most contracts relating to the federal government, LATA/Parallax can terminate the contract with us at any time for convenience, which could have a material adverse effect on our operations.

Our Nuclear Segment has had a significant relationship with Bechtel Jacobs Company, LLC. ("Bechtel Jacobs"). Bechtel Jacobs is the government-appointed manager of the environmental program for Oak Ridge, Tennessee to perform certain treatment and disposal services relating to Oak Ridge, and our Nuclear Segment has been awarded three subcontracts by Bechtel Jacobs to perform certain environmental services at DOE's Oak Ridge, Tennessee sites.

Two of our Oak Ridge contracts have been amended for pricing modifications in 2007 and have been extended through September 2009. Our revenues from Bechtel Jacobs have continued to decrease as the DOE site in Oak Ridge continues to complete certain of its clean-up milestones and moves toward completing its closure efforts. As with most such blanket processing agreements, the Oak Ridge contracts contain no minimum or maximum processing guarantees, and may be terminated at any time pursuant to federal contracting terms and conditions. The Nuclear Segment continues to pursue other similar or related services for environmental programs at other DOE and government sites. Consolidated revenues from Bechtel Jacobs for 2007 total $1,812,000 or 3.3% of total revenues from continuing operations, as compared to $6,705,000 or 12.6% for the year ended December 31, 2006 and $14,940,000 or 29.8% for the year ended December 31, 2005.

Our Nuclear Segment has provided treatment of mixed low-level waste, as a subcontractor, for Fluor Hanford since 2004. However, with the acquisition of our PFNWR facility, we now have a significant relationship with Fluor Hanford, a prime contractor to the DOE since 1996. Fluor Hanford manages several major activities at the DOE's Hanford Site, including dismantling former nuclear processing facilities, monitoring and cleaning up the site's contaminated groundwater, and retrieving and processing transuranic waste for off-site shipment. The Hanford site is one of DOE's largest nuclear weapon environmental remediation projects. Our PFNWR facility is located adjacent to the Hanford site and provides treatment of low level radioactive and mixed wastes. We currently have three contracts with Fluor Hanford at our PFNWR facility, with the initial contract dating back to 2003. These three contracts have since been extended to September 2008. As the DOE is currently in the process of re-bidding its contracts with current prime contractors, our future revenue beyond September 2008 from Fluor Hanford is uncertain at this time. Revenues from Fluor Hanford totaled $6,985,000 (approximately $3,100,000 from PFNWR) or 12.9%, $1,229,000 or 2.3%, and $1,732,000 or 3.5% of consolidated revenue for the year ended December 31, 2007, 2006, and 2005, respectively. As with most contracts relating to the federal government, Fluor Hanford can terminate the contracts with us at any time for convenience, which could have a material adverse effect on our operations.

Insurance. We maintain insurance coverage similar to, or greater than, the coverage maintained by other companies of the same size and industry, which complies with the requirements under applicable environmental laws. We evaluate our insurance policies annually to determine adequacy, cost effectiveness and desired deductible levels. Due to the downturn in the economy 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.

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. We, compared to certain of our competitors, 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 further be notified, in the future, that we are a PRP at a remedial action site, which could have a material adverse effect.

We have budgeted for 2008, $1,168,000 in environmental remediation expenditures to comply with federal, state and local regulations in connection with remediation of certain contaminates at our facilities. As previously discussed under "Business — Capital Spending, Certain Environmental Expenditures and Potential Environmental Liabilities," 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. With the impending divestiture of our Industrial Segment, we anticipate the environmental liabilities for all the facilities noted above will be part of the divestiture with the exception of PFM, PFD, and PFMI, which will remain the financial obligations of the Company. While no assurances can be made that we will be able to do so, we expect to fund the expenses to remediate the three sites from funds generated internally.

At December 31, 2007, we had total accrued environmental remediation liabilities of $2,873,000 of which $1,168,000 is recorded as a current liability, which reflects a decrease of $405,000 from the December 31, 2006, balance of $3,278,000. The decrease represents payments on remediation projects, increase in our reserve in PFSG and decrease in our reserves at PFM and PFMI due to reevaluation of our remediation estimates. As previously discussed, we sold substantially all of the assets of the Maryland facility during the first part of 2008. In connection with this sale, the buyer agreed to assume all obligations and liabilities for environmental conditions at the Maryland facility except for fines, assessments, or judgments to governmental authorities prior to the closing of the transaction or third party tort claims existing prior to the closing of the sale. The December 31, 2007, current and long-term accrued environmental balance is recorded as follows:

	Current Accrual	Long-term Accrual	Total
PFD	$ 285,000	$ 417,000	$ 702,000
PFM	225,000	251,000	476,000
PFSG	250,000	454,000	704,000
PFTS	7,000	30,000	37,000
PFMD	—	391,000	391,000
PFMI	401,000	162,000	563,000
Total Liability	$ 1,168,000	$ 1,705,000	$ 2,873,000

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements". SFAS 157 simplifies and codifies guidance on fair value measurements under generally accepted accounting principles. This standard defines fair value, establishes a framework for measuring fair value and prescribes expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the effect, if any, the adoption of SFAS 157 will have on our financial condition, results of operations and cash flows; however, we do not expect the adoption of SFAS No. 157 to have a material impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting financial instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November, 15, 2007. We are currently evaluating the effect, if any, the adoption of SFAS 159 will have on our financial condition, results of operations and cash flow; however, we do not expect the adoption of SFAS 159 to have a material impact on our financial position or results of operations.

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In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing GAAP until December 31, 2008. The Company expects SFAS No. 141R will have an impact on its consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of acquisitions it consummates after the effect date. The Company is still assessing the impact of this standard on its future consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*. SFAS No. 160 changes the accounting and reporting for minority interest. Minority interest will be recharacterized as noncontrolling interest and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interest that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim period within those fiscal years, except for the presentation and disclosure requirements, which will apply retrospectively. This standard is not expected to have a material impact on the Company's future consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the year 2007, we were 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 and variable rate promissory note agreement with KeyBank National Association. The interest rates payable to PNC and KeyBank National Association 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 $99,000 for the year ended December 31, 2007. As of December 31, 2007, we had no interest swap agreements outstanding.

SPECIAL NOTE REGARDING 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-looki statements. Forward-looking statements contained herein relate to, among other things,

- ability or inability to continue and improve operations and achieve profitability on an annualized basis;
- ability to comply with our general working capital requirements;
- ability to retain or receive certain permits, licenses, or patents;
- ability to renew permits and licenses with minimal effort and costs;
- ability to be able to continue to borrow under our revolving line of credit;
- ability to meet our fixed charge coverage ratio in the future;
- in the event that we are unable to meet any of our covenants under our loan agreement in the future and we are unable to obtain a waiver for this non-compliance, our lender could accelerate the repayment of borrowing under our credit facility and other indebtedness;
- we may not have sufficient liquidity to repay our debt under our credit facilities and other indebtedness in the event that our lender accelerates the repayment of borrowings under our credit facility;
- we believe that our cash flows from operations are sufficient to service the Company's current obligations in the event that we are unable to restructure our credit facility with our lender in the short term;
- ability to generate sufficient cash flow from operations to fund all costs of operations;
- ability to close and remediate certain contaminated sites for projected amounts;
- our ability to develop or adopt new and existing technologies in the conduct of our operations;
- ability to fund budgeted capital expenditures during 2008 through our operations and lease financing;
- we are working toward permitting our DSSI facility for PCB destruction. The permit is expected by mid year 2008;
- we believe that there are no formidable barriers to entry into certain of the on-site treatment businesses, and certain of the non-hazardous waste operations, which do not require such permits;
- we believe that we are able to compete in the market based on our established reputation in these market areas and our expertise in several specific elements of environmental engineering and consulting such as environmental applications in the cement industry;
- we believe we maintain insurance coverage adequate for our needs and similar to, or greater than the coverage maintained by other companies of our size in the industry;
- under our insurance contracts, we usually accept self-insured retentions, which we believe is appropriate for our specific business risks;
- although we believe that we are currently in substantial compliance with applicable laws and regulations, we could be subject to fines, penalties or other liabilities or could be adversely affected by existing or subsequently enacted laws or regulations;
- due to the downturn in 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;
- our inability to continue under existing contracts that we have with the federal government (directly or indirectly as a subcontractor) could have a material adverse effect on our operations and financial condition;
-

as with most contracts relating to the federal government, LATA/Parallax and/or Fluor Hanford can terminate the contract with us at any time for convenience, which could have a material adverse effect on our operations;

- Our contract with LATA/Parallax is expected to be completed in September 2008;

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- we believe that at least one third of DOE mixed waste contains organic components;
- if EnergySolutions should refuse to accept our waste or cease operations at its Clive, Utah facility, such would have a material adverse effect on us;
- we do not anticipate big fluctuations in our government receipts within 2008 even with the passing of the 2008 budget; however, we cannot provide assurance this will be the case;
- we believe that the range of waste management and environmental consulting, treatment, processing, and remediation services we provide affords us a competitive advantage with respect to certain of our more specialized competitors;
- we believe that the treatment processes we utilize offer a cost saving alternative to more traditional remediation and disposal methods offered by certain of our competitors;
- we currently have interested parties and are negotiating to sell certain facilities within our Industrial Segment, and we believe the material weakness will inherently be remediated;
- no further impairment to intangible assets;
- no expectation of material future inflationary changes;
- waste backlog will continue to fluctuate in 2008 depending on the complexity of waste streams and the timing of receipts and processing materials;
- the high levels of backlog material continue to position the segment well for increases in future processing revenue prospective;
- we do not believe we are dependent on any particular trademark in order to operate our business or any significant segment thereof;
- based on the current status of Corrective Action for the PFMI facility, we believe that the remaining reserve is adequate to cover the liability;
- despite our aggressive compliance and auditing procedure for disposal of wastes, we could further be notified, in the future, that we are a PRP at a remedial action site, which could have a material adverse effect;
- with the impending divestiture of our Industrial Segment, we anticipate the environmental liabilities for all the facilities will be part of the divestiture with the exception of PFM, PFD, and PFMI, which will remain the financial obligations of the Company. While no assurances can be made that we will be able to do so, we expect to fund the expenses to remediate the three sites from funds generated internally;
- we do not believe that any adverse changes to our estimates in environmental accrual would be material;
- we anticipate receiving the remaining reimbursement from our insurer by the end of the second quarter of 2008;
- we anticipate a full repayment of our Term Loan by June 2008 and Revolver by September 2009;
- we plan to fund any repurchases under our common stock repurchase plan through our internal cash flow and/or borrowing under our line of credit;
- the amendment to our present covenant to exclude certain allowable charges in determining our fixed charge coverage ratio will improve our ability to maintain compliance of the fixed charge coverage ratio in the future;
- we anticipate restructuring certain debt in 2008 to improve our working capital position;
- the acquisition of our PFNWR facility positions the Nuclear Segment future revenue stream well as the facility is located adjacent to the Hanford site, which represents one of the most expansive of DOE’s nuclear weapons’ facilities to remediate;
- cash to be received subject from the sale of remaining facilities/operations within our Industrial Segment (net of the collateralized portion held by our credit facility) will be used to reduce our term note, with any remaining cash used to reduce our revolver; and
- we anticipate most of these reserves being released when the Industrial Segment is sold, but should that not take place in the short term future, these reserves could have an adverse effect

on our liquidity position;

- we believe the sale of PFSG will be completed by the end of May 2008;
- if we complete the sale of PFSG facility, we anticipate that the buyer will assume our obligation to remediate the facility;

- we are attempting to sell the other companies and/or operations within our Industrial Segment, but as of the date of this report, we have not entered into any agreements regarding these other companies or operations within our Industrial Segment;
- we do not expect the adoption of SFAS No. 157 and SFAS No. 159 to have a material impact on our financial position or result of operations;
- we do not expect standard in SFAS No. 160 to have a material impact on the Company's future consolidated financial statements;
- the Company expects SFAS No. 141R will have an impact on its consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of acquisitions it consummates after the effect date;
- goal to improve our balance sheet, pay down debt and improve our liquidity;
- we expect to report a gain on sale of approximately $1,791,000 on the sale of PFMD in the first quarter of 2008;
- in the first quarter of 2008, we expect to report a gain of approximately $480,000 on the sale of PFD;
- obtaining waivers or revisions from our lender as to a financial covenant in our loan agreement; and
- doubt as to our ability to continue as a going concern.

While the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance such expectations will prove to be 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 any of the sites or facilities leased or owned by us or our subsidiaries which would result in a material increase in remediation expenditures;
- changes in federal, state and local laws and regulations, especially environmental laws and regulations, or in interpretation of such;
- potential increases in equipment, maintenance, operating or labor costs;