

PERMA FIX ENVIRONMENTAL SERVICES INC  
Form 10-Q  
August 08, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended June 30, 2018**

**Or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File No. 001-11596

**PERMA-FIX ENVIRONMENTAL SERVICES, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction  
of incorporation or organization)*

**58-1954497**

*(IRS Employer  
Identification  
Number)*

**8302 Dunwoody Place, Suite 250, Atlanta, GA**

**30350**

*(Address of principal executive offices)*

*(Zip Code)*

**(770) 587-9898**

*(Registrant's telephone number)*

N/A

*(Former name, former address and former fiscal year, if changed since last report)*

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated Filer  Non-accelerated Filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial standards provided pursuant to Section 13(a) of the Exchange Act

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

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

Class	Outstanding at July 23, 2018
Common Stock, \$.001 Par Value	11,922,165 shares

**PERMA-FIX ENVIRONMENTAL SERVICES, INC.**

**INDEX**

	Page No.
<b>PART I <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Consolidated Condensed Financial Statements</u>	
<u>Consolidated Balance Sheets - June 30, 2018 and December 31, 2017</u>	1
<u>Consolidated Statements of Operations - Three and Six Months Ended June 30, 2018 and 2017</u>	3
<u>Consolidated Statements of Comprehensive Income (Loss) - Three and Six Months Ended June 30, 2018 and 2017</u>	4
<u>Consolidated Statements of Stockholders' Equity - Six Months Ended June 30, 2018</u>	5
<u>Consolidated Statements of Cash Flows - Six Months Ended June 30, 2018 and 2017</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	37
<b>PART II <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	37
Item 6. <u>Exhibits</u>	37

**PART I - FINANCIAL INFORMATION****ITEM 1. – Financial Statements****PERMA-FIX ENVIRONMENTAL SERVICES, INC.****Consolidated Balance Sheets**

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
(Amounts in Thousands, Except for Share and Per Share Amounts)		
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,184	\$ 1,063
Accounts receivable, net of allowance for doubtful accounts of \$153 and \$720, respectively	6,075	7,940
Unbilled receivables - current	3,018	4,547
Inventories	364	393
Prepaid and other assets	2,822	3,281
Current assets related to discontinued operations	94	89
Total current assets	14,557	17,313
Property and equipment:		
Buildings and land	19,782	23,806
Equipment	17,805	33,182
Vehicles	364	393
Leasehold improvements	119	11,549
Office furniture and equipment	1,576	1,670
Construction-in-progress	1,270	653
Total property and equipment	40,916	71,253
Less accumulated depreciation	(25,842 )	(56,383 )
Net property and equipment	15,074	14,870
Property and equipment related to discontinued operations	81	81
Intangibles and other long term assets:		
Permits	8,393	8,419
Other intangible assets - net	1,382	1,487
Unbilled receivables - non-current	129	184
Finite risk sinking fund	15,807	15,676
Other assets	1,215	1,313
Other assets related to discontinued operations	157	195
Total assets	\$ 56,795	\$ 59,538

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

1

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

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
(Amounts in Thousands, Except for Share and per Share Amounts)		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,061	\$3,537
Accrued expenses	4,269	4,782
Disposal/transportation accrual	1,449	2,071
Deferred revenue	4,472	4,311
Accrued closure costs - current	924	2,791
Current portion of long-term debt	1,244	1,184
Current liabilities related to discontinued operations	512	905
Total current liabilities	17,931	19,581
Accrued closure costs	5,560	5,604
Other long-term liabilities	208	1,191
Deferred tax liabilities	1,730	1,694
Long-term debt, less current portion	2,207	2,663
Long-term liabilities related to discontinued operations	795	359
Total long-term liabilities	10,500	11,511
Total liabilities	28,431	31,092
Commitments and Contingencies (Note 9)		
Series B Preferred Stock of subsidiary, \$0 par value; 1,467,396 shares authorized; 0 and 1,284,730 shares issued, respectively; 0 and 1,284,730 shares outstanding, respectively; liquidation value of \$1.00 per share plus accrued and unpaid dividends of \$0 and \$995, respectively (Note 13)	—	1,285
Stockholders' Equity:		
Preferred Stock, \$.001 par value; 2,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock, \$.001 par value; 30,000,000 shares authorized; 11,915,184 and 11,738,623 shares issued, respectively; 11,907,542 and 11,730,981 shares outstanding, respectively	12	12
Additional paid-in capital	107,317	106,417
Accumulated deficit	(77,465 )	(77,893 )
Accumulated other comprehensive loss	(169 )	(112 )
Less Common Stock in treasury, at cost; 7,642 shares	(88 )	(88 )
Total Perma-Fix Environmental Services, Inc. stockholders' equity	29,607	28,336

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

Non-controlling interest	(1,243	)	(1,175	)
Total stockholders' equity	28,364		27,161	
Total liabilities and stockholders' equity	\$ 56,795		\$59,538	

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



**PERMA-FIX ENVIRONMENTAL SERVICES, INC.****Consolidated Statements of Operations****(Unaudited)**

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Net revenues	\$13,160	\$12,715	\$25,817	\$25,422
Cost of goods sold	11,117	10,361	20,454	20,349
Gross profit	2,043	2,354	5,363	5,073
Selling, general and administrative expenses	2,640	2,833	5,420	5,684
Research and development	219	619	451	1,008
Gain on disposal of property and equipment	(17 )	(1 )	(25 )	(1 )
Loss from operations	(799 )	(1,097 )	(483 )	(1,618 )
Other income (expense):				
Interest income	81	36	130	71
Interest expense	(62 )	(90 )	(115 )	(189 )
Interest expense-financing fees	(9 )	(9 )	(18 )	(18 )
Net gain on exchange offer of Series B Preferred Stock of subsidiary (Note 13)	1,596	—	1,596	—
Income (loss) from continuing operations before taxes	807	(1,160 )	1,110	(1,754 )
Income tax expense	19	66	70	147
Income (loss) from continuing operations, net of taxes	788	(1,226 )	1,040	(1,901 )
Loss from discontinued operations (net of taxes of \$0)	(206 )	(160 )	(363 )	(291 )
Net income (loss)	582	(1,386 )	677	(2,192 )
Net loss attributable to non-controlling interest	(28 )	(217 )	(68 )	(296 )
Net income (loss) attributable to Perma-Fix Environmental Services, Inc. common stockholders	\$610	\$(1,169 )	\$745	\$(1,896 )
Net income (loss) per common share attributable to Perma-Fix Environmental Services, Inc. stockholders - basic and diluted:				
Continuing operations	\$.07	\$(.09 )	\$.09	\$(.14 )
Discontinued operations	(.02 )	(.01 )	(.03 )	(.02 )
Net income (loss) per common share	\$.05	\$(.10 )	\$.06	\$(.16 )
Number of common shares used in computing net income (loss) per share:				
Basic	11,813	11,698	11,780	11,690

Diluted	11,913	11,698	11,849	11,690
---------	--------	--------	--------	--------

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

**PERMA-FIX ENVIRONMENTAL SERVICES, INC.****Consolidated Statements of Comprehensive Income (Loss)****(Unaudited)**

(Amounts in Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$582	\$(1,386)	\$677	\$(2,192)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(49)	15	(57)	27
Comprehensive income (loss)	533	(1,371)	620	(2,165)
Comprehensive loss attributable to non-controlling interest	(28)	(217)	(68)	(296)
Comprehensive income (loss) attributable to Perma-Fix Environmental Services, Inc. stockholders	\$561	\$(1,154)	\$688	\$(1,869)

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

**PERMA-FIX ENVIRONMENTAL SERVICES, INC****Consolidated Statement of Stockholders' Equity****For the Six Months Ended June 30, 2018**

(Amounts in thousands, except for share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Common Stock Held In Treasury	Accumulated Comprehensive Loss	Other Interest in Subsidiary	controlling Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2017	11,738,623	\$ 12	\$ 106,417	\$ (88 )	\$ (112 )	\$ (1,175 )	\$ (77,893 )	\$ 27,161
Adoption of accounting standards updates (Note 2)							(317 )	(317 )
Net income (loss)	—	—	—	—	—	(68 )	745	677
Foreign currency translation	—	—	—	—	(57 )	—	—	(57 )
Issuance of Common Stock upon exercise of options	10,000	—	36	—	—	—	—	36
Issuance of Common Stock from exchange offer of Series B Preferred Stock of subsidiary (Note 13)	134,994	—	648	—	—	—	—	648
Issuance of Common Stock for services	31,567	—	125	—	—	—	—	125
Stock-Based Compensation	—	—	91	—	—	—	—	91
Balance at June 30, 2018	11,915,184	\$ 12	\$ 107,317	\$ (88 )	\$ (169 )	\$ (1,243 )	\$ (77,465 )	\$ 28,364

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

**PERMA-FIX ENVIRONMENTAL SERVICES, INC.****Consolidated Statements of Cash Flows****(Unaudited)**

	Six Months Ended June 30,	
(Amounts in Thousands)	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$677	\$(2,192 )
Less: loss from discontinued operations, net of taxes of \$0	(363 )	(291 )
Income (loss) from continuing operations, net of taxes	1,040	(1,901 )
Adjustments to reconcile income (loss) from continuing operations to cash provided by (used in) operating activities:		
Depreciation and amortization	731	2,288
Amortization of debt discount	18	18
Deferred tax expense	36	70
Provision for bad debt reserves	8	81
Gain on disposal of property and equipment	(25 )	(1 )
Gain on exchange offer of Series B Preferred Stock of subsidiary (Note 13)	(1,659 )	—
Issuance of common stock for services	125	103
Stock-based compensation	91	41
Changes in operating assets and liabilities of continuing operations		
Accounts receivable	1,857	246
Unbilled receivables	1,584	(845 )
Prepaid expenses, inventories and other assets	773	37
Accounts payable, accrued expenses and unearned revenue	(1,922 )	(881 )
Cash provided by (used in) continuing operations	2,657	(744 )
Cash used in discontinued operations	(322 )	(284 )
Cash provided by (used in) operating activities	2,335	(1,028 )
Cash flows from investing activities:		
Purchases of property and equipment	(554 )	(116 )
Proceeds from sale of property and equipment	26	7
Cash (used in) provided by investing activities of continuing operations	(528 )	(109 )
Cash provided by investing activities of discontinued operations	36	34
Cash used in investing activities	(492 )	(75 )
Cash flows from financing activities:		
Repayments of revolving credit borrowings	(28,048)	(22,755)
Borrowing on revolving credit	28,048	18,952
Principal repayments of long term debt	(615 )	(609 )
Proceeds from issuance of common stock upon exercise of options	36	—
Cash used in financing activities of continuing operations	(579 )	(4,412 )

Effect of exchange rate changes on cash	(12	)	7
Increase (decrease) in cash and and finite risk sinking fund (restricted cash) (Note 2)	1,252	(5,508	)
Cash and finite risk sinking fund (restricted cash) at beginning of period (Note 2)	16,739	21,650	
Cash and finite risk sinking fund (restricted cash) at end of period (Note 2)	\$17,991	\$16,142	
Supplemental disclosure:			
Interest paid	\$115	\$194	
Income taxes paid	160	12	
Equipment purchase subject to capital lease	213	—	

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

**PERMA-FIX ENVIRONMENTAL SERVICES, INC.**

**Notes to Consolidated Condensed Financial Statements**

**June 30, 2017**

**(Unaudited)**

Reference is made herein to the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

**1. Basis of Presentation**

The consolidated condensed financial statements included herein have been prepared by the Company (which may be referred to as we, us or our), without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“the Commission”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures which are made are adequate to make the information presented not misleading. Further, the consolidated condensed financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations as of and for the periods indicated. The results of operations for the six months ended June 30, 2018 are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2018.

The Company suggests that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

**2. Summary of Significant Accounting Policies**

Our accounting policies are as set forth in the notes to the December 31, 2017 consolidated financial statements referred to above.

**Recently Adopted Accounting Standards**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” followed by a series of related accounting standard updates (collectively referred to as “Topic 606”), which superseded nearly all existing revenue recognition guidance. Topic 606 provides a single, comprehensive revenue recognition model for all contracts with customers. Under the new standard, a five-step process is utilized in order to determine revenue recognition, depicting the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Topic 606 also requires additional disclosure surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Topic 606 is effective for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). The new standard permits two implementation approaches: the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company adopted Topic 606 effective January 1, 2018 under the modified retrospective approach to all contracts as of date of adoption. The Company recognized the cumulative effect of initially adopting Topic 606 as an increase of approximately \$317,000 to the opening balance of accumulated deficit at January 1, 2018. The adoption of Topic 606 did not result in significant changes to our revenue recognition model within our Treatment and Services Segments. The cumulative impact to the opening balance of accumulated deficit at January 1, 2018 was primarily driven by changes to the timing of revenue recognition in certain immaterial waste streams within our Treatment Segment. See “Note 3 – Revenue” for additional disclosures related to our revenues under the new standard. The comparative previous period information continues to be reported under the accounting standards in effect for that period. We expect the impact of the adoption of Topic 606 to be immaterial to our consolidated financial statements on an on-going basis.



The cumulative effect of the changes made to our January 1, 2018 unaudited Consolidated Balance Sheet for the adoption of Topic 606 was as follows (in thousands):

	Balance at December 31, 2017	Adjustment Due to Topic 606	Opening balance at January 1, 2018
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Disposal/transportation accrual	\$2,071	\$ (455 )	\$ 1,616
Deferred revenue	4,311	772	5,083
Stockholders' Equity:			
Accumulated deficit	\$(77,893 )	\$ (317 )	\$ (78,210 )

In accordance with Topic 606 requirements, the disclosure of the impact of adoption of Topic 606 on our unaudited Consolidated Balance Sheets, Consolidated Statement of Operations, and Consolidated Statement of Comprehensive Income was as follows (in thousands):

Consolidated Balance Sheet	June 30, 2018		
	As Reported	Balances Before Adoption of Topic 606	Effect of Change Higher/(Lower)
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Disposal/transportation accrual	\$1,449	\$1,772	\$ (323 )
Deferred revenue	4,472	3,734	738
Stockholders' Equity:			
Accumulated deficit	\$(77,465)	\$(77,522)	\$ 57

Consolidated Statement of Operations	For the three months ended June 30, 2018	
	Balances Before	

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

	As Reported	Adoption of Topic 606	Effect of Change Higher/(Lower)
Revenues	\$13,160	\$13,015	\$ 145
Cost of goods sold	11,117	11,025	92
Income from continuing operations, net of taxes	788	735	53
Net income attributable to Perma-Fix Services, Inc. common stockholders	610	557	53
Net income attributable to Perma-Fix Environmental Services, Inc. common stockholders - basic and diluted:			
Continuing operations	\$.07	\$.07	\$
Net income per common shares	\$.05	\$.05	\$

Consolidated Statement of Operations

	For the six months ended June 30, 2018		
	As Reported	Balances Before Adoption of Topic 606	Effect of Change Higher/(Lower)
Revenues	\$25,817	\$25,788	\$ 29
Cost of goods sold	20,454	20,432	22
Income from continuing operations, net of taxes	1,040	1,033	7
Net income attributable to Perma-Fix Services, Inc. common stockholders	745	738	7
Net income attributable to Perma-Fix Environmental Services, Inc. common stockholders - basic and diluted:			
Continuing operations	\$.09	\$.09	\$
Net income per common shares	\$.06	\$.06	\$

Consolidated Statement of Operations

Consolidated Statement of Comprehensive Income

	For the three months ended June 30, 2018		
	As Reported	Balances Before Adoption of Topic 606	Effect of Change Higher/(Lower)
Net income	\$582	\$ 529	\$ 53
Comprehensive income attributable to Perma-Fix Environmental Services, Inc. stockholders	561	508	53

Consolidated Statement of Comprehensive Income

	For the six months ended June 30, 2018		
	As Reported	Balances Before Adoption of Topic 606	Effect of Change Higher/(Lower)
Net income	\$677	\$ 670	\$ 7
Comprehensive income attributable to Perma-Fix Environmental Services, Inc. stockholders	688	681	7

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force),” which aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. Subsequently, in November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230), Restricted Cash, a consensus of the FASB Emerging Issues Task Force,” which clarifies the guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents. Although ASU 2016-18 does not provide a definition of restricted cash or restricted cash equivalents, it states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. ASU 2016-15 and ASU 2016-18 are effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company retrospectively adopted these ASUs effectively January 1, 2018 and has included finite risk sinking funds (included in other long term assets of the Company’s Consolidated Statement of Balance Sheets) of \$15,807,000 and \$15,608,000 at June 30, 2018 and 2017, respectively, as well as previously reported cash, when reconciling the beginning-of- period and end-of-period cash and restricted cash on the accompanying Company’s Consolidated Statements of Cash Flows. The Company’s finite risk sinking funds represent cash held as collateral under the Company’s financial assurance policy (see “Note 9 – Commitment and Contingencies – Insurance” for a discussion of the Company’s finite risk sinking funds). The adoption of these ASUs by the Company effective January 1, 2018 did not have a material impact on the Company’s financial position and results of operations.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,” which eliminates the existing exception in U.S. GAAP prohibiting the recognition of the income tax consequences for intra-entity asset transfers. Under ASU 2016-16, entities will be required to recognize the income tax consequences of intra-entity asset transfers other than inventory when the transfer occurs. ASU 2016-16 is effective on a modified retrospective basis for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2016-16 by the Company effective January 1, 2018 did not have a material impact on the Company’s financial position, results of operations, or cash flows.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805) – Clarifying the Definition of a Business.” ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisition, disposals, goodwill and consolidation. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The adoption of ASU 2017-01 by the Company effective January 1, 2018 did not have a material impact on the Company’s financial position, results of operations, or cash flows.

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and early adoption is permitted, including in an interim period. ASU 2017-09 is to be applied on a prospective basis to an award modified on or after the adoption date. The adoption of ASU 2017-01 by the Company effective January 1, 2018 did not have a material impact on the Company’s financial position, results of operations, or cash flows.

### **Recently Issued Accounting Standards – Not Yet Adopted**

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-10, “Codification Improvements to Topic 842 (Leases),” which provides narrow amendments to clarify how to apply certain aspects of the new lease standard. For public companies, both standards are effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. These ASUs are effective January 1, 2019 for the Company. The Company is still evaluating the potential impact of adopting these standards on our financial statements.

In February 2018, FASB issued ASU 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. This ASU allows for the reclassification of certain income tax effects related to the Tax Cuts and Jobs Act between “Accumulated other comprehensive income” and “Retained earnings.” This ASU relates to the requirement that adjustments to deferred tax liabilities and assets related to a change in tax laws or rates to be included in “Income from continuing operations”, even in situations where the related items were originally recognized in “Other comprehensive income” (rather than in “Income from continuing operations”). ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this ASU is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax laws or rates were recognized. The Company is currently assessing the impact that this standard will have on its financial statements.

In June 2018, the FASB issued ASU No. 2018-07, “Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,” which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. ASU 2018-07 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the impact that this standard will have on its financial statements.

### **3. Revenue**

The Company accounts for revenue in accordance with ASC Topic 606, which we adopted on January 1, 2018 using the modified retrospective method. The majority of our revenue is derived from short term contracts with an original expected length of one year or less.

#### **Performance Obligation**

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue as the performance obligation is satisfied.

#### *Treatment Segment Revenues:*

Contracts in our Treatment Segment have a single performance obligation as the promise to receive, treat and dispose of waste is not separately identifiable in the contract and, therefore, not distinct. Performance obligations are generally satisfied over time using the input method. Under the input method, the Company uses a measure of progress divided into major phases which include receipt, treatment/processing and shipment/final disposal. As major processing phases are completed and the costs are incurred, the proportional percentage of revenue is recognized. Transaction price for Treatment Segment contracts are determined by the stated fixed rate per unit price as stipulated in the contract.

#### *Services Segment Revenues:*

Revenues for our Services Segment are generated from time and materials, cost reimbursement or fixed price arrangements:

The Company's primary obligation to customers in time and materials contracts relate to the provision of services to the customer at the direction of the customer. This provision of services at the request of the customer is the performance obligation, which is satisfied over time. Revenue earned from time and materials contracts is determined using the input method and is based on contractually defined billing rates applied to services performed and materials delivered.

The Company's primary performance obligation to customers in cost reimbursement contracts is to complete certain tasks and work streams. Each specified work stream or task within the contract is considered to be a separate performance obligation. The transaction price is calculated using an estimated cost to complete the various scope items to achieve the performance obligation as stipulated in the contract. An estimate is prepared for each individual scope item in the contract and the transaction price is allocated on a time and materials basis as services are provided. Revenue from cost reimbursement contracts is recognized over time using the input method based on costs incurred, plus a proportionate amount of fee earned.

Under fixed price contracts, the objective of the project is not attained unless all scope items within the contract are completed and all of the services promised within fixed fee contracts constitute a single performance obligation. Transaction price is estimated based upon the estimated cost to complete the overall project. Revenue from fixed price contract is recognized over time using the output method based on the percentage of project completion multiplied by the total fee as a measure of progress.



The nature of our contracts does not give rise to variable consideration.

### Significant Payment Terms

Invoicing is based on schedules established in customer contracts. Payment terms vary by customers but are generally established at 30 days from invoicing.

### Disaggregation of Revenue

In general, the Company's business segmentation is aligned according to the nature and economic characteristics of our services and provides meaningful disaggregation of each business segment's results of operations. The following tables present further disaggregation of our revenues by different categories for our Services and Treatment Segments:

#### Revenue by Contract Type (In thousands)

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Treatment	Services	Total	Treatment	Services	Total
	Fixed price	\$9,146	\$ 718	\$9,864	\$9,630	\$ 142
Cost reimbursement						
Time and materials		3,296	3,296		2,943	2,943
Total	\$9,146	\$ 4,014	\$13,160	\$9,630	\$ 3,085	\$12,715

#### Revenue by Contract Type (In thousands)

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Treatment	Services	Total	Treatment	Services	Total
	Fixed price	\$18,105	\$ 808	\$18,913	\$19,665	\$ 239
Cost reimbursement						
Time and materials		6,904	6,904		5,518	5,518
Total	\$18,105	\$ 7,712	\$25,817	\$19,665	\$ 5,757	\$25,422

#### Revenue by generator (In thousands)

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Treatment	Services	Total	Treatment	Services	Total
	Domestic government	\$6,011	\$ 3,265	\$9,276	\$7,224	\$ 2,474

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

Domestic commercial	3,135	541	3,676	2,406	376	2,782
Foreign government		185	185		214	214
Foreign commercial		23	23		21	21
Total	\$9,146	\$4,014	\$13,160	\$9,630	\$3,085	\$12,715

12

Revenue by generator (In thousands)	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Treatment	Services	Total	Treatment	Services	Total
Domestic government	\$12,546	\$ 6,383	\$18,929	\$14,595	\$ 4,542	\$19,137
Domestic commercial	5,559	943	6,502	5,070	895	5,965
Foreign government		338	338		279	279
Foreign commercial		48	48		41	41
Total	\$18,105	\$ 7,712	\$25,817	\$19,665	\$ 5,757	\$25,422

### Contract Balances

The timing of revenue recognition, billings, and cash collections results in accounts receivable and unbilled receivables (contract assets). The Company's contract liabilities consist of deferred revenues which represents advance payment from customers in advance of the completion of our performance obligation.

The following table represents changes in our contract assets and contract liabilities balances:

(In thousands)	June 30, 2018	January 1, 2018	Year-to-date	
			Change (\$)	Change (%)
<b>Contract assets</b>				
Account receivables, net of allowance	\$6,075	\$7,940	\$ (1,865 )	(23.5 )%
Unbilled receivables - current	3,018	4,547	(1,529 )	(33.6 )%
Unbilled receivables - non-current	129	184	(55 )	(29.9 )%
<b>Contract liabilities</b>				
Deferred revenue	\$4,472	\$5,083	\$ (611 )	(12.0 )%

The net decrease in our contract assets was primarily due to accounts receivable collections outpacing invoicing. The Company provides various payment terms to our customers; therefore, our accounts receivable are impacted by these terms and the related timing of accounts receivable collections.

During the three and six months ended June 30, 2018, the Company recognized revenue of \$1,629,000 and \$5,440,000, respectively, which was included in the deferred revenue balance at the beginning of the year. During the three and six months ended June 30, 2017, the Company recognized revenue of \$1,370,000 and \$4,346,000, respectively, which was included in the deferred revenue balance at the beginning of the year. All revenue recognized

in each period related to performance obligations satisfied within the respective period.

### **Incremental Costs to Obtain a Contract**

Costs incurred to obtain contracts with our customers are immaterial and as a result, the Company expenses (within selling, general and administration expenses (“SG&A”)) incremental costs incurred in obtaining contracts with our customer as incurred.

### **Remaining Performance Obligations**

The Company applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Company applies the transition practical expedient in paragraph 606-10-65-1(f)(3) and does not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Company expects to recognize that amount as revenue for periods prior to the adoption of Topic 606.

**4. Intangible Assets**

The following table summarizes information relating to the Company's definite-lived intangible assets:

Intangibles (amount in thousands)	Useful Lives (Years)	June 30, 2018			December 31, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patent	1-17	\$694	\$ (322)	\$ 372	\$657	\$ (306)	\$ 351
Software	3	410	(402)	8	410	(398)	12
Customer relationships	12	3,370	(2,368)	1,002	3,370	(2,246)	1,124
Permit	10	545	(510)	35	545	(483)	62
Total		\$5,019	\$ (3,602)	\$ 1,417	\$4,982	\$ (3,433)	\$ 1,549

The intangible assets noted above are amortized on a straight-line basis over their estimated useful lives with the exception of customer relationships which are being amortized using an accelerated method. The Company has only one definite-lived permit that is subject to amortization.

The following table summarizes the expected amortization over the next five years for our definite-lived intangible assets (including the one definite-lived permit):

Year	Amount (In thousands)
2018 (remaining)	\$ 167
2019	254
2020	218
2021	198
2022	173

Amortization expenses relating to the definite-lived intangible assets as discussed above were \$85,000 and \$169,000 for the three and six months ended June 30, 2018, respectively, and \$95,000 and \$189,000 for the three and six months ended June 30, 2017, respectively.

**5. Capital Stock, Stock Plans and Stock-Based Compensation**

The Company has certain stock option plans under which it awards incentive and non-qualified stock options to employees, officers, and outside directors.

On January 18, 2018, the Company granted 6,000 options from the Company's 2003 Outside Directors Stock Plan to a new director elected by the Company's Board of Directors ("Board") to fill a vacancy on the Board. The options granted were for a contractual term of ten years with a vesting period of six months. The exercise price of the options was \$4.05 per share, which was equal to our closing stock price the day preceding the grant date, pursuant to the 2003 Outside Directors Stock Plan.

On January 13, 2017, the Company granted 6,000 options from the Company's 2003 Outside Directors Stock Plan to a new director elected by the Company's Board to fill a vacancy on the Board. The options granted were for a contractual term of ten years with a vesting period of six months. The exercise price of the options was \$3.79 per share, which was equal to our closing stock price the day preceding the grant date, pursuant to the 2003 Outside Directors Stock Plan.

The Company estimates fair value of stock options using the Black-Scholes valuation model. Assumptions used to estimate the fair value of stock options granted include the exercise price of the award, the expected term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the expected annual dividend yield. The fair value of the options granted on January 18, 2018 and January 13, 2017 as discussed above and the related assumptions used in the Black-Scholes option model used to value the options granted were as follows:

	Outside Director Stock Options Granted			
	January 18, 2018		January 13, 2017	
Weighted-average fair value per option	\$2.55		\$2.63	
Risk -free interest rate <sup>(1)</sup>	2.62	%	2.40	%
Expected volatility of stock <sup>(2)</sup>	57.29	%	56.32	%
Dividend yield	None		None	
Expected option life <sup>(3)</sup>	10.0 years		10.0 years	

<sup>(1)</sup> The risk-free interest rate is based on the U.S. Treasury yield in effect at the grant date over the expected term of the option.

<sup>(2)</sup> The expected volatility is based on historical volatility from our traded Common Stock over the expected term of the option.

<sup>(3)</sup> The expected option life is based on historical exercises and post-vesting data.

The following table summarizes stock-based compensation recognized for the three and six months ended June 30, 2018 and 2017 for our employee and director stock options.

Stock Options	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Employee Stock Options	\$37,000	\$11,000	\$73,000	\$21,000
Director Stock Options	8,000	8,000	18,000	20,000
Total	\$45,000	\$19,000	\$91,000	\$41,000

At June 30, 2018, the Company has approximately \$503,000 of total unrecognized compensation cost related to unvested options, of which \$75,000 is expected to be recognized in remaining 2018, \$126,000 in 2019, \$114,000 in 2020, \$114,000 in 2021, with the remaining \$74,000 in 2022.

The summary of the Company's total Stock Option Plans as of June 30, 2018 and June 30, 2017, and changes during the periods then ended, are presented below. The Company's Plans consist of the 2010 and 2017 Stock Option Plans and the 2003 Outside Directors Stock Plan:

Shares	Weighted Average	Weighted Average	Aggregate Intrinsic
--------	---------------------	---------------------	------------------------

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

		Exercise Price	Remaining Contractual Term (years)	Value <sup>(3)</sup>
Options outstanding January 1, 2018	624,800	\$ 4.42		
Granted	6,000	4.05		
Exercised	(10,000 )	3.65		
Forfeited/expired				
Options outstanding end of period <sup>(1)</sup>	620,800	\$ 4.43	5.0	\$435,870
Options exercisable at June 30, 2018 <sup>(1)</sup>	198,133	\$ 6.07	4.3	\$78,836
Options exercisable and expected to be vested at June 30, 2018	620,800	\$ 4.43	5.0	\$435,870

15



	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value <sup>(3)</sup>
Options outstanding January 1, 2017	247,200	\$ 6.69		
Granted	6,000	3.79		
Exercised				
Forfeited/expired	(30,000 )	5.00		
Options outstanding end of period <sup>(2)</sup>	223,200	\$ 6.84	4.5	\$ 13,080
Options exercisable at June 30, 2017 <sup>(2)</sup>	180,534	\$ 7.51	4.3	\$ 13,080
Options exercisable and expected to be vested at June 30, 2017	223,200	\$ 6.84	4.5	\$ 13,080

<sup>(1)</sup> Options with exercise prices ranging from \$2.79 to \$13.35

<sup>(2)</sup> Options with exercise prices ranging from \$2.79 to \$14.75

<sup>(3)</sup> The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

During the six months ended June 30, 2018, the Company issued a total of 31,567 shares of its Common Stock under the 2003 Outside Directors Stock Plan to its outside directors as compensation for serving on our Board. The Company has recorded approximately \$130,000 in compensation expenses for the six months ended June 30, 2018 (included in selling, general and administration expenses) in connection with the issuance of shares of its common stock to outside directors.

On May 1, 2018, Robert Ferguson exercised an option from the Company's 2017 Stock Option Plan for the purchase of 10,000 shares of the Company's Common Stock at \$3.65 per share, resulting in total proceeds received by the Company in the amount of \$36,500. Robert Ferguson is a consultant to the Company in connection with the Company's Test Bed Initiative ("TBI") at its Perma-Fix Northwest Richland, Inc. facility and is also an advisor to the Company's Board of Directors. The option exercised by Robert Ferguson was granted to him on July 27, 2017 in connection with his consulting work for the TBI.

## **6. Income (Loss) Per Share**

Basic income (loss) per share is calculated based on the weighted-average number of outstanding common shares during the applicable period. Diluted income (loss) per share is based on the weighted-average number of outstanding common shares plus the weighted-average number of potential outstanding common shares. In periods where they are anti-dilutive, such amounts are excluded from the calculations of dilutive earnings per share. The following table

reconciles the income (loss) and average share amounts used to compute both basic and diluted income (loss) per share:

16

	Three Months Ended		Six Months Ended	
	June 30, (Unaudited) 2018	2017	June 30, (Unaudited) 2018	2017
(Amounts in Thousands, Except for Per Share Amounts)				
Net income (loss) attributable to Perma-Fix Environmental Services, Inc., common stockholders:				
Income (loss) from continuing operations, net of taxes	\$788	\$(1,226)	\$1,040	\$(1,901)
Net loss attributable to non-controlling interest	(28)	(217)	(68)	(296)
Income (loss) from continuing operations attributable to Perma-Fix Environmental Services, Inc. common stockholders	816	(1,009)	1,108	(1,605)
Loss from discontinuing operations attributable to Perma-Fix Environmental Services, Inc. common stockholders	(206)	(160)	(363)	(291)
Net income (loss) attributable to Perma-Fix Environmental Services, Inc. common stockholders	\$610	\$(1,169)	\$745	\$(1,896)
Basic income (loss) per share attributable to Perma-Fix Environmental Services, Inc. common stockholders	\$.05	\$(.10)	\$.06	\$(.16)
Diluted income (loss) per share attributable to Perma-Fix Environmental Services, Inc. common stockholders	\$.05	\$(.10)	\$.06	\$(.16)
Weighted average shares outstanding:				
Basic weighted average shares outstanding	11,813	11,698	11,780	11,690
Add: dilutive effect of stock options	100	—	69	—
Diluted weighted average shares outstanding	11,913	11,698	11,849	11,690
Potential shares excluded from above weighted average share calculations due to their anti-dilutive effect include:				
Upon exercise of options	100	205	100	205

## 7. Long Term Debt

Long-term debt consists of the following at June 30, 2018 and December 31, 2017:

(Amounts in Thousands)	June 30, 2018	December 31, 2017
<b>Revolving Credit</b> facility dated October 31, 2011, as amended, borrowings based upon eligible accounts receivable, subject to monthly borrowing base calculation, balance due March 24, 2021. <sup>(1)</sup>	\$—	\$—
<b>Term Loan</b> dated October 31, 2011, as amended, payable in equal monthly installments of principal of \$102, balance due on March 24, 2021. Effective interest rate for the first six months of 2018 was 5.3%. <sup>(1)</sup>	3,255 <sup>(2)</sup>	3,847 <sup>(2)</sup>

<b>Capital Lease</b> <sup>(3)</sup>	196	—
Total debt	3,451	3,847
Less current portion of long-term debt	1,244	1,184
Long-term debt	\$2,207	\$ 2,663

<sup>(1)</sup> Our revolving credit facility is collateralized by our accounts receivable and our term loan is collateralized by our property, plant, and equipment.

<sup>(2)</sup> Net of debt issuance costs of (\$97,000) and (\$115,000) at March 31, 2018 and December 31, 2017, respectively.

<sup>(3)</sup> One capital lease payable through December 2020, interest at rate of 11.9%.

## Revolving Credit and Term Loan Agreement

The Company entered into an Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated October 31, 2011 (“Amended Loan Agreement”), with PNC National Association (“PNC”), acting as agent and lender. The Amended Loan Agreement has been amended from time to time since the execution of the Amended Loan Agreement. The Amended Loan Agreement, as subsequently amended (“Revised Loan Agreement”), provides the Company with the following credit facility with a maturity date of March 24, 2021: (a) up to \$12,000,000 revolving credit (“revolving credit”) and (b) a term loan (“term loan”) of approximately \$6,100,000, which requires monthly installments of approximately \$101,600 (based on a seven-year amortization). The maximum that we can borrow under the revolving credit is based on a percentage of eligible receivables (as defined) at any one time reduced by outstanding standby letters of credit and borrowing reductions that our lender may impose from time to time.

Under the Revised Loan Agreement, we have the option of paying an annual rate of interest due on the revolving credit at prime (5.00% at June 30, 2018) plus 2% or London Inter Bank Offer Rate (“LIBOR”) plus 3% and the term loan at prime plus 2.5% or LIBOR plus 3.5%.

Pursuant to the Revised Loan Agreement, the Company may terminate the Revised Loan Agreement, upon 90 days’ prior written notice upon payment in full of its obligations under the Revised Loan Agreement. The Company agreed to pay PNC 1.0% of the total financing had the Company paid off its obligations on or before March 23, 2017, .50% of the total financing had the Company paid off its obligations after March 23, 2017 but prior to or on March 23, 2018, and .25% of the total financing if the Company pays off its obligations after March 23, 2018 but prior to or on March 23, 2019. No early termination fee shall apply if the Company pays off its obligations after March 23, 2019.

At June 30, 2018, the borrowing availability under our revolving credit was approximately \$3,051,000, based on our eligible receivables and includes an indefinite reduction of borrowing availability of \$2,000,000 that the Company’s lender has imposed (see “Note 14 – Subsequent Event – Credit Facility” for a discussion on the release by the Company’s lender on July 26, 2018 of \$1,000,000 of the \$2,000,000 in borrowing availability reduction previously imposed). Our borrowing availability under our revolving credit was also reduced by outstanding standby letters of credit totaling approximately \$2,660,000.

The Company’s credit facility with PNC contains certain financial covenants, along with customary representations and warranties. A breach of any of these financial covenants, unless waived by PNC, could result in a default under our credit facility allowing our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. The Company met its quarterly financial covenants in the first and second quarters of 2018 and expects to meet its quarterly financial covenants in each of the remaining quarters of 2018 and into the first nine months of 2019.

**8. East Tennessee Materials and Energy Corporation (“M&EC”)**

The Company continues its plan to close its M&EC facility. Operations at the M&EC facility are limited to the decommissioning and deconstruction of leased premises and related improvements, and equipment removal. The Company continues to transition operational capabilities to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. The Company continues with closure and decommissioning activities in accordance with M&EC’s license and permit requirements and currently expects to complete on-site M&EC facility closure activities on or before September 30, 2018.

At June 30, 2018, total accrued closure liabilities for our M&EC subsidiary totaled approximately \$924,000 which are recorded as current liabilities. During the second quarter of 2018, the Company recorded an additional \$1,215,000 in closure costs and current closure liabilities due to changes in estimated future closure costs. The following reflects changes to the closure liabilities for the M&EC facility from year end 2017:

Amounts in thousands

Balance as of December 31, 2017	\$2,791
Accretion expense	19
Adjustment to closure liabilities	1,215
Payments	(3,101)
Balance as of June 30, 2018	\$924

Revenues for the M&EC subsidiary were \$76,000 and \$132,000 for the three and six months ended June 30, 2018, respectively, and \$1,692,000 and \$5,072,000 for the corresponding periods of 2017, respectively.

## **9. Commitments and Contingencies**

### **Hazardous Waste**

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

### **Legal Matters**

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

### **Insurance**

The Company has a 25-year finite risk insurance policy entered into in June 2003 with American International Group, Inc. ("AIG"), which provides financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure. The policy, as amended, provides for a maximum allowable coverage of \$39,000,000 and has available capacity to allow for annual inflation and other performance and surety bond requirements. At June 30, 2018, our financial assurance coverage amount under this policy totaled approximately \$29,911,000. The Company has recorded \$15,807,000 and \$15,676,000 in sinking funds related to this policy in other long term assets on the accompanying Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, respectively, which includes

interest earned of \$1,255,000 and \$1,205,000 on the sinking funds as of June 30, 2018 and December 31, 2017, respectively. Interest income for the three and six months ended June 30, 2018 was approximately \$81,000 and \$131,000, respectively. Interest income for the three and six month periods ended June 30, 2017, was approximately \$34,000 and \$61,000, respectively. If the Company so elects, AIG is obligated to pay us an amount equal to 100% of the sinking fund account balance in return for complete release of liability from both us and any applicable regulatory agency using this policy as an instrument to comply with financial assurance requirements.

### **Letter of Credits and Bonding Requirements**

From time to time, the Company is required to post standby letters of credit and various bonds to support contractual obligations to customers and other obligations, including facility closures. At June 30, 2018, the total amount of standby letters of credit outstanding totaled approximately \$2,660,000 and the total amount of bonds outstanding totaled approximately \$8,943,000.

### **10. Discontinued Operations**

The Company's discontinued operations consist of all our subsidiaries included in our Industrial Segment: (1) subsidiaries divested in 2011 and prior, (2) two previously closed locations, and (3) our PFSG facility which is currently undergoing closure, subject to final regulatory approval.



The Company's discontinued operations had losses of \$206,000 and \$160,000 for the three months ended June 30, 2018 and 2017, respectively (net of taxes of \$0 for each period) and losses of \$363,000 and \$291,000 for the six months ended June 30, 2018 and 2017, respectively (net of taxes of \$0 for each period). The net losses for the three and six months ended June 30, 2018 included an increase of approximately \$50,000 in remediation reserve at our Perma-Fix of Dayton ("PFD") subsidiary due to reassessment of the remediation reserve. The remaining losses were primarily due to costs incurred in the administration and continued monitoring of our discontinued operations. The Company's discontinued operations had no revenues for each of the periods noted above.

The following table presents the major class of assets of discontinued operations at June 30, 2018 and December 31, 2017.

(Amounts in Thousands)	June 30, 2018	December 31, 2017
Current assets		
Other assets	\$94	\$ 89
Total current assets	94	89
Long-term assets		
Property, plant and equipment, net <sup>(1)</sup>	81	81
Other assets	157	195
Total long-term assets	238	276
Total assets	\$332	\$ 365
Current liabilities		
Accounts payable	\$17	\$ 8
Accrued expenses and other liabilities	269	265
Environmental liabilities	226	632
Total current liabilities	512	905
Long-term liabilities		
Closure liabilities	123	120
Environmental liabilities	672	239
Total long-term liabilities	795	359
Total liabilities	\$1,307	\$ 1,264

<sup>(1)</sup> net of accumulated depreciation of \$10,000 for each period presented.

The Company's discontinued operations include a note receivable in the amount of approximately \$375,000 recorded in May 2016 resulting from the sale of property at our Perma-Fix of Michigan, Inc. subsidiary. This note requires 60 equal monthly installment payments by the buyer of approximately \$7,250 (which includes interest). At June 30, 2018, the outstanding amount on this note receivable totaled approximately \$232,000, of which approximately \$75,000 is included in "Current assets related to discontinued operations" and approximately \$157,000 is included in "Other assets related to discontinued operations" in the accompanying Consolidated Balance Sheets.

## **11. Operating Segments**

In accordance with ASC 280, “Segment Reporting”, the Company defines an operating segment as a business activity: (a) from which we may earn revenue and incur expenses; (2) whose operating results are regularly reviewed by the chief operating decision makers (“CODM”) to make decisions about resources to be allocated to the segment and assess its performance; and (3) for which discrete financial information is available.

20

Our reporting segments are defined as below:

TREATMENT SEGMENT, 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 primarily through three uniquely  
licensed and permitted treatment and storage facilities; and  
research and development (“R&D”) activities to identify, develop and implement innovative waste processing  
techniques for problematic waste streams.

SERVICES SEGMENT, which includes:

-Technical services, which include:

professional radiological measurement and site survey of large government and commercial installations using  
advanced methods, technology and engineering;  
integrated Occupational Safety and Health services including industrial hygiene (“IH”) assessments; hazardous  
materials surveys, e.g., exposure monitoring; lead and asbestos management/abatement oversight; indoor air quality  
evaluations; health risk and exposure assessments; health & safety plan/program development, compliance auditing  
and training services; and Occupational Safety and Health Administration (“OSHA”) citation assistance;  
global technical services providing consulting, engineering, project management, waste management,  
environmental, and decontamination and decommissioning field, technical, and management personnel and services  
to commercial and government customers; and  
on-site waste management services to commercial and governmental customers.

-Nuclear services, which include:

technology-based services including engineering, decontamination and decommissioning (“D&D”), specialty services,  
logistics, transportation, processing and disposal;  
remediation of nuclear licensed and federal facilities and the remediation cleanup of nuclear legacy sites. Such  
services capability includes: project investigation; radiological engineering; partial and total plant D&D; facility  
decontamination, dismantling, demolition, and planning; site restoration; logistics; transportation; and emergency  
response; and

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

MEDICAL SEGMENT reporting includes: R&D costs for the new medical isotope production technology from our majority-owned Polish subsidiary, PF Medical. The Medical Segment has not generated any revenue as it continues to be primarily in the R&D stage. All costs incurred for the Medical Segment are reflected within R&D in the accompanying Consolidated Statements of Operations. As previously disclosed, during 2016, the Medical Segment ceased a substantial portion of its R&D activities for the medical isotope production technology due to the need for substantial capital to fund such activities. The Company does not anticipate that the Medical Segment will restart such activities until it obtains such funding.

Our reporting segments exclude our corporate headquarters and our discontinued operations (see “Note 10 – Discontinued Operations”) which do not generate revenues.

The table below presents certain financial information of our operating segments for the three and six months ended June 30, 2018 and 2017 (in thousands).

**Segment Reporting for the Quarter Ended June 30, 2018**

	Treatment	Services	Medical	Segments Total	Corporate (1)	Consolidated Total
Revenue from external customers	\$ 9,146	\$ 4,014	—	\$ 13,160	\$ —	\$ 13,160
Intercompany revenues	77	26	—	103	—	—
Gross profit	1,523	520	—	2,043	—	2,043
Research and development	115	—	71	186	33	219
Interest income	—	—	—	—	81	81
Interest expense	(8 )	—	—	(8 )	(54 )	(62 )
Interest expense-financing fees	—	—	—	—	(9 )	(9 )
Depreciation and amortization	227	123	—	350	9	359
Segment income (loss) before income taxes	2,028 (2)	116	(71 )	2,073	(1,266 )	807
Income tax expense	14	—	—	14	5	19
Segment income (loss)	2,014	116	(71 )	2,059	(1,271 )	788
Expenditures for segment assets	271	35	—	306	—	306

**Segment Reporting for the Quarter Ended June 30, 2017**

	Treatment	Services	Medical	Segments Total	Corporate (1)	Consolidated Total
Revenue from external customers	\$ 9,630	\$ 3,085	—	\$ 12,715	\$ —	\$ 12,715
Intercompany revenues	97	7	—	104	—	—
Gross profit	2,174	180	—	2,354	—	2,354
Research and development	62	—	550	612	7	619
Interest income	—	—	—	—	36	36
Interest expense	(18 )	—	—	(18 )	(72 )	(90 )
Interest expense-financing fees	—	—	—	—	(9 )	(9 )
Depreciation and amortization	988	135	—	1,123	10	1,133
Segment income (loss) before income taxes	1,238	(553 )	(550 )	135	(1,295 )	(1,160 )
Income tax expense	65	—	—	65	1	66
Segment income (loss)	1,173	(553 )	(550 )	70	(1,296 )	(1,226 )
Expenditures for segment assets	91	3	—	94	—	94

**Segment Reporting for the Six Months Ended June 30, 2018**

	Treatment	Services	Medical	Segments Total	Corporate (1)	Consolidated Total
Revenue from external customers	\$ 18,105	\$ 7,712	—	\$ 25,817	\$ —	\$ 25,817
Intercompany revenues	289	39	—	328	—	—

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

Gross profit	4,303	1,060	—	5,363	—	5,363
Research and development	228	—	172	400	51	451
Interest income	—	—	—	—	130	130
Interest expense	(8 )	(1 )	—	(9 )	(106 )	(115 )
Interest expense-financing fees	—	—	—	—	(18 )	(18 )
Depreciation and amortization	467	246	—	713	18	731
Segment income (loss) before income taxes	3,772 (2)	31	(172 )	3,631	(2,521 )	1,110
Income tax expense	65	—	—	65	5	70
Segment income (loss)	3,707	31	(172 )	3,566	(2,526 )	1,040
Expenditures for segment assets	491	60	—	551	3	554

**Segment Reporting for the Six Months Ended June 30, 2017**

	Treatment	Services	Medical	Segments Total	Corporate (1)	Consolidated Total
Revenue from external customers	\$ 19,665	\$ 5,757	—	\$ 25,422	\$ —	\$ 25,422
Intercompany revenues	113	10	—	123	—	—
Gross profit	4,861	212	—	5,073	—	5,073
Research and development	243	—	750	993	15	1,008
Interest income	—	—	—	—	71	71
Interest expense	(26 )	(1 )	—	(27 )	(162 )	(189 )
Interest expense-financing fees	—	—	—	—	(18 )	(18 )
Depreciation and amortization	1,997	271	—	2,268	20	2,288
Segment income (loss) before income taxes	2,840	(1,260 )	(750 )	830	(2,584 )	(1,754 )
Income tax expense	145	—	—	145	2	147
Segment income (loss)	2,695	(1,260 )	(750 )	685	(2,586 )	(1,901 )
Expenditures for segment assets	106	10	—	116	—	116

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

(2) Amounts included a net gain of \$1,596,000 recorded resulting from the exchange offer of the Series B Preferred Stock of our M&EC subsidiary (see “Note 13 – M&EC Series B Preferred Stock” below).

## **12. Income Taxes**

The Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes.

The Company had income tax expenses of \$19,000 and \$70,000 for continuing operations for the three and six months ended June 30, 2018, respectively, and income tax expenses of \$66,000 and \$147,000 for continuing operations for the three and six months ended June 30, 2017, respectively. The Company's effective tax rates were approximately 2.3% and 6.3% for the three and six months ended June 30, 2018, respectively, and 5.7% and 8.4% for the three and six months ended June 30, 2017, respectively.

## **13. M&EC Series B Preferred Stock**

The Series B Preferred Stock (the "Series B Preferred Stock") of the Company's wholly-owned consolidated subsidiary, M&EC, was non-voting and non-convertible, had a \$1.00 liquidation preference per share and may be redeemed at the option and sole discretion of M&EC at any time, and from time to time, from and after one year from the date of issuance of the Series B Preferred Stock for the purchase price of \$1.00. Holders of shares of M&EC Series B Preferred Stock were entitled to receive, when, as and if declared by M&EC's board of directors out of funds legally available for payment, cumulative dividends at the rate per annum of 5% per share on the liquidation preference of \$1.00 per share of Series B Preferred Stock. Dividends on the Series B Preferred Stock accrued without interest beginning one year from the date of original issuance (June 25, 2001), and was payable in cash, if, when, and as declared by M&EC board, quarterly each year commencing on the first dividend due date following the expiration of one year from the date of original issuance. On April 24, 2018, the Company announced a private exchange offer ("Exchange Offer"), to all 13 holders of the M&EC Series B Preferred Stock, to exchange in a private placement exempt from registration, for every share of Series B Preferred Stock tendered, (a) 0.1050805 shares of newly issued Common Stock of the Company, par value \$.001 per share ("Common Stock"), and (b) cash in lieu of fractional shares of Common Stock that would otherwise be issuable to the tendering holder of Series B Preferred Stock, in an amount equal to such fractional share of Common Stock multiplied by the closing price per share of the Common Stock on the last trading day immediately preceding the expiration date of the Exchange Offer. The Exchange Offer was made on an all-or-none basis, for all 1,284,730 shares of Series B Preferred Stock outstanding and had an expiration date of May 30, 2018. The Company owns 100% of the voting capital stock of M&EC. On May 30, the Exchange Offer was consummated, resulting in the issuance of an aggregate 134,994 shares of the Company's Common Stock for the 1,284,730 shares of Series B Preferred Stock and the payment of an aggregate of approximately \$29.00 in cash in lieu of the fractional shares of the Company's Common Stock that would otherwise have been issuable to the tendering holder of the Series B Preferred Stock. The fair value of the 134,994 shares of the Company's Common Stock issued was determined to be approximately \$648,000 which was based on the closing price of the Company's Common Stock on May 30, 2018 of \$4.80 per share. Upon the consummation of the Exchange Offer, the previous holders of the M&EC Series B Preferred Stock forfeited all rights of a holder of Series B Preferred Shares, including the right to receive quarterly cash dividends, and the rights to the cumulative accrued and unpaid dividends with M&EC Series B Preferred Stock in the amount of approximately \$1,022,000 at May 30, 2018. The M&EC Board has never declared dividends on the Series B Preferred Stock and our credit facility prohibits the payment of cash dividends without the

lender's consent. After the Exchange Offer, the 1,284,730 shares of the Series B Preferred Stock acquired by the Company were contributed by the Company to M&EC and the Series B Preferred Stock is no longer outstanding. The Company recorded a gain of approximately \$1,596,000, which was net of approximately \$63,000 in legal costs incurred for the completion of the transaction.



The shares of Company Common Stock issued in exchange for shares of M&EC's Series B Preferred Stock were issued pursuant to an exemption from registration under the Securities Act of 1933, as amended, and, as a result, are considered restricted securities that have restrictions on transferability.

#### **14. Subsequent Events**

##### *Credit Facility*

On July 26, 2018, the Company entered into an amendment to our Revised Loan Agreement with our lender which provided, among other things, for the release of \$1,000,000 of the \$2,000,000 reduction in borrowing availability that our lender had previously imposed (see "Note 7 – Long Term Debt – Revolving Credit and Term Loan Agreement" for a discussion of the \$2,000,000 in reduction in borrowing availability that our lender had previously imposed). The release of this borrowing availability reduction will allow the Company to use the \$1,000,000 for working capital purposes. Most of the other terms of the Revised Loan Agreement remain principally unchanged.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-looking Statements**

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

demand for our services;  
reductions in the level of government funding in future years;  
ability of our Medical Segment to fund its R&D program;  
reducing operating costs;  
expect to meet our quarterly financial covenant requirements in the next twelve months;  
cash flow requirements;  
funding of our requirement;  
government funding for our services;  
may not have liquidity to repay debt if our lender accelerates payment of our borrowings;

our cash flows from operations and our available liquidity from our credit facility are sufficient to service our segments' obligations for the next twelve months;  
manner in which the government will be required to spend funding to remediate federal sites;  
fund capital expenditures from cash from operations and/or financing;  
fund remediation expenditures for sites from funds generated from operations;  
compliance with environmental regulations;  
potential effect of being a PRP;  
anticipate cash flows to be generated from operations and release of restricted finite sinking funds by AIG will provide improvement to our working capital deficit;  
release of finite risk sinking funds by AIG in latter half of 2018 as result of M&EC closure;  
closure of M&EC;  
working capital improvement;  
further reduce, delay or eliminate R&D program if the Medical Segment is unable to raise the necessary capital; and  
violations of environmental laws and remediation of facilities.

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;  
ability to meet PNC covenant requirements;  
inability to collect in a timely manner a material amount of receivables;  
increased competitive pressures;  
inability to maintain and obtain required permits and approvals to conduct operations;  
public not accepting our new technology;  
inability to develop new and existing technologies in the conduct of operations;  
inability to maintain and obtain closure and operating insurance requirements;  
inability 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;  
delays at our third party disposal site can extend collection of our receivables greater than twelve months;  
refusal of third party disposal sites to accept our waste;  
changes in federal, state and local laws and regulations, especially environmental laws and regulations, or in interpretation of such;  
requirements to obtain permits for TSD activities or licensing requirements to handle low level radioactive materials are limited or lessened;  
potential increases in equipment, maintenance, operating or labor costs;  
management retention and development;  
financial valuation of intangible assets is substantially more/less than expected;  
the requirement to use internally generated funds for purposes not presently anticipated;  
inability to continue to be profitable on an annualized basis;  
inability of the Company to maintain the listing of its Common Stock on the NASDAQ;  
terminations of contracts with federal agencies or subcontracts involving federal agencies, or reduction in amount of waste delivered to the Company under the contracts or subcontracts;  
renegotiation of contracts involving the federal government;  
federal government's inability or failure to provide necessary funding to remediate contaminated federal sites;  
disposal expense accrual could prove to be inadequate in the event the waste requires re-treatment;  
inability to raise capital on commercially reasonable terms;  
inability to increase profitable revenue;  
lender refuses to waive non-compliance or revise our covenant so that we are in compliance; and  
risk factors and other factors set forth in "Special Note Regarding Forward-Looking Statements" contained in the Company's 2017 Form 10-K and forward-looking statements contained in the Company's Form 10-Q for the quarter ended March 31, 2018.

## Overview

Revenue increased \$445,000 or 3.5% to \$13,160,000 for the three months ended June 30, 2018 from \$12,715,000 for the corresponding period of 2017. The increase was primarily due to increase in revenue from our Services Segment where revenue increased to \$4,014,000 from \$3,085,000, an increase of \$929,000 or 30.1%. Treatment Segment revenue decreased \$484,000 or 5.0% primarily due to lower waste volume and lower averaged price waste resulting from waste mix. Our East Tennessee Materials and Energy Corporation (“M&EC”) facility, which is currently in closure status, had minimum revenues of approximately \$76,000 in the second quarter of 2018 as compared to \$1,692,000 in the corresponding period of 2017; however, revenues from our remaining Treatment Segment facilities increased by approximately \$1,132,000 as we continue to transition operational capabilities from our M&EC facility to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. We continue with closure and decommissioning activities in accordance with M&EC’s license and permit requirements and currently expect to complete on-site M&EC facility closure activities on or before September 30, 2018. Total gross profit decreased \$311,000 or 13.2% for the three months ended June 30, 2018. Our gross profit for the second quarter included an additional \$1,215,000 in closure cost recorded in our Treatment Segment in connection with the pending closure of our M&EC facility as discussed above. Total Selling, General, and Administrative (“SG&A”) expenses decreased \$193,000 or 6.8% for the three months ended June 30, 2018 as compared to the corresponding period of 2017.

Revenue increased \$395,000 or 1.6% to \$25,817,000 for the six months ended June 30, 2018 from \$25,422,000 for the corresponding period of 2017. The increase in revenue was primarily due to the increase in revenue in our Services Segment of approximately \$1,955,000 or 34.0%. Treatment Segment revenue decreased approximately \$1,560,000 or 7.9% to \$18,105,000 from \$19,665,000. Our M&EC facility, which is currently in closure status, had revenues of approximately \$132,000 in the first six months of 2018 as compared to \$5,072,000 in the corresponding period of 2017; however, revenues from our remaining Treatment Segment facilities increased by approximately \$3,380,000 as we continue to transition operational capabilities from our M&EC facility to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. Total gross profit increased \$290,000 or 5.7% for the six months ended June 30, 2018 as compared to the corresponding period of 2018 primarily due to higher revenue generated from our Services Segment. As discussed previously, our gross profit for the six months ended June 30, 2018 included an additional \$1,215,000 in closure cost recorded in the second quarter of 2018 for our Treatment Segment in connection with the pending closure of our M&EC facility. Total SG&A expenses decreased \$264,000 or 4.6% for the six months ended June 30, 2018 as compared to the corresponding period of 2017.

On May 30, 2018, we completed a private exchange offer of M&EC's Series B Preferred Stock for shares of our Common Stock which resulted in a net gain of approximately \$1,596,000 (see "M&EC Series B Preferred Stock" in this Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of this transaction).

### **Business Environment and Outlook**

Our Treatment and Services Segments' business continues to be heavily dependent on services that we provide to governmental clients directly as the contractor or indirectly as a subcontractor. We believe demand for our services will continue to be subject to fluctuations due to a variety of factors beyond our control, including the current economic conditions and the manner in which the government will be required to spend funding to remediate federal sites. In addition, our governmental contracts and subcontracts relating to activities at governmental sites are generally subject to termination or renegotiation on 30 days notice at the government's option. Significant reductions in the level of governmental funding or specifically mandated levels for different programs that are important to our business could have a material adverse impact on our business, financial position, results of operations and cash flows. As previously disclosed, our Medical Segment substantially reduced its research and development ("R&D") activities due to the need for capital to fund such activities. Our Medical Segment continues to seek various sources in order to raise this capital. We anticipate that our Medical Segment R&D activities will be limited until the necessary capital is obtained through its own credit facility or additional equity raise. If the Medical Segment is unable to raise the necessary capital, the Medical Segment could be required to further reduce, delay or eliminate its R&D program.

We are continually reviewing operating costs and are committed to further reducing operating costs to bring them in line with revenue levels, when needed. We continue to focus on expansion into both commercial and international markets to increase revenues in our Treatment and Services Segments to offset the uncertainties of government spending in the United States of America.



## Results of Operations

The reporting of financial results and pertinent discussions are tailored to three reportable segments: The Treatment, Services, and Medical Segments. Our Medical Segment encompasses the operations of our majority-owned Polish subsidiary, PF Medical, which has not generated any revenue and all costs incurred are included within R&D. As previously disclosed, during 2016, the Medical Segment ceased a substantial portion of its R&D activities for the medical isotope production technology due to the need for substantial capital to fund such activities. We do not anticipate that the Medical Segment will restart such activities until it obtains such funding.

### Summary – Three and Six Months Ended June 30, 2018 and 2017

Consolidated (amounts in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	%	2017	%	2018	%	2017	%
Net revenues	\$13,160	100.0	\$12,715	100.0	\$25,817	100.0	\$25,422	100.0
Cost of goods sold	11,117	84.5	10,361	81.5	20,454	79.2	20,349	80.0
Gross profit	2,043	15.5	2,354	18.5	5,363	20.8	5,073	20.0
Selling, general and administrative	2,640	20.1	2,833	22.3	5,420	21.0	5,684	22.4
Research and development	219	1.6	619	4.8	451	1.8	1,008	4.0
Gain on disposal of property and equipment	(17 )	(.1 )	(1 )		(25 )	(.1 )	(1 )	
Loss from operations	(799 )	(6.1 )	(1,097 )	(8.6 )	(483 )	(1.9 )	(1,618 )	(6.4 )
Interest income	81	.6	36	.3	130	.5	71	.3
Interest expense	(62 )	(.5 )	(90 )	(.7 )	(115 )	(.4 )	(189 )	(.7 )
Interest expense-financing fees	(9 )		(9 )	(.1 )	(18 )	(.1 )	(18 )	(.1 )
Net gain on exchange offer of Series B Preferred Stock of subsidiary	1,596	12.1			1,596	6.2		
Income (loss) from continuing operations before taxes	807	6.1	(1,160 )	(9.1 )	1,110	4.3	(1,754 )	(6.9 )
Income tax expense	19	.1	66	.5	70	.3	147	.6
Income (loss) from continuing operations	\$788	6.0	\$(1,226 )	(9.6 )	\$1,040	4.0	\$(1,901 )	(7.5 )

### Revenues

Consolidated revenues increased \$445,000 for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, as follows:

Edgar Filing: PERMA FIX ENVIRONMENTAL SERVICES INC - Form 10-Q

(In thousands)	2018	% Revenue	2017	% Revenue	Change	% Change
<b>Treatment</b>						
Government waste	\$5,578	42.4	\$7,209	56.6	\$(1,631)	(22.6 )
Hazardous/non-hazardous <sup>(1)</sup>	1,604	12.2	1,178	9.3	426	36.2
Other nuclear waste	1,964	14.9	1,243	9.8	721	58.0
<b>Total</b>	<b>9,146</b>	<b>69.5</b>	<b>9,630</b>	<b>75.7</b>	<b>(484 )</b>	<b>(5.0 )</b>
<b>Services</b>						
Nuclear services	3,408	25.9	2,404	18.9	1,004	41.8
Technical services	606	4.6	681	5.4	(75 )	(11.0 )
<b>Total</b>	<b>4,014</b>	<b>30.5</b>	<b>3,085</b>	<b>24.3</b>	<b>929</b>	<b>30.1</b>
<b>Total</b>	<b>\$13,160</b>	<b>100.0</b>	<b>\$12,715</b>	<b>100.0</b>	<b>\$445</b>	<b>3.5</b>

<sup>1)</sup> Includes wastes generated by government clients of \$433,000 and \$15,000 for the three month ended June 30, 2018 and the corresponding period of 2017, respectively.



Treatment Segment revenue decreased \$484,000 or 5.0 % for the three months ended June 30, 2018 over the same period in 2017. The revenue decrease was primarily due to lower revenue generated from government clients due to lower waste volume and lower averaged price waste resulting from waste mix. Other nuclear waste increased by approximately \$721,000 or 58.0% primarily due to higher waste volume. Revenue for our M&EC subsidiary (in closure status) decreased approximately \$1,616,000 for the three months ended June 30, 2018 as compared to the corresponding period of 2017 (\$76,000 in the second quarter of 2018 as compared to \$1,692,000 in the second quarter of 2017); however, our remaining Treatment Segment facilities had a total increase in revenue of approximately \$1,132,000 in the second quarter of 2018 as compared to the corresponding period of 2017 as we continue to transition operational capabilities from our M&EC subsidiary to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. Services Segment revenue increased by \$929,000 or 30.1% in the three months ended June 30, 2018 from the corresponding period of 2017. Our Services Segment revenues are project based; as such, the scope, duration and completion of each project vary. As a result, our Services Segment revenues are subject to differences relating to timing and project value.

Consolidated revenues increased \$395,000 for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, as follows:

(In thousands)	2018	% Revenue	2017	% Revenue	Change	% Change
<b>Treatment</b>						
Government waste	\$11,706	45.3	\$14,580	57.4	\$(2,874)	(19.7 )
Hazardous/non-hazardous <sup>(1)</sup>	2,840	11.0	2,512	9.9	328	13.1
Other nuclear waste	3,559	13.8	2,573	10.1	986	38.3
Total	18,105	70.1	19,665	77.4	(1,560)	(7.9 )
<b>Services</b>						
Nuclear services	6,593	25.6	4,495	17.6	2,098	46.7
Technical services	1,119	4.3	1,262	5.0	(143 )	(11.3 )
Total	7,712	29.9	5,757	22.6	1,955	34.0
<b>Total</b>	<b>\$25,817</b>	<b>100.0</b>	<b>\$25,422</b>	<b>100.0</b>	<b>\$395</b>	<b>1.6</b>

<sup>1)</sup> Includes wastes generated by government clients of \$840,000 and \$15,000 for the six month ended June 30, 2018 and the corresponding period of 2017, respectively.

Treatment Segment revenue decreased \$1,560,000 or 7.9 % for the six months ended June 30, 2018 over the same period in 2017. The revenue decrease was primarily due to lower revenue generated from government clients due to lower waste volume and lower averaged price waste resulting from waste mix. Other nuclear waste increased by approximately \$986,000 or 38.3% primarily due to higher waste volume. Revenue for our M&EC subsidiary (in closure status) decreased approximately \$4,940,000 for the six months ended June 30, 2018 as compared to the corresponding period of 2017 (\$132,000 in the first six months of 2018 as compared to \$5,072,000 in the first six

months of 2017); however, our remaining Treatment Segment facilities had a total increase in revenue of approximately \$3,380,000 in the first six months of 2018 as compared to the corresponding period of 2017 as we continue to transition operational capabilities from our M&EC subsidiary to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. Services Segment revenue increased by \$1,955,000 or 34.0% for the six month ended June 30, 2018 over the same period in 2017. Our Services Segment revenues are project based; as such, the scope, duration and completion of each project vary. As a result, our Services Segment revenues are subject to differences relating to timing and project value.

*Cost of Goods Sold*

Cost of goods sold increased \$756,000 for the quarter ended June 30, 2018, as compared to the quarter ended June 30, 2017, as follows:

(In thousands)	2018	% Revenue	2017	% Revenue	Change
Treatment	\$7,623	83.3	\$7,456	77.4	\$ 167
Services	3,494	87.0	2,905	94.2	589
Total	\$11,117	84.5	\$10,361	81.5	\$ 756

Cost of goods sold for the Treatment Segment increased by \$167,000 or approximately 2.2%. Cost of goods sold for the Treatment Segment for the second quarter of 2018 included additional closure costs recorded in the amount of approximately \$1,215,000 for our M&EC facility due to a change in estimated closure costs in connection with the pending closure of our M&EC facility. Excluding this \$1,215,000 in closure costs, Treatment Segment cost of goods sold decreased \$1,048,000 or 14.1% primarily due to lower revenue. Excluding the additional closure costs recorded as discussed, Treatment Segment variable costs decreased by \$361,000 primarily in disposal, transportation, material and supplies and lab costs. Treatment Segment overall fixed costs were lower by approximately \$687,000 resulting from the following: depreciation expense was lower by approximately \$759,000 due to the full depreciation of our M&EC facility's tangible assets in 2017 resulting from the pending closure of the facility; general expenses were slightly lower by \$4,000 in various categories; maintenance expense was higher by \$36,000; and payroll related expenses were higher by approximately \$40,000 primarily due to higher healthcare costs. Services Segment cost of goods sold increased \$589,000 or 20.3% primarily due to higher revenue as discussed above. The increase in Services Segment's cost of goods sold was primarily in salaries and payroll related expenses, travel, and outside services expenses totaling approximately \$909,000 offset primarily by lower material and supplies and disposal costs. Included within cost of goods sold is depreciation and amortization expense of \$341,000 and \$1,111,000 for the three months ended June 30, 2018, and 2017, respectively.

Cost of goods sold increased \$105,000 for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, as follows:

(In thousands)	2018	% Revenue	2017	% Revenue	Change
Treatment	\$13,802	76.2	\$14,804	75.3	\$(1,002)
Services	6,652	86.3	5,545	96.3	1,107
Total	\$20,454	79.2	\$20,349	80.0	\$ 105

Cost of goods sold for the Treatment Segment decreased by \$1,002,000 or approximately 6.8%. Cost of goods sold for the Treatment Segment for first six months of 2018 included additional closure costs recorded in the amount of approximately \$1,215,000 for our M&EC facility due to a change in estimated closure costs in connection with the pending closure of our M&EC facility. Excluding this \$1,215,000 in closure costs, Treatment Segment cost of goods sold decreased \$2,217,000 or 15.0% primarily due to lower revenue. Excluding the closure costs recorded, Treatment Segment variable costs decreased by \$799,000 primarily in disposal, transportation, material and supplies and lab costs. Treatment Segment overall fixed costs were lower by approximately \$1,418,000 resulting from the following: depreciation expense was lower by approximately \$1,526,000 due to the full depreciation of our M&EC facility's tangible assets in 2017 resulting from the pending closure of the facility; regulatory expense was lower by \$21,000; payroll related expenses were higher by approximately \$55,000 primarily due to higher healthcare costs; travel expense was higher by approximately \$16,000; maintenance expense was higher by \$52,000; and general expenses were slightly higher by approximately \$6,000 in various categories. Services Segment cost of goods sold increased \$1,107,000 or 20.0% primarily due to higher revenue as discussed above. The increase in Services Segment's cost of goods sold was primarily due to higher salaries and payroll related expenses, travel, and outside services expenses totaling approximately \$1,382,000. This increase in costs was offset by lower material and supplies and disposal costs totaling approximately \$158,000 with the remaining lower costs in general expenses in various categories. Included within cost of goods sold is depreciation and amortization expense of \$694,000 and \$2,245,000 for the six months ended June 30, 2018, and 2017, respectively.

*Gross Profit*

Gross profit for the quarter ended June 30, 2018 decreased \$311,000 over the same period in 2017, as follows:

(In thousands)	2018	% Revenue	2017	% Revenue	Change
Treatment	\$1,523	16.7	\$2,174	22.6	\$ (651 )
Services	520	13.0	180	5.8	340
Total	\$2,043	15.5	\$2,354	18.5	\$ (311 )

Treatment Segment gross profit decreased \$651,000 or 29.9% and gross margin decreased to 16.7% from 22.6%. Excluding the \$1,215,000 in additional closure costs recorded as discussed previously in connection with the pending closure of our M&EC subsidiary, gross profit increased \$564,000 or 25.9% and gross margin increased to 29.9% from 22.6% primarily due to the reduction in overall fixed costs and revenue mix. In the Services Segment, the increases in gross profit of \$340,000 or 188.9% and gross margin to 13.0% from 5.8% was primarily due to the increase in revenue. Additionally, our overall Services Segment gross margin is impacted by our current projects which are competitively bid on and will therefore, have varying margin structures.

Gross profit for the six months ended June 30, 2018 increased \$290,000 over 2017, as follows:

(In thousands)	2018	% Revenue	2017	% Revenue	Change
Treatment	\$4,303	23.8	\$4,861	24.7	\$ (558 )
Services	1,060	13.7	212	3.7	848
Total	\$5,363	20.8	\$5,073	20.0	\$ 290

Treatment Segment gross profit decreased \$558,000 or 11.5% and gross margin decreased to 23.9% from 24.7%. Excluding the \$1,215,000 in additional closure costs recorded as discussed previously in connection with our M&EC subsidiary, gross profit increased 657,000 or 13.5% and gross margin increased to 30.5% from 24.7% primarily due to the reduction in overall fixed costs and revenue mix. In the Services Segment, the increases in gross profit of \$848,000 or 400.0% and gross margin to 13.7% from 3.7% was primarily due to the increase in revenue. Additionally, our overall Services Segment gross margin is impacted by our current projects which are competitively bid on and will therefore, have varying margin structures.

*Selling, General and Administrative (“SG&A”)*

SG&A expenses decreased \$193,000 for the three months ended June 30, 2018, as compared to the corresponding period for 2017, as follows:

(In thousands)	2018	% Revenue	2017	% Revenue	Change
Administrative	\$1,252	—	\$1,244	—	\$ 8
Treatment	978	10.7	856	8.9	122
Services	410	10.2	733	23.8	(323 )
Total	\$2,640	20.1	\$2,833	22.3	\$ (193 )

The decrease in total SG&A was primarily due to lower SG&A costs in the Services Segment. Services Segment SG&A decreased by \$323,000 primarily due to the following: outside services expenses were lower by approximately \$48,000 resulting from fewer consulting/legal/subcontract matters; bad debt expense was lower by approximately \$99,000 resulting from reversal of certain allowances for bad debt resulting from payment by customers; general expenses were lower by approximately \$195,000 in various categories which included an adjustment in rent expense resulting from the end of our lease term for our business center office in Knoxville, Tennessee; and salaries and payroll related expenses were higher by approximately \$19,000. The slight increase in Administrative SG&A was due to the following: stock-based compensation expense was higher by approximately \$26,000 resulting from options granted to our executive officers in July 2017 and options granted to certain of our employees in October 2017; healthcare costs were higher by approximately \$7,000; general expenses were lower by \$10,000 in various categories, travel expenses were lower by \$6,000; and outside services expenses were lower by \$9,000 resulting from fewer consulting/business matters. Treatment SG&A was higher primarily due to the following: general expenses were higher by approximately \$115,000 in various categories; and outside services expenses were higher by approximately \$7,000. Included in SG&A expenses is depreciation and amortization expense of \$18,000 and \$22,000 for the three months ended June 30, 2018, and 2017, respectively.

SG&A expenses decreased \$264,000 for the six months ended June 30, 2018, as compared to the corresponding period for 2017, as follows:

(In thousands)	2018	% Revenue	2017	% Revenue	Change
Administrative	\$2,477	—	\$2,460	—	\$ 17
Treatment	1,900	10.5	1,753	8.9	147
Services	1,043	13.5	1,471	25.6	(428 )
Total	\$5,420	21.0	\$5,684	22.4	\$ (264 )

The decrease in total SG&A was primarily due to lower SG&A costs in the Services Segment. Services Segment SG&A decreased by \$428,000 primarily due to the following: outside services expenses were lower by approximately \$74,000 resulting from fewer consulting/legal/subcontract matters; bad debt expense was lower by approximately \$68,000 resulting from reversal of certain allowance for bad debt resulting from payment by customers; general expenses were lower by approximately \$258,000 in various categories which included an adjustment in rent expense resulting from the end of our lease term for our business center office in Knoxville, Tennessee; and salaries and payroll related expense were lower by approximately \$28,000. The slight increase in Administrative SG&A was primarily due to the following: stock-based compensation expenses were higher by approximately \$52,000 resulting from options granted to our executive officers in July 2017 and options granted to certain of our employees in October 2017; healthcare costs were higher by approximately \$26,000; general expenses were lower by \$29,000 in various categories; and outside services expenses were lower by \$32,000 resulting from fewer consulting/business matters. Treatment SG&A was higher primarily due to the following: general expenses were higher by approximately \$186,000 in various categories; travel expenses were higher by approximately \$30,000; outside services expenses were higher by \$53,000 resulting from more business/consulting matters; and salaries and payroll related expenses were lower by approximately \$122,000. Included in SG&A expenses is depreciation and amortization expense of \$37,000 and \$43,000 for the six months ended June 30, 2018 and 2017, respectively.

#### R&D

R&D expenses decreased \$400,000 and decreased \$557,000 for the three and six months ended June 30, 2018, respectively, as compared to the corresponding period of 2017.

(In thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Administrative	\$33	\$7	\$ 26	\$51	\$15	\$ 36
Treatment	115	62	53	228	243	(15 )
Services	—	—	—	—	—	—
PF Medical	71	550	(479 )	172	750	(578 )

Total            \$219   \$619   \$ (400 )   \$451   \$1,008   \$ (557 )

R&D costs consist primarily of employee salaries and benefits, laboratory costs, third party fees, and other related costs associated with the development of new technologies and technological enhancement of new potential waste treatment processes. The decreases in R&D costs for the three months ended June 30, 2018 and six months ended June 30, 2018 as compared to the corresponding periods of 2017 were primarily due the decreases in R&D expenses in the Medical Segment. As disclosed previously, our Medical Segment has ceased a substantial portion of its R&D activities due to the need for substantial capital to fund such activities and we anticipate that our Medical Segment will not resume any substantial R&D activities until it obtains the necessary funding.



### *Interest Income*

Interest income increased \$45,000 for the three months ended June 30, 2018 as compared to the corresponding period of 2017 and increased \$59,000 for the six months ended June 30, 2018 as compared to the corresponding period of 2017 primarily due to higher interest earned on the finite risk sinking funds resulting from higher interest rates.

### *Interest Expense*

Interest expense decreased approximately \$28,000 for the three months ended June 30, 2018 as compared to the corresponding period of 2017. The decrease was primarily due to lower interest from our declining term loan balance and lower average revolver loan balance outstanding. The decrease in interest expense of approximately \$74,000 for the six months ended June 30, 2018 as compared to the corresponding period of 2017 was also primarily due to lower interest expense from our declining term loan balance and lower average revolver loan balance outstanding.

### **Discontinued Operations and Divestitures**

The Company's discontinued operations consist of all our subsidiaries included in our Industrial Segment: (1) subsidiaries divested in 2011 and prior, (2) two previously closed locations, and (3) our PFSG facility, which is currently undergoing closure, subject to regulatory approval.

We had net losses of \$206,000 and \$363,000 for our discontinued operations for the three and six months ended June 30, 2018, respectively (net of taxes of \$0 for each period). We had net losses of \$160,000 and \$291,000 for our discontinued operations for the three and six months ended June 30, 2017, respectively (net of taxes of \$0 for each period). The net losses for the three and six months ended June 30, 2018 included an increase of approximately \$50,000 in remediation reserve at our Perma-Fix of Dayton ("PFD") subsidiary due to reassessment of the remediation reserve.

### **Liquidity and Capital Resources**

Our cash flow requirements during the six months ended June 30, 2018 were primarily financed by our operations and credit facility availability. Our cash flow requirements for the next twelve months will consist primarily of general working capital needs, scheduled principal payments on our debt obligations, remediation projects, planned capital

expenditures, and closure spending requirements of approximately \$924,000 in connection with the pending closure of our M&EC facility. We plan to fund these requirements from our operations and our credit facility. Additionally, as a result of the M&EC facility closure, we expect to receive, during the latter half of 2018, a release of approximately \$5,000,000 of the \$15,807,000 restricted finite risk sinking funds held by American International Group (“AIG”) as collateral under the financial assurance policy dated June 2003 that we currently have with AIG. This release of finite risk sinking funds is subject to approval from AIG and the appropriate regulators and when released, we believe will further enhance our liquidity. We continue to explore all sources of increasing revenue. We are continually reviewing operating costs and are committed to further reducing operating costs to bring them in line with revenue levels, when necessary. Although there are no assurances, we believe that our cash flows from operations and our available liquidity from our credit facility are sufficient to fund our operations for the next twelve months. Additionally, the release of the finite risk sinking funds that we expect to receive during the latter half of 2018 as a result of the M&EC facility closure as discussed above will provide additional funding for our operations as needed. As previously disclosed, our Medical Segment substantially reduced its R&D activities due to the need for capital to fund such activities. We anticipate that our Medical Segment will not resume full R&D activities until it obtains the necessary funding through obtaining its own credit facility or additional equity raise. Our Medical Segment continues to seek various sources of potential funding. If the Medical Segment is unable to raise the necessary capital, the Medical Segment could be required to further reduce, delay or eliminate its R&D program.

The following table reflects the cash flow activities during the first six months of 2018:

(In thousands)	
Cash provided by operating activities of continuing operations	\$2,657
Cash used in operating activities of discontinued operations	(322 )
Cash used in investing activities of continuing operations	(528 )
Cash provided by investing activities of discontinued operations	36
Cash used in financing activities of continuing operations	(579 )
Effect of exchange rate changes in cash	(12 )
Increase in cash and finite risk sinking fund (restricted cash)	\$1,252

At June 30, 2018, we were in a positive cash position with no revolving credit balance. At June 30, 2018, we had cash on hand of approximately \$2,184,000 which includes account balances for our foreign subsidiaries totaling approximately \$690,000.

#### *Operating Activities*

Accounts receivable, net of allowances for doubtful accounts, totaled \$6,075,000 at June 30, 2018, a decrease of \$1,865,000 from the December 31, 2017 balance of \$7,940,000. The decrease was primarily due to increased accounts receivable collections. We provide a variety of payment terms to our customers; therefore, our accounts receivable are impacted by these terms and the related timing of accounts receivable collections.

Accounts payable, totaled \$5,061,000 at June 30, 2018, an increase of \$1,524,000 from the December 31, 2017 balance of \$3,537,000. The increase in accounts payable was attributed to closure related expenses for our M&EC facility which are pending for payment. Additionally, our accounts payable are impacted by the timing of payment as we are continually managing payment terms with our vendors to maximize our cash position throughout all segments.

Disposal/transportation accrual at June 30, 2018, totaled \$1,449,000, a decrease of \$622,000 over the December 31, 2017 balance of \$2,071,000. Our disposal accrual can vary based on revenue mix and the timing of waste shipments for final disposal. During 2018, we shipped more waste for disposal.

We had a working capital deficit of \$3,374,000 (which included working capital of our discontinued operations) at June 30, 2018 as compared to a working capital deficit of \$2,268,000 at December 31, 2017. The additional accrual of \$1,215,000 in closure costs we recorded in the second quarter of 2018 in connection with the pending closure of our M&EC facility negatively impacted our working capital. We anticipate that cash flows to be generated from our

operations and the release of the restricted finite sinking funds by AIG which we anticipate to receive upon the closure of our M&EC facility as discussed above, will provide improvement to our working capital deficit.

*Investing Activities*

For the six months ended June 30, 2018, our purchases of capital equipment totaled approximately \$767,000, of which \$213,000 was financed, with the remaining funded from cash from operations. These expenditures were made primarily for our Treatment Segment. We have budgeted approximately \$2,000,000 for 2018 capital expenditures for our Treatment and Services Segments to maintain operations and regulatory compliance requirements and footprint expansion for one of our Treatment Segment facilities. Certain of these budgeted projects may either be delayed until later years or deferred altogether. We have traditionally incurred actual capital spending totals for a given year at less than the initial budgeted amount. We plan to fund our capital expenditures from cash from operations and/or financing. The initiation and timing of projects are also determined by financing alternatives or funds available for such capital projects.

### *Financing Activities*

We entered into an Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated October 31, 2011 (“Amended Loan Agreement”), with PNC National Association (“PNC”), acting as agent and lender. The Amended Loan Agreement, as subsequently amended (“Revised Loan Agreement”), provides us with the following credit facility with a maturity date of March 24, 2021: (a) up to \$12,000,000 revolving credit (“revolving credit”) and (b) a term loan (“term loan”) of approximately \$6,100,000, which requires monthly installments of approximately \$101,600 (based on a seven-year amortization). The maximum that we can borrow under the revolving credit is based on a percentage of eligible receivables (as defined) at any one time reduced by outstanding standby letters of credit and borrowing reductions that our lender may impose from time to time.

Under the Revised Loan Agreement, we have the option of paying an annual rate of interest due on the revolving credit at prime plus 2% or London Inter Bank Offer Rate (“LIBOR”) plus 3% and the term loan at prime plus 2.5% or LIBOR plus 3.5%.

Pursuant to the Revised Loan Agreement, we may terminate the Revised Loan Agreement, upon 90 days’ prior written notice upon payment in full of our obligations under the Revised Loan Agreement. We agreed to pay PNC 1.0% of the total financing had we paid off our obligations on or before March 23, 2017, .50% of the total financing had we paid off our obligations after March 23, 2017 but prior to or on March 23, 2018, and .25% of the total financing if we pay off our obligations after March 23, 2018 but prior to or on March 23, 2019. No early termination fee shall apply if we pay off our obligations after March 23, 2019.

At June 30, 2018, the borrowing availability under our revolving credit was \$3,051,000, based on our eligible receivables and includes an indefinite reduction of borrowing availability of \$2,000,000 that our lender has imposed. Our borrowing availability under our revolving credit was also reduced by outstanding standby letters of credit totaling approximately \$2,660,000.

On July 26, 2018, we entered into an amendment to our Revised Loan Agreement which provided for, among other things, the release of \$1,000,000 of the \$2,000,000 in borrowing availability reduction that our lender had previously imposed as discussed above. The release of this borrowing availability reduction will allow us to use the \$1,000,000 for working capital purposes. Most of the other terms of the Revised Loan Agreement remain principally unchanged. After the release of the \$1,000,000 of the \$2,000,000 borrowing availability reduction on July 26, 2018, our borrowing availability as of July 27, 2018 under our revolving credit facility was \$3,136,000, which was based on eligible receivable, the remaining reduction of borrowing availability and the outstanding standby letter of credits as discussed above.

Our credit facility with PNC contains certain financial covenants, along with customary representations and warranties. A breach of any of these financial covenants, unless waived by PNC, could result in a default under our credit facility allowing our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. The following table details the quarterly financial covenant requirements under our credit facility at June 30, 2018.

(Dollars in thousands)	Quarterly Requirement	1st Quarter Actual	2nd Quarter Actual
Senior Credit Facility			
Fixed charge coverage ratio	1.15:1	1.22:1	1.72:1
Minimum tangible adjusted net worth	\$ 26,000	\$27,038	\$28,364

We met our quarterly financial covenants in the first and second quarters of 2018 and we expect to meet these quarterly financial covenant requirements in the next twelve months. If we fail to meet any of these quarterly financial covenant requirements as noted above and our lender does not waive the non-compliance or revise our covenant so that we are in compliance, our lender could accelerate the repayment of borrowings under our credit facility. In the event that our lender accelerates the payment of our borrowings, we may not have sufficient liquidity to repay our debt under our credit facility and other indebtedness.

## **M&EC Series B Preferred Stock**

The non-voting Series B Preferred Stock (the “Series B Preferred Stock”) of our consolidated wholly-owned subsidiary, M&EC, was exchanged by us for our Common Stock in a private exchange offer exempt from registration (the “Exchange Offer”). Holders of shares of M&EC Series B Preferred Stock were entitled to receive, when, as and if declared by M&EC’s board of directors out of funds legally available for payment, cumulative dividends at the rate per annum of 5% per share on the liquidation preference of \$1.00 per share of Series B Preferred Stock. Dividends on the Series B Preferred Stock accrued without interest beginning one year from the date of original issuance (June 25, 2001), and was payable in cash, if, when, and as declared by M&EC board, quarterly each year commencing on the first dividend due date following the expiration of one year from the date of original issuance. The Exchange Offer, to all 13 holders of the M&EC Series B Preferred Stock, was to exchange, in a private placement exempt from registration, for every share of Series B Preferred Stock tendered, (a) 0.1050805 shares of our newly issued common stock, par value \$.001 per share (“Common Stock”), and (b) cash in lieu of fractional shares of Common Stock that would otherwise be issuable to the tendering holder of Series B Preferred Stock, in an amount equal to such fractional share of Common Stock multiplied by the closing price per share of the Common Stock on the last trading day immediately preceding the expiration date of the Exchange Offer. The Exchange Offer for all 1,284,730 shares of Series B Preferred Stock outstanding and had an expiration date of May 30, 2018. We own 100% of the voting capital stock of M&EC. On May 30, the Exchange Offer was consummated resulting in the issuance of an aggregate 134,994 shares of our Common Stock for the 1,284,730 shares of Series B Preferred Stock and the payment of an aggregate of approximately \$29.00 in cash in lieu of the fractional shares of our Common Stock that would otherwise have been issuable to the tendering holder of the Series B Preferred Stock. The fair value of the 134,994 shares of our Common Stock issued was determined to be approximately \$648,000 which was based on the closing price of our Common Stock on May 30, 2018 of \$4.80 per share. Upon the consummation of the Exchange Offer, the previous holders of the M&EC Series B Preferred Stock forfeited all rights of a holder of Series B Preferred Shares, including the right to receive quarterly cash dividends, and the rights to the cumulative accrued and unpaid dividends with M&EC Series B Preferred Stock in the amount of approximately \$1,022,000 at May 30, 2018. The M&EC Board has never declared dividends on the Series B Preferred Stock and our credit facility prohibits the payment of cash dividends without the lender’s consent. After the Exchange Offer, the 1,284,730 shares of the Series B Preferred Stock acquired by us were contributed by us to M&EC and the Series B Preferred Stock is no longer outstanding. We recorded a gain of approximately \$1,596,000, which was net of approximately \$63,000 in legal expenses incurred for the completion of the transaction.

The shares of our Common Stock issued in exchange for shares of M&EC’s Series B Preferred Stock were issued pursuant to an exemption from registration under the Securities Act of 1933, as amended, and, as a result, are considered restricted securities that have restrictions on transferability.

## **Off Balance Sheet Arrangements**

From time to time, we are required to post standby letters of credit and various bonds to support contractual obligations to customers and other obligations, including facility closures. At June 30, 2018, the total amount of

standby letters of credit outstanding totaled approximately \$2,660,000 and the total amount of bonds outstanding totaled approximately \$8,943,000. We also provide closure and post-closure requirements through a financial assurance policy for certain of our Treatment Segment facilities through AIG. At June 30, 2018, the closure and post-closure requirements for these facilities were approximately \$29,911,000.

### **Critical Accounting Policies and Estimates**

We adopted Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” followed by a series of related accounting standard updates (collectively referred to as “Topic 606”) effective January 1, 2018. The adoption of Topic 606 did not materially impact our revenues. There were no significant changes in our accounting policies or critical accounting estimates that are discussed in our Annual Report on Form 10-K for the year ended December 31, 2017.



## Known Trends and Uncertainties

*Significant Customers.* Our Treatment and Services Segments have significant relationships with the federal government, and continue to enter into contracts, directly as the prime contractor or indirectly for others as a subcontractor, with the federal government. The U.S Department of Energy (“DOE”) and U.S. Department of Defense (“DOD”) represent major customers for our Treatment Segment and Services Segments. The contracts that we are a party to with the federal government or with others as a subcontractor to the federal government generally provide that the government may terminate or renegotiate the contracts on 30 days notice, at the government’s election. Our inability to continue under existing contracts that we have with the federal government (directly or indirectly as a subcontractor) or significant reductions in the level of governmental funding in any given year could have a material adverse impact on our operations and financial condition.

We performed services relating to waste generated by government clients (includes U.S federal and state), either directly as a prime contractor or indirectly for others as a subcontractor to government entities, representing approximately \$9,276,000 or 70.5% and \$18,929,000 or 73.3% of our total revenues generated during the three and six months ended June 30, 2018, respectively, as compared to \$9,698,000 or 76.3% and \$19,137,000 or 75.3% of our total revenue generated during the corresponding period of 2017, respectively.

## 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. In the past, numerous third party disposal sites have improperly managed waste 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 potentially responsible party (“PRP”) at a remedial action site, which could have a material adverse effect.

Our subsidiaries where remediation expenditures will be made are at three sites within our discontinued operations. While no assurances can be made that we will be able to do so, we expect to fund the expenses to remediate these sites from funds generated from operations.

At June 30, 2018, we had total accrued environmental remediation liabilities of \$898,000, of which \$226,000 is recorded as a current liability, which reflects an increase of \$27,000 from the December 31, 2017 balance of \$871,000. The net increase presents an increase of approximately \$50,000 made to the reserve at our Perma-Fix of Dayton, Inc. subsidiary (“PFD”) due to reassessment of the remediation reserve and payments of approximately \$23,000 on remediation projects for the same subsidiary.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risks**

Not applicable

#### **Item 4. Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management. As of the end of the period covered by this report, we carried out an evaluation with the participation of our Principal Executive Officer and Principal Financial Officer. Based on this recent assessment, our Principal Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were effective as of June 30, 2018

(b) *Changes in internal control over financial reporting.*

Effective January 1, 2018, we adopted ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606) and a series of related accounting standard updates (collectively referred to as “Topic 606”). Although the adoption of the new revenue standards had no significant impact on our financial position, results of operations, or cash flows, we did implement changes to our controls related to revenue. These included the development of new policies and controls based on the five-step model provided in Topic 606, enhanced contract review requirements, and other ongoing monitoring activities. These controls were developed to provide assurance at a reasonable level for the fair presentation of our condensed consolidated financial statements and related disclosures. There was no other change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

There are no additional material legal proceedings pending against us and/or our subsidiaries not previously reported by us in Item 3 of our Form 10-K for the year ended December 31, 2017, which is incorporated herein by reference.

### **Item 1A. Risk Factors**

There has been no other material change from the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2017.

**Item 6. Exhibits**

(a) **Exhibits**

- 4.1 Tenth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated July 26, 2018, as incorporated by reference from Exhibit 4.1 to the Company's 8-K filed on July 30, 2018.
- 31.1 Certification by Mark Duff, Chief Executive Officer of the Company pursuant to Rule 13a-14(a) or 15d-14(a).
- 31.2 Certification by Ben Naccarato, Chief Financial Officer of the Company pursuant to Rule 13a-14(a) or 15d-14(a).
- 32.1 Certification by Mark Duff, Chief Executive Officer of the Company furnished pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification by Ben Naccarato, Chief Financial Officer of the Company furnished pursuant to 18 U.S.C. Section 1350.
- 101.INS XBRL Instance Document\*
- 101.SCH XBRL Taxonomy Extension Schema Document\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document\*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data File in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

## SIGNATURES

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

### PERMA-FIX ENVIRONMENTAL SERVICES

Date: August 8, 2018 By: */s/ Mark Duff*  
Mark Duff

President and Chief (Principal) Executive Officer

Date: August 8, 2018 By: */s/ Ben Naccarato*  
Ben Naccarato  
Chief (Principal) Financial Officer

