

PERMA FIX ENVIRONMENTAL SERVICES INC  
Form 10-Q  
May 06, 2011

---

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 March 31, 2011

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 111596

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

Delaware  
(State or other jurisdiction  
of incorporation or organization)

58-1954497  
(IRS Employer Identification Number)

8302 Dunwoody Place, Suite 250, Atlanta, GA  
(Address of principal executive offices)

30350  
(Zip Code)

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

N/A

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

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

Yes  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

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

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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Class	Outstanding at May 2, 2011
Common Stock, \$.001 Par Value	55,137,687 shares of registrant's Common Stock

## PERMA-FIX ENVIRONMENTAL SERVICES, INC.

## INDEX

PART I	FINANCIAL INFORMATION	Page No.
Item 1.	Condensed Financial Statements	
	<u>Consolidated Balance Sheets - March 31, 2011 (unaudited) and December 31, 2010</u>	1
	<u>Consolidated Statements of Operations - Three Months Ended March 31, 2011 (unaudited) and 2010 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows - Three Months Ended March 31, 2011 (unaudited) and 2010 (unaudited)</u>	4
	<u>Consolidated Statement of Stockholders' Equity -Three Months Ended March 31, 2011 (unaudited)</u>	5
	<u>Notes to Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4.	<u>Controls and Procedures</u>	38
PART II	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	39
Item 1A.	<u>Risk Factors</u>	39
Item 6.	<u>Exhibits</u>	39

---

Index

## PART I - FINANCIAL INFORMATION

## Item 1. – Financial Statements

## PERMA-FIX ENVIRONMENTAL SERVICES, INC.

## Consolidated Balance Sheets

(Amounts in Thousands, Except for Share and per Share Amounts)	March 31, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash	\$ 28	\$ 101
Restricted cash	35	35
Accounts receivable, net of allowance for doubtful accounts of \$186 and \$215, respectively	13,612	8,541
Unbilled receivables - current	9,101	9,436
Inventories	582	465
Prepaid and other assets	2,394	2,870
Deferred tax assets - current	1,954	1,734
Current assets related to discontinued operations	2,112	2,034
Total current assets	29,818	25,216
Property and equipment:		
Buildings and land	24,693	24,693
Equipment	33,279	33,279
Vehicles	235	235
Leasehold improvements	11,506	11,506
Office furniture and equipment	1,899	1,890
Construction-in-progress	1,301	593
	72,913	72,196
Less accumulated depreciation and amortization	(32,889 )	(31,753 )
Net property and equipment	40,024	40,443
Property and equipment related to discontinued operations	4,210	4,209
Intangibles and other long term assets:		
Permits	16,871	16,863
Goodwill	15,361	15,330
Unbilled receivables – non-current	2,308	2,556
Finite Risk Sinking Fund	19,316	17,424
Other assets	2,154	2,084
Intangible and other assets related to discontinued operations	1,190	1,190
Total assets	\$ 131,252	\$ 125,315

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



Index

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

	March 31, 2011 (Unaudited)	December 31, 2010
(Amounts in Thousands, Except for Share and per Share Amounts)		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,965	\$ 4,891
Accrued expenses	6,614	5,996
Disposal/transportation accrual	3,128	2,188
Unearned revenue	4,509	3,527
Current liabilities related to discontinued operations	2,912	2,673
Current portion of long-term debt	3,427	3,612
Total current liabilities	26,555	22,887
Accrued closure costs	12,382	12,362
Other long-term liabilities	562	671
Deferred tax liability	1,180	1,180
Long-term liabilities related to discontinued operations	2,594	3,074
Long-term debt, less current portion	9,626	6,637
Total long-term liabilities	26,344	23,924
Total liabilities	52,899	46,811
Commitments and Contingencies		
Preferred Stock of subsidiary, \$1.00 par value; 1,467,396 shares authorized, 1,284,730 shares issued and outstanding, liquidation value \$1.00 per share	1,285	1,285
Stockholders' equity:		
Preferred Stock, \$.001 par value; 2,000,000 shares authorized, no shares issued and outstanding	$\frac{3}{4}$	$\frac{3}{4}$
Common Stock, \$.001 par value; 75,000,000 shares authorized, 55,138,942 and 55,106,180 shares issued, respectively; 55,100,732 and 55,067,970 shares outstanding, respectively	55	55
Additional paid-in capital	100,991	100,821
Accumulated deficit	(23,890 )	(23,569 )
Less Common Stock in treasury at cost; 38,210 shares, respectively	(88 )	(88 )
Total stockholders' equity	77,068	77,219
Total liabilities and stockholders' equity	\$ 131,252	\$ 125,315

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



Index

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

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended March 31,	
	2011	2010
Net revenues	\$23,615	\$23,566
Cost of goods sold	20,585	18,623
Gross profit	3,030	4,943
Selling, general and administrative expenses	3,372	3,442
Research and development	266	210
Loss on disposal of property and equipment		2
(Loss) income from operations	(608 )	1,289
Other income (expense):		
Interest income	13	21
Interest expense	(176 )	(218 )
Interest expense-financing fees	(102 )	(102 )
Other		5
(Loss) income from continuing operations before taxes	(873 )	995
Income tax (benefit) expense	(340 )	420
(Loss) income from continuing operations, net of taxes	(533 )	575
Income from discontinued operations, net of taxes	212	63
Net (loss) income	\$(321 )	\$638
Net (loss) income per common share – basic		
Continuing operations	\$(.01 )	\$.01
Discontinued operations		
Net (loss) income per common share	\$(.01 )	\$.01
Net (loss) income per common share – diluted		
Continuing operations	\$(.01 )	\$.01
Discontinued operations		
Net (loss) income per common share	\$(.01 )	\$.01
Number of common shares used in computing net income (loss) per share:		
Basic	55,100	54,693
Diluted	55,100	54,901

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



Index

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

(Amounts in Thousands)	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net (loss) income	\$(321 )	\$638
Less: income from discontinued operations	212	63
(Loss) income from continuing operations	(533 )	575
Adjustments to reconcile net (loss) income to cash used in operations:		
Depreciation and amortization	1,156	1,065
Amortization of debt discount	83	83
Deferred tax (benefit) expense	(220 )	30
(Benefit) provision for bad debt and other reserves	(28 )	27
Loss on disposal of plant, property and equipment		2
Issuance of common stock for services	54	59
Stock-based compensation	116	86
Changes in operating assets and liabilities of continuing operations, net of effect from business acquisitions:		
Accounts receivable	(5,043 )	(75 )
Unbilled receivables	583	(1,285 )
Prepaid expenses, inventories and other assets	112	(14 )
Accounts payable, accrued expenses and unearned revenue	2,958	(2,188 )
Cash used in continuing operations	(762 )	(1,635 )
Cash used in discontinued operations	(61 )	(38 )
Cash used in operating activities	(823 )	(1,673 )
Cash flows from investing activities:		
Purchases of property and equipment, net	(717 )	(157 )
Payment to finite risk sinking fund	(1,892 )	(1,899 )
Cash used in investing activities of continuing operations	(2,609 )	(2,056 )
Cash used in discontinued operations	(21 )	(173 )
Cash used in investing activities	(2,630 )	(2,229 )
Cash flows from financing activities:		
Net borrowing of revolving credit	3,371	3,329
Principal repayments of long term debt	(649 )	(551 )
Proceeds from finite risk financing	685	653
Proceeds from issuance of stock		491
Cash provided by financing activities of continuing operations	3,407	3,922
Principal repayments of long term debt for discontinued operations	(27 )	(13 )
Cash provided by financing activities	3,380	3,909
(Decrease) increase in cash	(73 )	7
Cash at beginning of period	101	66
Cash at end of period	\$28	\$73

Supplemental disclosure:

Interest paid	\$163	\$186
Income taxes paid	27	231

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

Index

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
 Consolidated Statement of Stockholders' Equity  
 (Unaudited, for the three months ended March 31, 2011)

Amounts in thousands, except for share amounts)	Common Stock		Additional Paid-In Capital	Common Stock Held In Treasury	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2010	55,106,180	\$55	\$100,821	\$(88 )	\$ (23,569 )	\$ 77,219
Net loss	¾	¾	¾	¾	(321 )	(321 )
Issuance of Common Stock for services	32,762	¾	54	¾	¾	54
Stock-Based Compensation	¾	¾	116	¾	¾	116
Balance at March 31, 2011	55,138,942	\$55	\$100,991	\$(88 )	\$ (23,890 )	\$ 77,068

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

Index

PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
Notes to Consolidated Financial Statements

March 31, 2011  
(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, 2010.

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by the Company (which may be referred to as we, us or our), without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures which are made are adequate to make the information presented not misleading. Further, the consolidated financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations as of and for the periods indicated. The results of operations for the three months ended March 31, 2011, are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2011.

It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Reclassifications

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

As previously disclosed, on October 6, 2010, our Board of Directors authorized the divestiture of our three remaining operations within our Industrial Segment, Perma-Fix of Fort Lauderdale, Inc. ("PFFL"), Perma-Fix of South Georgia, Inc. ("PFSG"), and Perma-Fix of Orlando, Inc. ("PFO"). On October 6, 2010, PFFL, PFSG, and PFO met the held for sale criteria under Accounting Standards Codification 360 ("ASC 360"), "Property, Plant, and Equipment", and therefore, certain assets and liabilities of these facilities have been reclassified as discontinued operations in the Consolidated Balance Sheet, and we ceased depreciation of these facilities' long-lived assets classified as held for sale. The results of operations and cash flows of these three operations have been reported in the Consolidated Financial Statements as discontinued operations for all periods presented. See "Note 8 – Discontinued Operations" for letters of intent ("LOIs") entered into by the Company during February 2011 to sell PFFL and PFO.

2. Summary of Significant Accounting Policies

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

Recently Issued Accounting Standards

In January 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-01 ("ASU 2011-01"), "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." ASU 2011-01 temporarily delays the effective date of the disclosures about troubled debt restructurings. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be

coordinated. Currently, the guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The Company does not expect ASU 2011-01 to have a material effect on its financial position, results of operations or cash flows.

Index

## 3. Stock Based Compensation

We follow FASB ASC 718, “Compensation – Stock Compensation” (“ASC 718”) to account for stock-based compensation. ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

The Company has certain stock option plans under which it awards incentive and non-qualified stock options to employees, officers, and outside directors. Stock options granted to employees have either a ten year contractual term with one fifth yearly vesting over a five year period or a six year contractual term with one third yearly vesting over a three year period. Stock options granted to outside directors have a ten year contractual term with vesting period of six months.

No stock options were granted during the first quarter of 2011 and 2010.

As of March 31, 2011, we had 2,001,166 employee stock options outstanding, of which 1,689,333 are vested. The weighted average exercise price of the 1,689,333 outstanding and fully vested employee stock options is \$2.01 with a remaining weighted contractual life of 1.99 years. Additionally, we had 751,000 outstanding director stock options, all of which are vested. The weighted average exercise price of the 751,000 outstanding and fully vested director stock options is \$2.25 with a remaining weighted contractual life of 5.30 years.

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 following table summarizes stock-based compensation recognized for the three months ended March 31, 2011 and 2010 for our employee and director stock options.

Stock Options	Three Months Ended	
	March 31,	
	2011	2010
Employee Stock Options	\$ 76,000	\$ 59,000
Director Stock Options	40,000	27,000
Total	\$ 116,000	\$ 86,000

We recognized stock-based compensation expense using a straight-line amortization method over the requisite period, which is the vesting period of the stock option grant. ASC 718 requires that stock based compensation expense be based on options that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We have generally estimated forfeiture rates based on historical trends of actual forfeitures. When actual forfeitures vary from our estimates, we recognize the difference in compensation expense in the period the actual forfeitures occur or when options vest. As of March 31, 2011, we have approximately \$127,000 of total unrecognized compensation cost related to unvested options, of which \$124,000 is expected to be recognized in remaining 2011 and \$3,000 in 2012.

## 4. Capital Stock, Stock Plans, and Treasury Stock

During the first quarter of 2011, we issued 32,762 shares of our Common Stock under our 2003 Outside Directors Stock Plan to our outside directors as compensation for serving on our Board of Directors. We pay each of our outside directors \$2,167 monthly in fees for serving as a member of our Board of Directors. The Audit Committee

Chairman receives an additional monthly fee of \$1,833 due to the position's additional responsibility. In addition, each board member is paid \$1,000 for each board meeting attendance as well as \$500 for each telephonic conference call. As a member of the Board of Directors, each director elects to receive either 65% or 100% of the director's fee in shares of our Common Stock based on 75% of the fair market value of our Common Stock determined on the business day immediately preceding the date that the quarterly fee is due. The balance of each director's fee, if any, is payable in cash.

Index

The summary of the Company's total Plans as of March 31, 2011 as compared to March 31, 2010, and changes during the periods then ended are presented as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding January 1, 2011	2,755,525	\$2.09		
Granted				
Exercised				\$
Forfeited	(3,359 )	\$2.19		
Options outstanding End of Period (1)	2,752,166	2.09	3.1	\$12,900
Options Exercisable at March 31, 2011 (1)	2,440,333	\$2.08	3.0	\$9,300
Options Vested and expected to be vested at March 31, 2011	2,736,134	\$2.09	3.1	\$12,900

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding January 1, 2010	3,109,525	\$2.05		
Granted				
Exercised	(340,000 )	1.70		\$217,700
Forfeited				
Options outstanding End of Period (2)	2,769,525	2.10	3.9	\$574,909
Options Exercisable at March 31, 2010 (2)	2,104,192	\$2.08	3.7	\$492,809
Options Vested and expected to be vested at March 31, 2010	2,731,742	\$2.09	3.9	\$574,909

(1) Options with exercise prices ranging from \$1.42 to \$2.98

(2) Options with exercise prices ranging from \$1.25 to \$2.98



Index

## 5. Earnings (Loss) Per Share

Basic earnings (loss) per share excludes any dilutive effects of stock options, warrants, and convertible preferred stock. In periods where they are anti-dilutive, such amounts are excluded from the calculations of dilutive earnings per share.

The following is a reconciliation of basic net income (loss) per share to diluted net income (loss) per share for the three months ended March 31, 2011 and 2010:

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended March 31,	
	2011	2010
(Loss) income per share from continuing operations		
(Loss) income from continuing operations	\$ (533 )	\$