

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, 2000

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. 1-11596

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

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

1940 N.W. 67th Place, Gainesville, FL 32653  
(Address of principal executive offices) (Zip Code)

(352)373-4200  
(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 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 August 18, 2000
Common Stock, \$.001 Par Value	21,709,172 (excluding 988,000 shares held as treasury stock)

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
 CONSOLIDATED FINANCIAL STATEMENTS

PART I, ITEM 1

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

It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

The results of operations for the six months ended June 30, 2000, are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2000.

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
 CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except for Share Amounts)	June 30, 2000 (Unaudited)	December 31, 1999
<S>	<C>	<C>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 391	\$ 771
Restricted cash equivalents and investments	20	73
Accounts receivable, net of allowance for doubtful accounts of \$875 and \$952, respectively	13,443	13,027
Inventories	163	229
Prepaid expenses	1,470	486
Other receivables	118	62
Assets of discontinued operations	48	377
Total current assets	15,653	15,025
Property and equipment:		
Buildings and land	12,557	12,555
Equipment	14,095	13,682
Vehicles	2,456	2,274
Leasehold improvements	16	16
Office furniture and equipment	1,309	1,223
Construction in progress	2,250	1,210

	32,683	30,960
Less accumulated depreciation	(8,978)	(7,690)
Net property and equipment	<u>23,705</u>	<u>23,270</u>
Intangibles and other assets:		
Permits, net of accumulated amortization of \$1,765 and \$1,504, respectively	8,298	8,544
Goodwill, net of accumulated amortization of \$1,166 and \$1,009, respectively	6,997	7,154
Other assets	624	651
Total assets	<u>\$ 55,277</u>	<u>\$ 54,644</u>

</TABLE>

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

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

(Amounts in Thousands, Except for Share Amounts)	June 30, 2000 (Unaudited)	December 31, 1999
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,510	\$ 7,587
Accrued expenses	6,407	5,885
Revolving loan and term note facility	938	938
Current portion of long-term debt	1,526	1,427
Current liabilities of discontinued operations	315	588
Total current liabilities	<u>16,696</u>	<u>16,425</u>
Environmental accruals	3,764	3,847
Accrued closure costs	972	962
Long-term debt, less current portion	12,712	12,937
Long term liabilities of discontinued operations	654	654
Total long-term liabilities	<u>18,102</u>	<u>18,400</u>
Total Liabilities	<u>34,798</u>	<u>34,825</u>
Commitments and contingencies (see Note 6)	-	-
Stockholders' equity:		
Preferred Stock, \$.001 par value; 2,000,000 shares authorized, 4,187 and 4,537 shares issued and outstanding, respectively	-	-
Common Stock, \$.001 par value; 50,000,000 shares authorized, 22,697,172 and 21,501,776 shares issued, including 988,000 shares held as treasury stock	23	21
Additional paid-in capital	43,254	42,367
Accumulated deficit	(20,936)	(20,707)
	<u>22,341</u>	<u>21,681</u>
Less Common Stock in treasury at cost; 988,000 shares issued and outstanding	(1,862)	(1,862)
Total stockholders' equity	<u>20,479</u>	<u>19,819</u>
Total liabilities and stockholders' equity	<u>\$ 55,277</u>	<u>\$ 54,644</u>

</TABLE>

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

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

Amounts in Thousands, Except for Share Amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999

<S>	<C>	<C>	<C>	<C>
Net revenues	\$ 14,492	\$ 10,573	\$ 28,081	\$ 18,385
Cost of goods sold	10,007	6,819	19,549	12,109
Gross profit	4,485	3,754	8,532	6,276
Selling, general and administrative expenses	2,927	2,295	6,180	4,133
Depreciation and amortization	852	597	1,714	1,116
Income from operations	706	862	638	1,027
Other income (expense):				
Interest income	10	11	21	18
Interest expense	(441)	(91)	(851)	(118)
Other	37	(6)	67	(20)
Net income (loss)	312	776	(125)	907
Preferred Stock dividends	(50)	(73)	(104)	(190)
Net income (loss) applicable to Common Stock	\$ 262	\$ 703	\$ (229)	\$ 717

Net income (loss) per share:

Basic	\$ .01	\$ .04	\$ (.01)	\$ .05
Diluted	\$ .01	\$ .04	\$ (.01)	\$ .05

Number of shares and Common Stock equivalents used in computing net income (loss) per share:

Basic	21,709	16,570	21,279	14,483
Diluted	26,089	20,254	21,279	18,175

</TABLE>

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

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

(Amounts in Thousands, Except for Share Amounts)	Six Months Ended June 30,	
	2000	1999
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss) from continuing operations	\$ (125)	\$ 907
Adjustments to reconcile net income (loss) to cash provided by operations:		
Depreciation and amortization	1,714	1,116
Provision for bad debt and other reserves	29	12
(Gain) on sale of plant, property and equipment	(46)	3
Changes in assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	(445)	(1,118)
Prepaid expenses, inventories and other assets	(430)	(432)
Accounts payable and accrued expenses	(141)	84
Net cash provided by continuing operations	556	572
Net cash used by discontinued operations	(249)	(551)
Cash flows from investing activities:		
Purchases of property and equipment, net	(1,436)	(895)
Proceeds from sale of plant, property and equipment	101	14
Change in restricted cash, net	43	82
Cash used for acquisition consideration	-	(1,000)
Net cash used for acquisition settlements	-	(1,616)
Net cash provided by (used by) discontinued operations	264	(40)

Net cash used in investing activities	(1,028)	(3,455)
Cash flows from financing activities:		
Borrowings of revolving loan and term note facility	223	3,279
Principal repayments on long-term debt	(698)	(134)
Purchase of treasury stock	-	(50)
Proceeds from issuance of stock	776	66
Net cash used by discontinued operations	(4)	(17)
Net cash provided by financing activities	297	3,144
Decrease in cash and cash equivalents	(424)	(290)
Cash and cash equivalents at beginning of period including discontinued operations of \$45, and \$0, respectively	816	776
Cash and cash equivalents at end of period, including discontinued operations of \$1, and \$4 respectively	\$ 392	\$ 486
Supplemental disclosure:		
Interest and dividends paid	\$ 846	\$ 422
Non cash investing and financing activities:		
Issuance of Common Stock for services	-	15
Issuance of stock for payment of dividends	112	114
Long-term debt incurred for purchase of property and equipment	349	221
Long-term debt incurred for acquisition	-	4,700
Issuance of stock for acquisition	-	3,000

</TABLE>

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, for the six months ended June 30, 2000)

(Amounts in Thousands Except for Share Amounts)	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Common Stock Held in Treasury
	Shares	Amount	Shares	Amount			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
Balance at December 31, 1999	4,537	\$ -	21,501,776	\$ 21	\$ 42,367	\$ (20,707)	\$ (1,862)
Net loss	-	-	-	-	-	(125)	-
Preferred Stock dividend	-	-	-	-	-	(104)	-
Issuance of Common Stock for Preferred Stock dividend	-	-	97,841	-	112	-	-
Conversion of Preferred Stock to Common	(350)	-	322,351	1	-	-	-
Issuance of stock under Employee Stock Purchase Plan	-	-	48,204	-	49	-	-
Exercise of warrants	-	-	727,000	1	726	-	-
Balance at June 30, 2000	4,187	\$ -	22,697,172	\$ 23	\$ 43,254	\$ (20,936)	\$ (1,862)

</TABLE>

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2000  
 (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, 1999.

1. Summary of Significant Accounting Policies

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

2. Earnings Per Share

Basic EPS is based on the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS includes the dilutive effect of potential common shares. Diluted loss per share for the six months ended June 30, 2000, does not include potential common shares as their effect would be anti-dilutive.

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The following is a reconciliation of basic net income (loss) per share to diluted net income (loss) per share for the three months and six months ended June 30, 2000, and 1999:

(Amounts in Thousands, Except for Share Amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Net income (loss) applicable to Common Stock - basic	\$ 262	\$ 703	\$ (229)	\$ 717
Effect of dilutive securities - Preferred Stock dividends	50	73	-	190
Net income (loss) applicable to Common Stock - diluted	\$ 312	\$ 776	\$ (229)	\$ 907
Basic net income (loss) per share	\$ .01	\$ .04	\$ (.01)	\$ .05
Diluted net income (loss) per share	\$ .01	\$ .04	\$ (.01)	\$ .05
Weighted average shares outstanding-basic	21,709	16,570	21,279	14,483
Potential shares exercisable under stock option plans	1,148	544	-	542
Potential shares upon exercise of warrants	441	11	-	22
Potential shares upon conversion of Preferred Stock	2,791	3,129	-	3,128
Weighted average shares outstanding-diluted	26,089	20,254	21,279	18,175

</TABLE>

The above reconciliation for the six months ended June 30, 2000, excluded the effect of potential common shares for 1,783,949 options, 4,904,963 warrants and 2,791,333 potential shares upon conversion of Preferred Stock since their effect would be anti-dilutive.

3. Discontinued Operations

On January 27, 1997, an explosion and resulting tank fire occurred at the Perma-Fix of Memphis, Inc. ("PFM") facility, a hazardous waste storage, processing and blending facility, which resulted in damage to certain hazardous waste storage tanks located on the facility and caused certain

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limited contamination at the facility. As a result of the significant disruption and the cost to rebuild and operate this segment, the Company made a strategic decision, in February 1998, to discontinue its fuel blending operations at PFM. The fuel blending operations represented the principal

line of business for PFM prior to this event, which included a separate class of customers, and its discontinuance has required PFM to attempt to develop new markets and customers, through the utilization of the facility as a storage facility under its RCRA permit and as a transfer facility.

The accrued environmental and closure costs related to PFM total \$948,000 as of June 30, 2000, a decrease of \$227,000 from the December 31, 1999, accrual balance. This reduction was principally a result of the specific costs related to general closure and remedial activities, including groundwater remediation, and agency and investigative activities, (\$114,000), and the general operating losses, including indirect labor, materials and supplies, incurred in conjunction with the above actions (\$113,000). The general operating losses do not reflect management fees charged by the Company. The remaining environmental and closure liability represents the best estimate of the cost to complete the groundwater remediation at the site of approximately \$621,000, the costs to complete the facility closure activities over the next five (5) year period (including agency and investigative activities, and future operating losses during such closure period) totaling approximately \$290,000, and the potential PRP liability of \$37,000.

#### 4. Proposed Acquisition

The Company has entered into a stock purchase agreement dated May 16, 2000 ("DSSI Agreement"), to purchase Diversified Scientific Systems, Inc. ("DSSI") from Waste Management, Inc. ("Seller"), subject to certain conditions being met. Under the terms of the DSSI Agreement, upon completion of the purchase of DSSI, the Company is to pay the Seller \$8.5 million, subject to the purchase price being increased or decreased under certain conditions, with \$5 million payable in cash at closing and the balance evidenced by a promissory note (the "First Note"). The First Note is to be for a term of five years, will bear an annual rate of interest of 7%, with accrued interest payable annually and the principal amount payable in one lump sum at the end of the five-year term. DSSI's facility, located in Kingston, Tennessee, is permitted to transport, store and treat hazardous waste and mixed waste (waste containing both low level radioactive and hazardous waste) and to dispose of or recycle mixed waste in DSSI's boiler located at DSSI's facility.

During August 2000, the Company and Seller entered into an oral amendment ("DSSI Amendment") to the DSSI Agreement which provides that the \$8.5 million is not subject to adjustment and will be paid in the form of \$2.5 million in cash, the First Note, and \$2.5 million evidenced by a promissory note (the "Second Promissory Note"), bearing an annual interest rate of prime plus 1 3/4 percent (11.25% at August 18, 2000), with accrued interest and all principal payable upon the earlier of four months or upon the acquisition by Perma-Fix of any entity or substantially all the assets of another Company. The Second Promissory Note will be secured by all property, plant and equipment of DSSI. Finalization of the DSSI Amendment is subject to negotiation and execution of a definitive Amendment Agreement.

In order to assist the Company in raising the funds to fund the cash portion of the purchase price and to assist the Company in providing additional liquidity, the Company has retained Ryan, Beck & Co. and Larkspur Capital Corporation (collectively, the "Financial Advisors") as financial advisors to the Company, and has granted the Financial Advisors or their permitted designees a five-year warrant to purchase up to 150,000 shares of the Company's Common Stock ("Retainer Warrants") at an exercise price of \$1.44 per share which represented the closing price of the Company's Common Stock as quoted on the National Association of Securities Dealers Automated Quotation System SmallCap Market ("NASDAQ") as of the date of grant. The Company has the right to cancel 50% of the Retainer Warrants if a private placement of the Company's securities is not completed by January 25, 2001. If the Company is successful in finalizing a private placement as discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operation Liquidity" prior to termination of the agreement with the Financial Advisors or within twelve months following termination of the agreement with the Financial Advisors and the placement involves a party initially

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contacted by the Financial Advisors prior to the termination, the Company has agreed to pay the Financial Advisors certain cash fees and certain additional warrants.

#### 5. Long-term Debt

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Long-term debt consists of the following at June 30, 2000, and December 31, 1999 (in thousands):

	June 30, 2000 (Unaudited)	December 31, 1999
<S>	<C>	<C>
Revolving loan facility dated January 15, 1998, as amended May 27, 1999, borrowings based upon eligible accounts receivable, subject to monthly borrowing base calculation, variable interest paid monthly at prime rate plus 1 3/4 (11.25% at June 30, 2000).	\$ 6,583	\$ 5,891

Term loan agreement dated January 15, 1998, as amended May 27, 1999, payable in monthly principal installments of \$78, balance due in June 2002, variable interest paid monthly at prime rate plus 1 3/4 (11.25% at June 30, 2000).	2,734	3,203
Three promissory notes dated May 27, 1999, payable in equal monthly installments of principal and interest of \$90 over 60 months, due June 2004, interest at 5.5% for first three years and 7% for remaining two years.	3,854	4,283
Various capital lease and promissory note obligations, payable 2000 to 2005, interest at rates ranging from 7.5% to 13.0%.	2,005	1,925
	<u>15,176</u>	<u>15,302</u>
Less current portion of revolving loan and term note facility	938	938
Less current portion of long-term debt	1,526	1,427
	<u>\$ 12,712</u>	<u>\$ 12,937</u>
	=====	=====

</TABLE>

On January 15, 1998, the Company, as parent and guarantor, and all direct and indirect subsidiaries of the Company, as co-borrowers and cross-guarantors, entered into a Loan and Security Agreement ("Agreement") with Congress as lender. The Agreement initially provided for a term loan in the amount of \$2,500,000, which required principal repayments based on a four-year level principal amortization over a term of 36 months, with monthly principal payments of \$52,000. Payments commenced on February 1, 1998, with a final balloon payment in the amount of approximately \$573,000 due on January 14, 2001. The Agreement also provided for a revolving loan facility in the amount of \$4,500,000. At any point in time the aggregate available borrowings under the facility are subject to the maximum credit availability as determined through a monthly borrowing base calculation, as updated for certain information on a weekly basis, equal to 80% of eligible accounts receivable accounts of the Company as defined in the Agreement. The termination date on the revolving loan facility was also the third anniversary of the closing date. The Company incurred approximately \$230,000 in financing fees relative to the solicitation and closing of this original loan agreement (principally commitment, legal and closing fees) which are being amortized over the term of the Agreement.

Pursuant to the Agreement, the term loan and revolving loan both bear interest at a floating rate equal to the prime rate plus 1 3/4%. The loans also contain certain closing, management and unused line fees payable throughout the term. The loans are subject to a 3.0% prepayment fee in the first year, 1.5% in the second and 1.0% in the third year of the original Agreement dated January 15, 1998.

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In connection with the acquisition of Chemical Conservation Corporation (CCC), Chemical Conservation of Georgia, Inc. (CCG) and Chem-Met Services, Inc. (CM) on May 27, 1999, Congress, the Company, and the Company's subsidiaries, including CCC, CCG and CM entered into an Amendment and Joinder to Loan and Security Agreement (the "Loan Amendment") dated May 27, 1999, pursuant to which the Loan and Security Agreement ("Original Loan Agreement") among Congress, the Company and the Company's subsidiaries were amended to provide, among other things, (i) the credit line being increased from \$7,000,000 to \$11,000,000, with the revolving line of credit portion being determined as the maximum credit of \$11,000,000, less the term loan balance, with the exact amount that can be borrowed under the revolving line of credit not to exceed eighty percent (80%) of the Net Amount of Eligible Accounts (as defined in the Original Loan Agreement) less certain reserves; (ii) the term loan portion of the Original Loan Agreement being increased from its current balance of approximately \$1,600,000 to \$3,750,000 and it shall be subject to a four-year amortization schedule payable over three years at an interest rate of 1.75% over prime; (iii) the term of the Original Loan Agreement, as amended, was extended for three years from the date of the acquisition, subject to earlier termination pursuant to the terms of the Original Loan Agreement, as amended; (iv) CCC, CCG and CM being added as co-borrowers under the Original Loan Agreement, as amended; (v) the interest rate on the revolving line of credit will continue at 1.75% over prime, with a rate adjustment to 1.5% if net income applicable to Common Stock of the Company is equal to or greater than \$1,500,000 for fiscal year ended December 31, 2000; (vi) the monthly service fee shall increase from \$1,700 to \$2,000; (vii) government receivables will be limited to 20% of eligible accounts receivable; and (viii) certain obligations of CM shall be paid at closing of the acquisition of CCC, CCG and CM. The Loan Amendment became effective on June 1, 1999, when the Stock Purchase Agreements were consummated. Payments under the term loan commenced on June 1, 1999, with monthly principal payments of approximately \$78,000 and a final balloon payment in the amount of \$938,000 on June 1, 2002. The Company incurred approximately \$40,000 in additional financing fees relating to the closing of this amendment, which is being amortized over the remaining term of the agreement. The interest rate on the revolving loan and term loan was 11.25% at June 30, 2000.

Under the terms of the Original Loan Agreement, as amended, the Company has agreed to maintain an Adjusted Net Worth (as defined in the Original Loan Agreement) of not less than \$3,000,000 throughout the term of the Original Loan Agreement, which was amended, pursuant to the above noted acquisition. The adjusted net worth covenant requirement



ranges from a low of \$1,200,000 at June 1, 1999, to a high of \$3,000,000 from July 1, 2000, through the remaining term of the Loan Agreement. The covenant requirement at June 30, 2000, was \$2,500,000, which the Company was in compliance with, having an adjusted net worth of \$4,283,000. The Company has agreed that it will not pay any dividends on any shares of capital stock of the Company, except that dividends may be paid on the Company's shares of Preferred Stock outstanding as of the date of the Loan Amendment (collectively, "Excepted Preferred Stock") under the terms of the applicable Excepted Preferred Stock and if and when declared by the Board of Directors of the Company pursuant to Delaware General Corporation Law. As security for the payment and performance of the Original Loan Agreement, as amended, the Company and its subsidiaries (including CCC, CCG and CM) have granted a first security interest in all accounts receivable, inventory, general intangibles, equipment and certain of their other assets, as well as the mortgage on two facilities owned by subsidiaries of the Company, except for certain real property owned by CM, for which a first security interest is held by the TPS Trust and the ALS Trust as security for CM's non-recourse guaranty of the payment of the Promissory Notes. All other terms and conditions of the original loan remain unchanged.

As of June 30, 2000, borrowings under the revolving loan agreement were approximately \$6,583,000, an increase of \$692,000 over the December 31, 1999, balance of \$5,891,000. The balance under the term loan at June 30, 2000, was \$2,734,000, a decrease of \$469,000 from the December 31, 1999, balance of \$3,203,000. As of June 30, 2000, the Company's borrowing availability under the Congress credit facility, based on its then outstanding eligible accounts receivable, was approximately \$1,204,000, including \$1.0 million of additional borrowing availability extended to the Company by Congress. The

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additional borrowing availability was provided to the Company to assist with the acquisition of DSSI and M&EC (see Note 4 and Note 8) and to fund certain facility expansions and capital improvements, in anticipation of the Company raising additional funds. During the first quarter, the Company engaged Ryan, Beck & Co. and Larkspur Capital Corporation (collectively, the "Agents") as financial advisors to the Company in the private placement of new debt and possible equity.

Pursuant to the terms of the Stock Purchase Agreements in connection with the acquisition of CCC, CCG and CM, a portion of the consideration was paid in the form of the Promissory Notes, in the aggregate amount of \$4,700,000 payable to the former owners of CCC, CCG and CM. The Promissory Notes are paid in equal monthly installments of principal and interest of approximately \$90,000 over five years with the first installment due on July 1, 1999, and having an interest rate of 5.5% for the first three years and 7% for the remaining two years. The aggregate outstanding balance of the Promissory Notes total \$3,854,000 at June 30, 2000, of which \$894,000 is in the current portion. Payments of such Promissory Notes are guaranteed by CM under a non-recourse guaranty, which non-recourse guaranty is secured by certain real estate owned by CM.

## 6. Commitments and Contingencies

### Hazardous Waste

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

### Legal

In the normal course of conducting our business, we are involved in various litigation. There has been no material change in legal proceedings from those disclosed previously in the Company's Form 10-K for year ended December 31, 1999. We are not a party to any litigation or governmental proceeding which our management believes could result in any judgements or fines against us that would have a material adverse affect on the Company's financial position, liquidity or results of operations.

### Permits

We are subject to various regulatory requirements, including the procurement of requisite licenses and permits at our facilities. These licenses and permits are subject to periodic renewal without which our operations would be adversely affected. We anticipate that, once a license or permit is issued with respect to a facility, the license or permit will be renewed at the end of its term if the facility's operations are in compliance with the applicable regulatory requirements.

### Accrued Closure Costs and Environmental Liabilities

We maintain closure cost funds to insure the proper decommissioning of our RCRA facilities upon cessation of operations. Additionally, in the course of owning and operating on-site treatment, storage and disposal facilities, we are subject to corrective action proceedings to



Revenue from external customers	\$13,636	\$ 856	\$14,492	\$ -	\$ -	\$14,492
Intercompany revenues	1,201	27	1,228	-	-	1,228
Interest income	7	-	7	3	-	10
Interest expense	351	15	366	75	-	441
	12					
Depreciation and amortization	815	20	835	17	-	852
Segment profit (loss)	749	95	844	(582)	-	262
Segment assets(1)	50,908	2,688	53,596	1,633	48	55,277
Expenditures for segment assets	952	37	989	11	-	1,000

</TABLE>

<TABLE>

<CAPTION>

Segment Reporting for the Quarter ended June 30, 1999

	Waste Services	Engineering	Segments Total	Corp (2)	Memphis (3)	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue from external customers	\$ 9,640	\$ 933	\$10,573	\$ -	\$ -	\$10,573
Intercompany revenues	1,190	98	1,288	-	-	1,288
Interest income	11	-	11	-	-	11
Interest expense	92	23	115	(24)	-	91
Depreciation and amortization	573	20	593	4	-	597
Segment profit (loss)	1,170	19	1,189	(486)	-	703
Segment assets(1)	49,735	2,119	51,854	1,211	498	53,563
Expenditures for segment assets	564	2	566	88	-	654

<FN>

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

(2) Amounts reflect the activity for corporate headquarters.

(3) Amounts reflect the activity for Perma-Fix of Memphis, Inc., which is a discontinued operation, not included in the segment information (See Note 3).

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</TABLE>

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The table below shows certain financial information by business segment for the six months ended June 30, 2000, and six months ended June 30, 1999, and excludes the results of operations of the discontinued operations.

Segment Reporting for the Six Months ended June 30, 2000

	Waste Services	Engineering	Segments Total	Corp (2)	Memphis (3)	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue from external customers	\$ 26,258	\$ 1,823	\$ 28,081	\$ -	\$ -	\$ 28,081
Intercompany revenues	2,328	78	2,406	-	-	2,406
Interest income	14	-	14	7	-	21
Interest expense	677	28	705	146	-	851
Depreciation and amortization	1,640	40	1,680	34	-	1,714
Segment profit (loss)	713	219	932	(1,161)	-	(229)
Segment assets(1)	50,908	2,688	53,596	1,633	48	55,277
Expenditures for segment assets	1,693	49	1,742	44	-	1,786

</TABLE>

<TABLE>

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Segment Reporting for the Six Months ended June 30, 1999

	Waste Services	Engineering	Segments Total	Corp (2)	Memphis (3)	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue from external customers	\$ 16,241	\$ 2,144	\$ 18,385	\$ -	\$ -	\$ 18,385
Intercompany revenues	1,283	191	1,474	-	-	1,474
Interest income	16	-	16	2	-	18
Interest expense	133	43	176	(58)	-	118
Depreciation and amortization	1,067	40	1,107	9	-	1,116
Segment profit (loss)	1,440	96	1,536	(819)	-	717
Segment assets(1)	49,735	2,119	51,854	1,211	498	53,563
Expenditures for segment assets	1,009	15	1,024	93	-	1,117

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<FN>

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

(2) Amounts reflect the activity for corporate headquarters.

(3) Amounts reflect the activity for Perma-Fix of Memphis, Inc., which is a discontinued operation, not included in the segment information (See Note 3).

</FN>

</TABLE>

8. Subsequent Events

During July 2000, the Company signed a letter of intent ("M&EC Letter of Intent") to acquire an 80% equity interest in East Tennessee Materials and Energy Corporation ("M&EC"). The remaining 20% equity interest shall be held by the current stockholders ("M&EC Owners") of M&EC. M&EC is licensed to operate a low level radioactive and hazardous ("Mixed Waste") treatment facility at the U.S. Department of Energy's ("DOE") site in Oak Ridge, Tennessee. The two-acre M&EC facility, which is intended for the treatment of government and commercial mixed waste, is the only non-government operated mixed waste treatment facility that is located within the government's Oak Ridge, Tennessee, site. M&EC will process mixed waste under three Broad Spectrum contracts granted to M&EC. These contracts were awarded by Bechtel-Jacobs Company, LLC, who manages the DOE Oak Ridge site and are valued at a minimum of \$100 million. According to the terms of these contracts, M&EC will treat mixed waste located at the Oak Ridge facility, over a remaining three-year period, with options to continue thereafter. As of the date of this report, M&EC is in the process of constructing its treatment facility and has no material revenue generating activities. The transaction to acquire an 80% equity interest in M&EC is subject to the execution of a definitive agreement and completion of due diligence, regulatory approval and other conditions, including the appropriate financing. The consideration for the 80% equity interest is \$1,080,000 which shall be payable at closing, as follows: (i) \$270,000 in cash, (ii) \$810,000 in the form of Perma-Fix Common Stock, with the number of shares determined at the date of closing, but not to exceed 540,000 shares, (iii) M&EC will issue M&EC preferred stock to the M&EC Owners to settle any outstanding debts of M&EC to the M&EC Owners, (iv) M&EC will settle certain outstanding tax liabilities, and (v) M&EC will settle certain liabilities regarding its 401(k) accounts. As of August 10, 2000, the Company has loaned M&EC \$329,000 pursuant to the terms of the Letter of Intent. The Company intends to evidence such loan by the execution by M&EC of a security agreement and a promissory note in favor of the Company, which will be secured by the assets of M&EC. The acquisition of M&EC is subject to, among other things, regulatory approval, the Company's ability to obtain financing for the acquisition, the negotiation and execution of a definitive agreement and the completion of due diligence, all of which must be to the satisfaction of the Company.

On July 14, 2000, the Company entered into a letter agreement ("RBB Letter Agreement") which provided for an unsecured promissory note ("Note") with RBB Bank Aktiengesellschaft ("RBB Bank") in the principal amount of \$750,000, at an annual interest rate of 10.0% per annum. The purpose of this Note is to provide interim financing to facilitate the acquisition of DSSI and M&EC (see Note 4 and Note 8) and to fund certain capital expansions at the Company's existing facilities. The principal amount of this Note and accrued interest thereon shall be payable in full upon the earlier of (i) December 31, 2000, or (ii) ten business days after the Company raises \$3,000,000 or more through a private placement of capital securities. As previously discussed, during the first quarter, the Company engaged Ryan, Beck & Co. and Larkspur Capital Corporation as financial advisors to the Company in the private placement of new debt and possible equity. The RBB Letter Agreement provides that if the RBB Loan is not repaid in full by September 1, 2000, the Company will issue additional warrants to RBB Bank allowing the purchase of Common Stock. As of August 17, 2000, RBB Bank is the beneficial owner of approximately 12,501,379 shares of Common Stock or approximately 45.5% of the issued and outstanding Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--RBB Loan," and "Part II--Other Information, Item 5."

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

Forward-looking Statements

Certain statements contained with 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, (i) ability or inability to continue and improve operations and remain profitable on an annualized basis, (ii) the Company's ability to develop or adopt new and existing technologies in the conduct of its operations, (iii) anticipated financial performance, (iv) ability to comply with the Company's general working capital requirements, (v) ability to retain or receive certain permits or patents, (vi) ability to be able to continue to borrow under the Company's revolving line of credit, (vii) ability to generate sufficient cash flow from operations to fund all costs of

operations and remediation of certain formerly leased property in Dayton, Ohio, and the Company's facilities in Memphis, Tennessee; Valdosta, Georgia and Detroit Michigan, (viii) ability to remediate certain contaminated sites for projected amounts, (ix) completion of the acquisitions of DSSI and M&EC, (x) ability to obtain new sources of financing, and (xi) all other statements which are not statements of historical fact. While the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to, (i) general economic conditions, (ii) material reduction in revenues, (iii) inability to collect in a timely manner a material amount of receivables, (iv) increased competitive pressures, (v) the ability to maintain and obtain required permits and approvals to conduct operations, (vi) the ability to develop new and existing technologies in the conduct of operations, (vii) ability to receive or retain certain required permits or to obtain regulatory approvals to modify the permits held by DSSI or M&EC to complete the acquisitions of DSSI and M&EC, (viii) discovery of additional contamination or expanded Contamination at a certain Dayton, Ohio, property formerly leased by the Company or the Company's facilities at Memphis, Tennessee; Valdosta, Georgia and Detroit Michigan, which would result in a material increase in remediation expenditures, (ix) determination that PFM is the source of chlorinated compounds at the Allen Well Field, (x) changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such, (xi) potential increases in equipment, maintenance, operating or labor costs, (xii) management retention and development, (xiii) the requirement to use internally generated funds for purposes not presently anticipated, (xiv) inability to remain profitable, (xv) the inability to secure additional liquidity in the form of additional equity or debt, (xvi) the commercial viability of our on-site treatment process, (xvii) the inability of the Company to obtain under certain circumstances shareholder approval of the transaction in which the Series 10 Preferred and certain warrants were issued, (xviii) the inability of the Company to maintain the listing of its Common Stock on the NASDAQ, (xix) the determination that CM or CCC was responsible for a material amount of remediation at certain Superfund sites, (xx) inability to obtain additional financing, and (xxi) inability to finalize the acquisition of DSSI and M&EC. The Company undertakes no obligations to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

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<TABLE>

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Results of Operations

The table below should be used when reviewing management's discussion and analysis for the three and six months ended June 30, 2000, and 1999:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2000	%	1999	\$	2000	%	1999	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net Revenues	\$14,492	100.0	\$10,573	100.0	\$28,081	100.0	\$18,385	100.0
Cost of Goods Sold	10,007	69.1	6,819	64.5	19,549	69.6	12,109	65.9
Gross Profit	4,485	30.9	3,754	35.5	8,532	30.4	6,276	34.1
Selling, General & Administrative	2,927	20.2	2,295	21.7	6,180	22.0	4,133	22.5
Depreciation/Amortization	852	5.9	597	5.6	1,714	6.1	1,116	6.1
Income/(Loss) from Operations	\$ 706	4.8	\$ 862	8.2	\$ 638	2.3	\$ 1,027	5.5
Interest Expense	(441)	(3.0)	(91)	(0.9)	(851)	(3.0)	(118)	(0.6)
Preferred Stock Dividends	(50)	(0.3)	(73)	(0.7)	(104)	(0.4)	(190)	(1.0)

</TABLE>

Summary--Three and Six Months Ended June 30, 2000, and 1999

We provide services through two reportable operating segments. The Waste Management Services segment is engaged in on-and off-site treatment, storage, disposal and processing of a wide variety of by-products and industrial, hazardous and mixed wastes (waste containing both hazardous and low level radioactive material). This segment competes for materials and services with numerous regional and national competitors to provide comprehensive and cost-effective Waste Management Services to a wide variety of customers in the Midwest, Southeast and Southwest regions of the country. We operate and maintain facilities and businesses in the waste by-product brokerage, on-site treatment and stabilization, and off-site blending, treatment and disposal industries. Our Consulting Engineering segment provides a wide variety of environmental related consulting and engineering services to industry and government. The Consulting Engineering segment provides oversight management of environmental restoration projects, air and soil sampling, compliance reporting, surface and

subsurface water treatment design for removal of pollutants, and various compliance and training activities.

Consolidated net revenues increased to \$14,492,000 from \$10,573,000 for the quarter ended June 30, 2000, as compared to the same quarter in 1999. This increase of \$3,919,000 or 37.1% is principally attributable to the additional revenues resulting from the acquisition of Chemical Conservation Corporation (CCC), Chemical Conservation of Georgia, Inc. (CCG) and Chem-Met Services, Inc. (CM), effective June 1, 1999, which in the aggregate contributed approximately \$4,421,000 to this increase. Partially offsetting this increase, were decreases within the Waste Management Services segment totaling approximately \$425,000, principally from a decrease in mixed waste revenues due to the significant expansion of the Florida mixed waste facility, in conjunction with the expanded permit as received during the second quarter of 2000, and the disruption associated with the acquisition of DSSI, and decreases within the Consulting Engineering segment totaling approximately \$77,000. Consolidated net revenues increased to \$28,081,000 from \$18,385,000 for the six-month period ended June 30, 2000. This increase of \$9,696,000 or 52.7% is attributable to the waste management services segment which experienced an increase in revenues of \$10,017,000. The additional revenues resulting from the acquisition of CCC, CCG and CM in the aggregate contributed approximately \$11,168,000 to this increase. Partially offsetting this increase, were decreases within the waste management services segment totaling approximately \$1,151,000, and decreases within the consulting engineering segment totaling approximately \$321,000, principally from the Mintech, Inc. engineering company whose operations were reduced and merged with Schreiber, Yonley and Associates, Inc. during the second half of 1999.

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Cost of goods sold for the Company increased \$3,188,000 or 46.8% for the quarter ended June 30, 2000, as compared to the quarter ended June 30, 1999. This consolidated increase in cost of goods sold reflect principally the increased operating, disposal and transportation costs, corresponding to the increased revenues from the acquisition of CCC, CCG and CM, as discussed above, which totaled \$4,641,000. Increased operating costs were also recognized across most of the Waste Management Services facilities, as we increased certain fixed costs and began preparation for the processing of new wastewater streams at several industrial facilities and the expanded mixed waste processing capabilities at the Florida mixed waste facility. The resulting gross profit for the quarter ended June 30, 2000, increased \$731,000 to \$4,485,000 which as a percentage of revenue is 30.9%, reflecting a decrease over the corresponding quarter in 1999 percentage of revenue of 35.5%. This decrease in gross profit as a percentage of revenue was principally recognized throughout the Waste Management Services segment which experienced a decrease from 36.0% in 1999 to 31.1% in 2000 reflecting the expansion and startup activities discussed above and a decrease in the Consulting Engineering segment from 30.7% in 1999 to 28.5% in 2000, reflecting the loss in sales from Mintech, Inc. whose operations were reduced and merged with Schreiber, Yonley and Associates, Inc. in the second half of 1999. Cost of goods sold also increased \$7,440,000 or 61.4% for the six-month period ended June 30, 2000, as compared to the six-month period ended June 30, 1999. As with the quarter, this increase is a direct result of the increased operating, disposal and transportation costs, corresponding to the increased revenues from the acquisition of CCC, CCG and CM. The resulting gross profit for the six months of 2000 increased \$2,256,000 to \$8,532,000, which as a percentage of revenue is 30.4%, reflecting a decrease over the corresponding six months in 1999 percentage of revenue of 34.1%. As with the quarter, this decrease in gross profit as a percentage of revenue was principally recognized throughout the waste management services segment which experienced a decrease from 34.7% in 1999 to 30.2% in 2000 reflecting the expansion and startup activities discussed above. Offsetting this decrease, however, was an increase in the Consulting Engineering segment from 29.7% in 1999 to 32.0% in 2000, reflecting the benefits from the restructuring and consolidation of our engineering businesses.

Selling, general and administrative expenses increased \$632,000 or 27.5% for the quarter ended June 30, 2000, as compared to the quarter ended June 30, 1999. However, as a percentage of revenue, selling, general and administrative expense decreased to 20.2% for the quarter ended June 30, 2000, compared to 21.7% for the same period in 1999. Selling, general and administrative expenses also increased for the six-month period of 2000, as compared to 1999, by \$2,047,000 or 49.5%. As a percentage of revenue, selling, general and administrative expense reflected a slight decrease to 22.0% for the six-month period ended June 30, 2000, compared to 22.5% for the same period of 1999. The increase reflects the expenses directly related to CCC, CCG and CM as acquired effective June 1, 1999, which totals \$2,103,000 and the increased expenses associated with our additional sales and marketing efforts as we continue to refocus the business segments into new environmental markets, such as nuclear and mixed waste, and the additional administrative overhead associated with our research and development efforts. We have expensed in the current period all research and development costs associated with the development of various technologies and the increase administrative costs associated with the expansion of the Perma-Fix of Florida, Inc. ("PFF") mixed

waste facility.

Depreciation and amortization expense for the quarter ended June 30, 2000, reflects an increase of \$255,000 as compared to the quarter ended June 30, 1999. This increase is attributable to a depreciation expense increase of \$196,000 which is a result of the depreciation in 2000 from the CCC, CCG and CM facilities acquired effective June 1, 1999, totaling \$157,000 and the additional depreciation related to the expanded facilities totaling \$39,000, and an amortization expense increase of \$59,000 for the quarter ended June 30, 2000, as compared to the quarter ended June 30, 1999. This increase in amortization expense is a result of the goodwill and permit amortization from the CCC, CCG and CM facilities acquired in 1999. Depreciation and amortization expense for the six-month period ended June 30, 2000, reflects an increase of \$598,000 as compared to the same period of 1999. This increase is attributable to the acquisition of CCC, CCG and CM,

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effective June 1, 1999, totaling \$551,000, for which depreciation increased by \$352,000 and amortization increased by \$159,000 for the six-month period ended June 30, 2000. The additional depreciation of \$87,000 is related to expanded facilities.

Interest expense increased \$350,000 for the quarter ended June 30, 2000, as compared to the corresponding period of 1999, excluding discontinued operations. This increase principally reflects the acquisition of CCC, CCG and CM effective June 1, 1999. The existing debt assumed in conjunction with the acquisition, along with the three promissory notes, which comprised \$4,700,000 of the purchase price, resulted in an increase of approximately \$42,000 as compared to the same quarter ended in 1999. The remaining increase in interest expense is a result of the increased borrowing levels on the Congress Financial Corporation revolving and term loan incurred in conjunction with the above noted acquisition, which totaled approximately \$294,000, and debt associated with facility expansions which totaled \$14,000. Interest expense also increased by \$733,000 for the six-month period ended June 30, 2000, as compared to the corresponding period of 1999. This increase principally reflects the existing debt assumed in conjunction with the acquisition of CCC, CCG and CM, as stated above, which resulted in an increase of \$116,000 as compared to the same period in 1999. The remaining increase in interest expense for the six-month period ended June 30, 2000, is a result of the increased borrowing levels of the Congress Financial Corporation revolving and term loan incurred in conjunction with the above noted acquisition, which totaled approximately \$591,000 and debt associated with facility expansions which totaled approximately \$26,000.

Preferred Stock dividends decreased \$23,000 during the quarter ended June 30, 2000, as compared to the corresponding period of 1999. This decrease is due to the conversion of \$4,563,000 (4,563 preferred shares) of the Preferred Stock into Common Stock on April 20, 1999, the redemption of \$750,000 (750 preferred shares) of the Preferred Stock on July 15, 1999, and the conversion of \$350,000 (350 preferred shares) of the Preferred Stock into Common Stock throughout the first quarter of 2000. Additionally, Preferred Stock dividends decreased \$86,000 for the six-month period ended June 30, 2000, as compared to the corresponding period of 1999. This decrease is due to the conversion of Preferred Stock into Common Stock as stated above.

#### Discontinued Operations

On January 27, 1997, an explosion and resulting tank fire occurred at the Perma-Fix of Memphis, Inc. ("PFM") facility, a hazardous waste storage, processing and blending facility, which resulted in damage to certain hazardous waste storage tanks located on the facility and caused certain limited contamination at the facility. As a result of the significant disruption and the cost to rebuild and operate this segment, the Company made a strategic decision, in February 1998, to discontinue its fuel blending operations at PFM. The fuel blending operations represented the principal line of business for PFM prior to this event, which included a separate class of customers, and its discontinuance has required PFM to attempt to develop new markets and customers, through the utilization of the facility as a storage facility under its RCRA permit and as a transfer facility.

#### Proposed Acquisitions

As provided in Note 4 to Notes to Consolidated Financial Statements, the Company has entered into a stock purchase agreement dated May 16, 2000 ("DSSI Agreement"), to purchase Diversified Scientific Systems, Inc. ("DSSI") from Waste Management, Inc. ("Seller"), subject to certain conditions being met. Under the terms of the agreement, upon completion of the purchase of DSSI, the Company is to pay the Seller \$8.5 million, subject to the purchase price being increased or decreased under certain conditions, with \$5 million payable in cash at closing and the balance evidenced by a promissory note to the Seller (the "First Note"). The First Note is to be for a term of five years, will bear an annual rate of interest of 7%, with the accrued interest payable annually and the principal amount payable in one lump sum payment at the end of the five-year term. The DSSI Agreement also provides that if the acquisition is not completed within 90 days from May 16, 2000, or such longer period as is necessary to obtain approvals of applicable governmental authorities relating to the

permits and licenses of DSSI necessary to consummate the transaction,

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the DSSI Agreement may be terminated by either party, except under certain limited circumstances. During August, 2000, the Company and Seller entered into an oral amendment ("DSSI Amendment") to the DSSI Agreement which provides that the \$8.5 million is not subject to adjustment and will be paid in the form of \$2.5 million in cash, the First Note, and \$2.5 million evidenced by a promissory note (the "Second Promissory Note"), bearing an annual interest rate of prime plus 1 3/4 percent (11.25% at August 18, 2000), with accrued interest and all principal payable upon the earlier of four months or upon the acquisition by Perma-Fix of any entity or substantially all the assets of another Company. The Second Promissory Note will be secured by all property, plant and equipment of DSSI. Finalization of the DSSI Amendment is subject to negotiation and execution of a definitive Amendment Agreement. See "Liquidity and Capital Resources of the Company" for a discussion as to the Company's proposal to fund the cash portion of the purchase price.

During July 2000, the Company signed a letter of intent to acquire an 80% equity interest in East Tennessee Materials and Energy Corporation ("M&EC"). M&EC is licensed to operate a low level radioactive and hazardous ("Mixed Waste") treatment facility at the U.S. Department of Energy's ("DOE") site in Oak Ridge, Tennessee. The two-acre M&EC facility, which is intended for the treatment of government and commercial mixed waste, is the only non-government operated mixed waste treatment facility that is located within the government's Oak Ridge, Tennessee, site. M&EC will process mixed waste under three Broad Spectrum contracts granted to M&EC. These contracts were awarded by Bechtel-Jacobs Company, LLC, who manages the DOE Oak Ridge site and are valued at a minimum of \$100 million. According to the terms of these contracts, M&EC will treat mixed waste located at the Oak Ridge facility, over a remaining three-year period, with options to continue thereafter. The transaction to acquire an 80% equity interest in M&EC is subject to the execution of a definitive agreement and completion of due diligence, regulatory approval and other conditions, including the appropriate financing. The consideration for the 80% equity interest is \$1,080,000 which shall be payable at closing, as follows: (i) \$270,000 in cash, (ii) \$810,000 in the form of Perma-Fix Common Stock, with the number of shares determined at the date of closing, but not to exceed 540,000 shares, (iii) M&EC will issue M&EC preferred stock to the M&EC Owners to settle any outstanding debts of M&EC to the M&EC Owners, (iv) M&EC will settle certain outstanding tax liabilities, and (v) M&EC will settle certain liabilities regarding its 401(k) accounts. As of August 10, 2000, the Company has loaned M&EC \$329,000 pursuant to the terms of the Letter of Intent. The Company intends to evidence such loan by the execution by M&EC of a security agreement and a promissory note in favor of the Company, which will be secured by the assets of M&EC. The acquisition of M&EC is subject to, among other things, regulatory approval, the Company's ability to obtain financing for the acquisition, the negotiation and execution of a definitive agreement and the completion of due diligence, all of which must be to the satisfaction of the Company.

#### Liquidity and Capital Resources of the Company

At June 30, 2000, the Company had cash and cash equivalents of \$392,000, including \$1,000 from discontinued operations. This cash and cash equivalents total reflects a decrease of \$424,000 from December 31, 1999, as a result of net cash provided by continuing operations of \$556,000, offset by cash used by discontinued operations of \$249,000, cash used in investing activities of \$1,028,000 (principally purchases of equipment, net totaling \$1,436,000) partially offset by proceeds from the sale of equipment and cash provided by discontinued operations resulting from the release of restricted cash, and by cash provided by financing activities of \$297,000 (net borrowings of the revolving loan and term note facility, proceeds from the issuance of stock, partially offset by principal repayments of long-term debt). Accounts receivable, net of allowances for continuing operations, totaled \$13,443,000, an increase of \$416,000 over the December 31, 1999, balance of \$13,027,000. The receivable balance increased during this six-month period of 2000, due in large part to increased revenues in the second quarter that are part of a seasonal upswing during the summer months.

The Company, as parent and guarantor, and all direct and indirect subsidiaries of the Company are co-borrowers and cross-guarantors under a Loan and Security Agreement ("Agreement") with Congress as lender. The Agreement initially provided for a term loan in the amount of

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\$2,500,000, which required principal repayments based on a four-year level principal amortization over a term of 36 months, with monthly principal payments of \$52,000. Payments commenced on February 1, 1998, with a final balloon payment in the amount of approximately \$573,000 due on January 14, 2001. The Agreement also provided for a revolving loan facility in the amount of \$4,500,000. At any point in time the aggregate available borrowings under the facility are subject to the maximum credit availability as determined through a monthly borrowing base calculation, as updated for certain information on a weekly basis, equal to 80% of eligible accounts receivable accounts of the Company as



defined in the Agreement. The termination date on the revolving loan facility was also the third anniversary of the closing date. The Company incurred approximately \$230,000 in financing fees relative to the solicitation and closing of this original loan agreement (principally commitment, legal and closing fees) which are being amortized over the term of the Agreement.

Pursuant to the Agreement, the term loan and revolving loan both bear interest at a floating rate equal to the prime rate plus 1 3/4%. The loans also contain certain closing, management and unused line fees payable throughout the term. The loans are subject to a 3.0% prepayment fee in the first year, 1.5% in the second and 1.0% in the third year of the original Agreement dated January 15, 1998.

In connection with the acquisition of CCC, CCG and CM on May 27, 1999, Congress, the Company, and the Company's subsidiaries, including CCC, CCG and CM entered into an Amendment and Joinder to Loan and Security Agreement (the "Loan Amendment") dated May 27, 1999, pursuant to which the Loan and Security Agreement ("Original Loan Agreement") among Congress, the Company and the Company's subsidiaries was amended to provide, among other things, (i) the credit line being increased from \$7,000,000 to \$11,000,000, with the revolving line of credit portion being determined as the maximum credit of \$11,000,000, less the term loan balance, with the exact amount that can be borrowed under the revolving line of credit not to exceed eighty percent (80%) of the Net Amount of Eligible Accounts (as defined in the Original Loan Agreement) less certain reserves; (ii) the term loan portion of the Original Loan Agreement being increased from its current balance of approximately \$1,600,000 to \$3,750,000 and it shall be subject to a four-year amortization schedule payable over three years at an interest rate of 1.75% over prime; (iii) the term of the Original Loan Agreement, as amended, was extended for three years from the date of the acquisition, subject to earlier termination pursuant to the terms of the Original Loan Agreement, as amended; (iv) CCC, CCG and CM being added as co-borrowers under the Original Loan Agreement, as amended; (v) the interest rate on the revolving line of credit will continue at 1.75% over prime, with a rate adjustment to 1.5% if net income applicable to Common Stock of the Company is equal to or greater than \$1,500,000 for fiscal year ended December 31, 2000; (vi) the monthly service fee shall increase from \$1,700 to \$2,000; (vii) government receivables will be limited to 20% of eligible accounts receivable; and (viii) certain obligations of CM shall be paid at closing of the acquisition of CCC, CCG and CM. The Loan Amendment became effective on June 1, 1999, when the Stock Purchase Agreements were consummated. Payments under the term loan commenced on June 1, 1999, with monthly principal payments of approximately \$78,000 and a final balloon payment in the amount of \$938,000 on June 1, 2002. The Company incurred approximately \$40,000 in additional financing fees relating to the closing of this amendment, which is being amortized over the remaining term of the agreement.

Under the terms of the Original Loan Agreement, as amended, the Company has agreed to maintain an Adjusted Net Worth (as defined in the Original Loan Agreement) of not less than \$3,000,000 throughout the term of the Original Loan Agreement, which was amended, pursuant to the above noted acquisition. The adjusted net worth covenant requirement ranges from a low of \$1,200,000 at June 1, 1999, to a high of \$3,000,000 from July 1, 2000, through the remaining term of the Loan Agreement. The covenant requirement at June 30, 2000, was \$2,500,000, which the Company was in compliance with. The Company has agreed that it will not pay any dividends on any shares of capital stock of the Company, except that dividends may be paid on the Company's shares of Preferred Stock outstanding as of the date of the Loan Amendment (collectively, "Excepted Preferred Stock") under the terms of the applicable Excepted Preferred Stock, if and when declared by the Board of Directors of the Company pursuant to Delaware General Corporation

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Law. If dividends on the Excepted Preferred Stock are paid, the loan agreement provides that the Company must pay the dividends in shares of Common Stock and not in cash, unless prior consent is obtained. As security for the payment and performance of the Original Loan Agreement, as amended, the Company and its subsidiaries (including CCC, CCG and CM) have granted a first security interest in all accounts receivable, inventory, general intangibles, equipment and certain of their other assets, as well as the mortgage on two facilities owned by subsidiaries of the Company, except for certain real property owned by CM, for which a first security interest is held by the TPS Trust and the ALS Trust as security for CM's non-recourse guaranty of the payment of the Promissory Notes. All other terms and conditions of the original loan remain unchanged.

As of June 30, 2000, borrowings under the revolving loan agreement were approximately \$6,583,000, an increase of \$692,000 over the December 31, 1999, balance of \$5,891,000. The balance under the term loan at June 30, 2000, was \$2,734,000, a decrease of \$469,000 from the December 31, 1999, balance of \$3,203,000. As of June 30, 2000, the Company's borrowing availability under the Congress credit facility, based on its then outstanding eligible accounts receivable, was approximately \$1,204,000, including \$1.0 million of additional borrowing availability extended to the Company by Congress. The

additional borrowing availability was provided to the Company to assist with the acquisition of DSSI and M&EC (see Note 4 and Note 8) and to fund certain facility expansions and capital improvements, in anticipation of the Company raising additional funds. During the first quarter, the Company engaged Ryan, Beck & Co. and Larkspur Capital Corporation (collectively, the "Agents") as financial advisors to the Company in the private placement of new debt and possible equity.

Pursuant to the terms of the Stock Purchase Agreements in connection with the acquisition of CCC, CCG and CM, a portion of the consideration was paid in the form of the Promissory Notes, in the aggregate amount of \$4,700,000 payable to the former owners of CCC, CCG and CM. The Promissory Notes are paid in equal monthly installments of principal and interest of approximately \$90,000 over five years with the first installment due on July 1, 1999, and having an interest rate of 5.5% for the first three years and 7% for the remaining two years. The aggregate outstanding balance of the Promissory Notes total \$3,854,000 at June 30, 2000, of which \$894,000 is in the current portion. Payments of such Promissory Notes are guaranteed by CM under a non-recourse guaranty, which non-recourse guaranty is secured by certain real estate owned by CM.

As of June 30, 2000, total consolidated accounts payable for continuing operations was \$7,510,000, a decrease of \$77,000 from the December 31, 1999, balance of \$7,587,000. This decrease in accounts payable is partially reflective of the increased borrowing level under the revolving loan agreement, which funds were utilized to reduce certain payables.

Our net purchases of new capital equipment for continuing operations for the six-month period ended June 30, 2000, totaled approximately \$1,785,000. These expenditures were for expansion and improvements to the operations principally within the waste management industry segment. These capital expenditures were principally funded by the cash provided by continuing operations and \$349,000 through various other lease financing sources. We have budgeted capital expenditures of approximately \$4,000,000 for 2000, which includes completion of certain current projects, as well as other identified capital and permit compliance purchases. We anticipate funding these capital expenditures by a combination of lease financing with lenders other than the equipment financing arrangement discussed above, and/or internally generated funds.

The working capital deficit position at June 30, 2000, was \$1,043,000, as compared to a deficit position of \$1,400,000 at December 31, 1999, which reflects an improvement in this position of \$357,000 during the first six months of 2000. The working capital deficit position is principally a result of the impact of the CCC, CCG and CM acquisition, effective June 1, 1999. The consideration was paid in the form of cash, debt and equity, with the cash portion being \$1,000,000, funded out of current working capital and the debt portion being \$4,700,000 in the form of three promissory notes, paid over five

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years. The Congress term loan was also increased by \$2,083,000 pursuant to this acquisition, which resulted in an increase in the current portion of the term loan debt. We also assumed certain other liabilities pursuant to this acquisition, including the accrued environmental liability related to the CM facility in Detroit, Michigan, and the CCG Facility in Valdosta, Georgia, both of which are long term remedial projects, with increased spending in the first year. These two remedial projects contributed \$785,000 to this working capital deficit. Additionally, we continue to invest current cash proceeds into the long term capital improvements of our operating facilities as discussed above. However, we were able to improve on this working capital position during the first six months of 2000, principally from cash flow from operations, borrowings on the revolving loan and proceeds from the issuance of stock.

The accrued dividends on the outstanding Preferred Stock for the period July 1, 1999, through December 31, 1999, in the amount of approximately \$109,000 were paid in February 2000, in the form of 95,582 shares of Common Stock of the Company. The dividends for the period January 1, 2000, through June 30, 2000, total \$104,000, of which \$3,000 was paid in conjunction with the first quarter 2000 conversions and \$101,000 will be paid in August 2000, in the form of 70,789 shares of Common Stock.

In order to fund the cash portion of the purchase price relating to the proposed acquisition of DSSI and M&EC, as discussed above, and to provide the Company additional liquidity to fund other capital expenditures and the continuing growth of the Company, the Company has retained Ryan, Beck & Co. and Larkspur Capital Corporation (collectively, the "Financial Advisors") as its financial advisors in the private placement of new debt and possible equity. Through the efforts of the Financial Advisors, the Company is negotiating with certain parties the possibility of providing debt financing or equity to the Company. In addition, the Company is discussing with others, including certain shareholders, the possibility of providing additional financing to the Company. There are no assurances that the Company will be successful in arranging lenders to participate in the private

placement, or if participants are available, that the private placement can be completed on terms satisfactory to the Company.

In connection with the retention of the Financial Advisors as financial advisors to the Company, the Company has granted the Financial Advisors or their permitted designees a five-year warrant to purchase up to 150,000 shares of the Company's Common Stock ("Retainer Warrants"). If the Company is successful in finalizing the private placement prior to termination of the agreement with the Financial Advisors or within twelve months following termination of the agreement with the Financial Advisors and the placement involves a party contacted by the Financial Advisors prior to the termination, the Company has agreed to pay the Financial Advisors certain cash fees and additional warrants. The Company has the right to cancel 50% of the retainer warrants if the private placement is not completed by January 25, 2001.

On July 14, 2000, the Company entered into a letter agreement ("RBB Letter Agreement") which provided for an unsecured promissory note ("Note") with RBB Bank Aktiengesellschaft ("RBB Bank") in the principal amount of \$750,000, at an annual interest rate of 10.0% per annum. The purpose of this Note is to provide interim financing to facilitate the acquisition of DSSI and M&EC (see Note 4 and Note 8) and to fund certain capital expansions at the Company's existing facilities. The principal amount of this Note and accrued interest thereon shall be payable in full upon the earlier of (i) December 31, 2000, or (ii) ten business days after the Company raises \$3,000,000 or more through a private placement of capital securities. As previously discussed, during the first quarter, the Company engaged Ryan, Beck & Co. and Larkspur Capital Corporation as financial advisors to the Company in the private placement of new debt and possible equity. The RBB Letter Agreement provides that if the RBB Loan is not repaid in full by September 1, 2000, the Company will issue additional warrants to RBB Bank allowing the purchase of Common Stock. As of August 17, 2000, RBB Bank is the beneficial owner of approximately 12,501,379 shares of Common Stock or approximately 45.5% of the issued and outstanding Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--RBB Loan," and "Part II--Other Information, Item 5."

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In summary, we have continued to take steps to improve our operations and liquidity as discussed above. However, with the acquisition in 1999, we incurred and assumed certain debt obligations and long-term liabilities, which had a short term impact on liquidity. If we are unable to continue to improve our operations and to continue profitability in the foreseeable future, such would have a material adverse effect on our liquidity position.

#### Environmental Contingencies

The Company is 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, the Company is subject to rigorous federal, state and local regulations. These regulations mandate strict compliance and therefore are a cost and concern to the Company. The Company makes every reasonable attempt to maintain complete compliance with these regulations; however, even with a diligent commitment, the Company, as with many of its competitors, may be required to pay fines for violations or investigate and potentially remediate its waste management facilities.

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

In addition to budgeted capital expenditures of \$4,000,000 for 2000 at the TSD facilities, which are necessary to maintain permit compliance and improve operations, as discussed above in this Management's Discussion and Analysis, we have also budgeted for 2000 an additional \$1,656,000 in environmental expenditures to comply with federal, state and local regulations in connection with remediation of certain contaminants at four locations. The four locations where these expenditures will be made are a parcel of property leased by a predecessor to PFD in Dayton, Ohio (EPS), a former RCRA storage facility as operated by the former owners of PFD, PFM's facility in Memphis, Tennessee, CCG's facility in Valdosta Georgia and CM's facility in Detroit, Michigan. We have estimated the expenditures for 2000 to be approximately \$254,000 at the EPS site, \$265,000 at the PFM location, \$499,000 at the CCG site and \$638,000 at the CM site, of

which \$114,000, \$76,000, \$23,000 and \$350,000 were spent during the first six months of 2000, respectively. Additional funds will be required for the next five to ten years to properly investigate and remediate these sites. We expect to fund these expenses to remediate these four sites from funds generated internally, however, no assurances can be made that we will be able to do so.

#### Year 2000 Issues

The Year 2000 problem arises because many computer systems were designed to identify a year using only two digits, instead of four digits, in order to conserve memory and other resources. For instance, "1999" would be held in the memory of a computer as "99."

When the year changes from 1999 to 2000, a two-digit system would read the year as changing from "99" to "00." For a variety of reasons, many computer systems are not designed to make such a date change or are not designed to "understand" or react appropriately to such a date change. Therefore, after the date changes to the year 2000, many computer systems could completely stop working or could perform in an improper and unpredictable manner.

We have conducted a review of our computer systems to identify the systems which we anticipated could be effected by the Year 2000 issue and we believe that all such systems were already, or have been

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converted to be, Year 2000 compliant. Such conversion costs, where required, have not been material and have been expensed as incurred. Pursuant to our Year 2000 planning, we requested information regarding the computer systems of our key suppliers, customers, creditors, and financial service organizations and were informed that they are substantially Year 2000 compliant. As of the date of this Report, the Company has experienced no Year 2000 disruptions to its operations since the year 2000 began. There can be no assurance, however, that such key organizations are actually Year 2000 compliant and that the Year 2000 issue will not adversely affect the Company's financial position or results of operations. We believe that our expenditures in addressing our Year 2000 issues will not have a material adverse effect on our financial position or results of operations.

#### Recent Accounting Pronouncements

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 requires companies to recognize all derivative contracts as either assets or liabilities in the balance sheet and to measure them at fair value. FAS 133 as amended by FAS 137 is effective for periods beginning after June 15, 2000. Historically, we have not entered into derivative contracts. Accordingly, FAS 133 is not expected to affect our financial statements.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 ("Fin 44"), Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25. FIN 44 clarifies the application of Opinion No. 25 for (a) the definition of employee for purposes of applying Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a non-compensatory plan, (c) the accounting consequences of various modifications to the previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 2, 2000, but certain conclusions cover specific events that occur after either December 15, 1998, or January 12, 2000. The Company believes that the impact of FIN 44 will not have a material effect on the Company's financial position or results of operations.

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

#### PART I, ITEM 3

The Company is exposed to certain market risks arising from adverse changes in interest rates, primarily due to the potential effect of such changes on the Company's variable rate loan arrangements with Congress, as described under Note 5 to Notes to Consolidated Financial Statements. The Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

## PERMA-FIX ENVIRONMENTAL SERVICES, INC.

## PART II - Other Information

Item 1. Legal Proceedings

There are no additional material legal proceedings pending against the Company and/or its subsidiaries not previously reported by the Company in Item 3 of its Form 10-K for the year ended December 31, 1999, which Item 3 is incorporated herein by reference.

Item 2. Changes in Securities and Use of Proceeds

(c) During the quarter ended June 30, 2000, the Company sold or entered into an agreement to sell, equity securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), other than as previously reported, as such term is defined under Rule 12b-2 of the Exchange Act of 1934, as amended (the "Exchange Act"), as follows:

During May 2000, in connection with the retention of Ryan, Beck & Co. and Larkspur Capital Corporation (collectively, the "Financial Advisors") as financial advisors to the Company, the Company has granted the Financial Advisors or their permitted designees, warrants with a five-year term, allowing the holder to purchase up to 150,000 shares of Common Stock of the Company at an exercise price of \$1.44 per share ("Retainer Warrants"). If the Company is successful in finalizing the private placement as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity" prior to termination of the agreement with the Financial Advisors or within twelve months following termination of the agreement with the Financial Advisors and the placement involves a party contacted by the Financial Advisors prior to the termination, the Company has agreed to pay the Financial Advisors certain cash fees and certain additional warrants.

The issuance of the Retainer Warrants was a private placement under Section 4(2) of the Act and/or Rule 506 of Regulation D as promulgated under the Act. The Retainer Warrant Agreement (the "Warrant Agreement") provides that the Agents represented and warranted, inter alia, as follows: (i) the Retainer Warrants and the Common Stock issuable upon exercise of the Retainer Warrants (collectively, the "Retainer Securities") are being acquired for their own account, and not on behalf of any other persons; (ii) the Agents are acquiring the Retainer Securities to hold for investment, and not with a view to the resale or distribution of all or any part of the Retainer Securities; (iii) the Agents will not sell or otherwise transfer the Retainer Securities in the absence of an effective registration statement under the Act, or an opinion of counsel satisfactory to the Company, that the transfer can be made without violating the registration provisions of the Act and the rules and regulations promulgated thereunder; (iv) each Agent is an "accredited investor" as defined in Rule 501 of Regulation D as promulgated under the Act; (v) each Agent has such knowledge, sophistication and experience in financial and business matters that it is capable of evaluating the merits and risks of the acquisition of the Retainer Securities; (vi) each Agent fully understands the nature, scope and duration of the limitations on transfer of the Retainer Securities as contained in the Warrant Agreement, (vii) each Agent understands that a restrictive legend as to transferability will be placed upon the certificates for any of the shares of Retainer Securities received by the Agents under the Warrant Agreement and that stop transfer instructions will be given to the Company's transfer agent regarding such certificates.

Item 5. Other Information

## DSSI Acquisition

The Company has entered into a stock purchase agreement dated May 16, 2000, to purchase Diversified Scientific Systems, Inc. ("DSSI") from Waste Management, Inc. ("Seller"), subject to certain conditions being met. Under the terms of the agreement, upon completion of the purchase

of DSSI, the Company is to pay the Seller \$8.5 million, subject to the purchase price being increased or decreased under certain conditions, with \$5 million payable in cash at closing and the balance evidenced by

a promissory note (the "Note"). The Note is to be for a term of five years, will bear an annual rate of interest of 7%, with accrued interest payable annually and the principal amount payable in one lump sum at the end of the five-year term. DSSI's facility, located in Kingston, Tennessee, is permitted to transport, store and treat hazardous waste and mixed waste (waste containing both low level radioactive and hazardous waste) and to dispose of or recycle mixed waste in DSSI's incinerator located at DSSI's facility. The agreement provides that if the acquisition by the Company of DSSI is not completed within 90 days from May 16, 2000, or such longer period as is necessary to obtain approvals of applicable governmental authorities relating to the permits and licenses of DSSI necessary to consummate the transaction, either party may terminate the agreement, except under limited circumstances. See Note 4 to Notes to Consolidated Financial Statements and the "Management's Discussion and Analysis of Financial Condition and Results of Operations--Proposed Acquisition" and "--Liquidity and Capital Resources of the Company."

#### DSSI Amendment

During August 2000, the Company and Seller entered into the DSSI Amendment which provides that the \$8.5 million purchase price is not subject to adjustment and will be paid in the form of \$2.5 million in cash, the First Note, and \$2.5 million evidenced by a promissory note (the "Second Promissory Note") with a four-month term, bearing an annual interest rate of prime plus 1 3/4 percent (10.25% at August 17, 2000), with accrued interest and all principal payable upon the earlier of four months or upon the acquisition by Perma-Fix of any entity or substantially all the assets of another company. The Second Promissory Note will be secured by all property, plant and equipment of DSSI.

#### RBB Loan

On or about July 14, 2000, the Company and CM entered into the RBB Letter Agreement, pursuant to which RBB Bank agreed to loan \$750,000 to CM, as evidenced by the RBB Note, having a term until December 31, 2000, in the aggregate principal amount of \$750,000, at an annual rate of 10% interest thereon with accrued interest and principal due in full upon the earlier of (i) December 31, 2000 and (ii) the Company entering into a private placement of its securities yielding in excess of \$3,000,000 to the Company.

The RBB Letter Agreement provides that if all principal and accrued and unpaid interest under the RBB Note is not paid in full by 5:00 p.m. New York time on (i) September 1, 2000 then the Company shall issue to RBB Bank a five (5) year warrant to purchase up to 100,000 shares of Common Stock at an exercise price equal to the closing market price of the Common Stock on the National Association of Securities Dealers Automated Quotation System SmallCap Market ("NASDAQ") on September 1, 2000 and (ii) October 1, 2000 then the Company shall issue to RBB Bank a five (5) year warrant to purchase up to 150,000 shares of Common Stock at an exercise price equal to the closing market price of the Common Stock on the NASDAQ on October 2, 2000 and (iii) November 1, 2000 then the Company shall issue to RBB Bank a five (5) year warrant to purchase up to 200,000 shares of Common Stock at an exercise price equal to the closing market price of the Common Stock on the NASDAQ on November 1, 2000 (iv) December 1, 2000 then the Company shall issue to RBB Bank a five (5) year warrant to purchase up to 250,000 shares of Common Stock at an exercise price equal to the closing market price of the Common Stock on the NASDAQ on December 1, 2000.

As of August 17, 2000, RBB Bank holds approximately 12,501,379 shares, including 6,703,796 shares that RBB Bank holds of record or approximately 30.9% of the Company's Common Stock and 3,006,250 shares that RBB Bank has the right to acquire as of June 30, 2000, under certain warrants and 2,791,333 shares that RBB Bank has the right to acquire upon conversion of three (3) series of the Company's outstanding preferred stock consisting of 1,769 shares of Series 14 Class N Convertible Preferred Stock ("Series 14 Preferred"), 616 shares of Series 15 Class O Convertible Preferred Stock ("Series 15 Preferred") and 1,802 shares of Series 16 Class P Convertible Preferred Stock ("Series 16 Preferred") (collectively, the "RBB Preferred"). If the conversion of the currently outstanding RBB Preferred occurs between April 20, 2000 and April 20, 2001, then the (i) Series 14 Preferred, which during this period has a set conversion price

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of \$1.50 per share of Common Stock, is convertible into 1,179,333 shares of Common Stock, (ii) Series 15 Preferred, which during this period has a minimum conversion price of \$1.50 per share of Common Stock, is convertible into 410,667 shares of Common Stock, assuming the conversion is at \$1.50 per share of Common Stock and (iii) Series 16 Preferred, which during this period has a minimum conversion price of \$1.50 per share of Common Stock, is convertible into 1,201,333 shares of Common Stock, assuming the conversion is at \$1.50 per share of Common Stock. If RBB Bank were to acquire an aggregate of 2,791,333 shares of Common Stock upon conversion of the outstanding shares of the RBB Preferred based on a conversion price of \$1.50 per share of Common Stock and were to exercise all of the outstanding warrants to acquire Common Stock which are held by RBB Bank, RBB Bank would own approximately 45.5% of the outstanding Common Stock, assuming that the Company does not issue any other shares of Common Stock or acquire any

of the RBB Preferred or the Common Stock and RBB Bank does not sell or otherwise dispose of any shares of Common Stock. This does not include the shares of Common Stock which may be issuable for payment of dividends on the RBB Preferred or which may be issued in the event warrants are issued in connection with the RBB Loan. RBB Bank has advised the Company that it is holding the shares of Common Stock, the RBB Preferred, and the warrants exercisable into Common Stock on behalf of numerous clients. As a result, RBB Bank may share voting and investment power over such shares.

#### M&EC Letter of Intent

Effective June 27, 2000, the Company has signed a letter of intent ("Letter of Intent") to acquire an 80% equity interest in East Tennessee Materials and Energy Corporation ("M&EC"). The remaining 20% equity interest shall be held by the current stockholders ("M&EC Owners") of M&EC. M&EC is licensed to operate a low-level radioactive and hazardous waste ("Mixed Waste") treatment facility at the U.S. Department of Energy's ("DOE") storage site in Oak Ridge, Tennessee. M&EC has previously been awarded contracts, each with a three-year term, subject to renewal, to process mixed waste under three Broad Spectrum Contracts awarded by Bechtel-Jacobs Company, LLC, which manages the DOE Oak Ridge site. As of the date of this report, M&EC is in the process of constructing its treatment facility and it does not have revenue generating activities.

The Letter of Intent anticipates that in connection with the acquisition of M&EC, (i) the Company will deliver to the M&EC Owners \$270,000, (ii) the Company will deliver to the M&EC Owners \$810,000 in the form of Perma-Fix Common Stock, with the number of shares determined at the date of closing, but not to exceed 540,000 shares, (iii) M&EC will issue M&EC preferred stock to the M&EC Owners to settle any outstanding debts of M&EC to the M&EC Owners, (iv) M&EC will settle certain outstanding tax liabilities, and (v) M&EC will settle certain liabilities regarding its 401(k) accounts. As of August 10, 2000, the Company has loaned M&EC \$329,000 pursuant to the terms of the Letter of Intent. The Company intends to evidence such loan by the execution by M&EC of a security agreement and a promissory note in favor of the Company, which will be secured by the assets of M&EC. The acquisition of M&EC is subject to, among other things, regulatory approval, the Company's ability to obtain financing for the acquisition, the negotiation and execution of a definitive agreement and the completion of due diligence, all of which must be to the satisfaction of the Company. See Note 8 to Notes to Consolidated Financial Statements and the "Management's Discussion and Analysis of Financial Condition and Results of Operations --Proposed Acquisition" and "--Liquidity and Capital Resources of the Company."

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits

- 2.1 Stock Purchase Agreement dated May 16, 2000, between the Company and Waste Management, Inc. as incorporated by reference from Exhibit 2.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2000.
- 2.2 Letter of Intent dated June 27, 2000, between the Company and East Tennessee Materials and Energy Corporation, Hillis Enterprises, and Performance Development Corporation.
- 4.1 Congress Letter of Consent dated July 25, 2000, relative to the RBB loan.
- 4.2 Congress Letter of Consent dated July 25, 2000, relative to the acquisition of 80% equity interest in M&EC.
- 10.1 Letter Agreement with RBB Bank Aktiengesellschaft.
- 10.2 Form of Warrant Agreement between the Company, Ryan, Beck & Co., Inc. ("Ryan Beck") and Larkspur Capital Corporation ("Larkspur") as incorporated by reference from Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2000. The Company entered into substantially similar warrant agreements with certain officers and directors of Ryan Beck and Larkspur, except for the parties and the number of shares addressed thereunder, and the Company agrees to file copies of such omitted documents with the Commission upon the Commission's request.

(b) Reports on Form 8-K

No report on Form 8-K was filed by the Company during the second quarter of 2000.

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, INC.

Date: August 18, 2000

By: /s/ Louis F. Centofanti

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

By: /s/ Richard T. Kelecy

\_\_\_\_\_  
Richard T. Kelecy  
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>	<u>Sequential Page No.</u>
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June 27, 2000

Mr. Joe Anderson, CEO  
East Tennessee Materials and Energy Corporation  
109 Jefferson Avenue  
Oak Ridge, TN 37830

Hillis Enterprises

Performance Development Corporation  
109 Jefferson Avenue  
Oak Ridge, TN 37830

Dear Joe:

This letter of intent will summarize and outline the general terms and conditions under which Perma-Fix Environmental Services, Inc. ("PESI") proposes to acquire eighty-percent (80%) of the common and preferred stock of East Tennessee Materials and Energy Corporation ("M&EC").

#### Benefits to M&EC of the PESI Proposal

1. PESI has the management resources in place to respond and move forward quickly to ensure an efficient transaction resulting in minimal disruption to the management, employees, customers and suppliers of M&EC.
2. PESI's Board of Directors supports the corporate strategy to expand the company's nuclear waste business, through the expansion of mixed waste activities. This strategy has been publicly communicated to and positively supported by PESI's shareholders.
3. PESI's acquisition history has shown that PESI acquires businesses that can be grown by integrating the business' operations and facilities. On May 16, 2000, PESI announced the signing of a definitive agreement to acquire DSSI and made clear PESI's intention to fully integrate DSSI's operations and facility.

#### Terms and Conditions

1. The transaction will be structured as a stock purchase for a consideration of \$11,952,125 representing 80% of the total outstanding common stock of M&EC at the time of closing and would have the following sources and uses:

Sources:		Uses:	
Cash	\$270,000	401(k) Liability	\$692,920
Cash or Assumption	3,915,868	IRS Obligation	3,222,948
PESI Common Stock(1)	810,000	Payments to Common Holders(3)	1,080,000
Participating Preferred Security(2)	\$6,956,257	Refinancing of all Outstanding Obligations(4)	\$6,956,257

Total Sources \$11,952,125 Total Uses \$11,952,125

(1) Represents a maximum of 540,000 shares of PESI common stock.

(2) The participating preferred security would be redeemable out of the cash flow of M&EC in such amounts and at such times

as are acceptable to the lenders of PESI and M&EC, subject to the cash requirements of M&EC for expansion, capital expenditures and debt repayment.

- (3) As a condition precedent to closing, all preferred stock of M&EC is expected to be converted to common stock.
  - (4) To be used to satisfy all third party obligations, payments to preferred shareholders and any other payments to common shareholders. As a condition precedent to closing, M&EC will warrant and agree that 100% of the existing and contingent liabilities, debts, guarantees or other obligations owed by M&EC have been satisfied through the issuance of \$6,956,257 of the Participating Preferred Stock. And furthermore, that there will be no other obligations outstanding after the closing other than for the 401(k), the IRS Obligations or any obligation specifically assumed by PESI in lieu of the \$3,915.868 Cash payment.
5. Upon the signing of this letter of intent, PESI agrees, subject to approval by its lenders, to lend M&EC \$50,000 in the form of a short-term secured promissory note to fund overdue obligations of M&EC (the "Note"). In addition, PESI will assist M&EC in resolving M&EC's significant creditor issues, but failure of M&EC to resolve its creditor issues for any reason shall not result in any liability to PESI. The principal and interest of the Note shall be used as a portion of the cash consideration upon Closing.
6. In consideration for signing this letter of intent, and for the Note, neither M&EC, its officers, directors, attorneys, accountants and other representatives will undertake or continue acquisition discussions with other parties nor otherwise disclose this proposal or the terms of this proposal to anyone other than a duly authorized representative of PESI for a period of sixty (60) days. In addition, M&EC agrees to use its best efforts to cause the transactions contemplated hereby to occur.
7. The transactions contemplated hereby shall be subject to completion of financial, technical, environmental and legal audits and due diligence by PESI confirming as to the assets and liabilities, obligations, revenues, expenses, client relations, customer base and business operations, the result of such audits and due diligence are satisfactory to PESI. From the date this letter is signed until such date agreed to in the Definitive Agreement (as such agreement is defined in Paragraph 9 hereof), if any, M&EC will give PESI and its counsel, accountants and other representatives reasonable access during normal business hours to all properties, books, contracts, documents and records with respect to its affairs as the parties may mutually agree. If the transactions are not consummated, PESI shall hold in confidence all the information obtained from M&EC, other than information in the public domain, information subsequently coming in the public domain by means other than disclosure by PESI, information disclosed by third parties or information that, prior to the date above, PESI possessed or as otherwise required to be disclosed by law.
8. Each party shall be responsible for and shall pay its own costs and expenses in connection with the

completion of the transactions contemplated hereby. M&EC will provide PESI, its employees and agents, including attorneys and accountants, full access to all of the accounts, books, tax returns and other business records of the business after

the signing of this letter of intent. To the extent M&EC is provided any information about PESI as part of these transactions, no such information shall be used by M&EC other than for the evaluation of the transactions, and such information shall be held in strict confidence.

9. The transactions contemplated hereby shall be subject to the negotiation and execution of a mutually acceptable Definitive Purchase and Sale Agreement (the "Definitive Agreement"). The Definitive Agreement shall contain mutually acceptable representations, warranties, covenants and indemnification provisions, closing conditions and other provisions customarily found in a stock purchase agreement. The Definitive Agreement will be executed no later than sixty (60) days after the date of your acceptance of this letter of intent. The closing of transactions contemplated hereby will occur no later than ninety (90) days after the date of your acceptance of this letter of intent, subject to extensions to obtain regulatory and other approvals, if any, as may be required.
10. This letter is the result of our continuing discussions over the past two years and is intended to reflect the terms of acquisition discussed in our meetings of the past week regarding the interest of PESI in purchasing the Stock of M&EC and supersedes all prior discussions or correspondence concerning these transactions, but it does not contain all matters upon which agreement between the parties must be reached in order for the transactions to be consummated.
11. The parties agree not to make any public announcement about these proposed transactions without the prior written consent of the other party, unless legally required on advice of counsel of a party, in which case such party shall give the other party notice of such requirement and as much time as feasible to review and comment on the disclosure.
12. This letter is an expression of intent; provided however, the provisions of Paragraphs 6, 8 and 11 above shall be binding upon the parties as of the date this letter of intent is signed by M&EC. A Definitive Agreement shall be subject to necessary corporate approvals.

If the above proposal meets with your approval, please sign and date this letter in the spaces provided below and return a signed copy to me at the address listed above.

I look forward to working with you to close the proposed transactions.

Sincerely

/s/ Larry McNamara

Larry McNamara  
President, PESI Nuclear Division

Accepted and agreed to by the undersigned this 28 day of June, 2000.

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EAST TENNESSEE MATERIALS AND ENERGY CORPORATION

By: /s/ Joe W. Anderson

---

Joe W. Anderson, P.E.  
Chief Executive Officer

HILLIS ENTERPRISES [Legal Name]

By: /s/ Bill J. Hillis President

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Name:  
Title:

PERFORMANCE DEVELOPMENT CORPORATION

By: /s/ Joe W. Anderson

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Joe W. Anderson, P.E.  
Chief Executive Officer

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

July 25, 2000

Mr. Gary Dixon  
Congress Financial Corporation  
777 Brickell Avenue, Suite 808  
Miami, FL 33131

Re: RBB Bridge Loan Consent

Dear Gary:

Pursuant to our discussion, we would like to confirm your approval and consent of the RBB Bank Bridge Loan in the amount of \$750,000 as agreed to on or about July 10, 2000 and subsequently funded on July 14, 2000. The terms of this short term, six-month, bridge loan, as discussed, are further documented within the unsecured promissory note, a copy of which is attached for your file. The purpose of this loan is to provide interim funding for the capital expansions in Gainesville, Dayton, and Tulsa during the period until the equity financing is completed (estimated to be mid to late August). The funds will also be used to assist in the acquisition of 80% of M&EC, in Oak Ridge, Tennessee, and the successful execution of the initial phases of the Broad Spectrum DOE contract held thereby.

Please advise if you have any questions or concerns on the above. If you are in agreement, please acknowledge your approval and consent on the line below and return a copy to my attention.

Thank you for your assistance in this matter.

Sincerely,

/s/ Richard T. Kelecy  
Richard T. Kelecy  
Chief Financial Officer

Approval and Consent:

/s/ Gary Dixon VP

\_\_\_\_\_  
Gary Dixon

7/31/00

\_\_\_\_\_  
Date

RTK/sm

cc: Dr. Louis F. Centofanti

Enclosure(s)

1940 N.W. 67TH PLACE \* GAINESVILLE, FL 32653 \*  
TEL. (352) 373-4200 \* FAX (352) 373-0040

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

July 25, 2000

Mr. Gary Dixon  
Congress Financial Corporation (Florida)  
777 Brickell Avenue, Suite 808  
Miami, FL 33131

Re: Acquisition of 80% Equity Interest in M&EC

Dear Gary:

Pursuant to our discussion, please find enclosed a copy of the letter of intent for the purchase by Perma-Fix Environmental Services, Inc. of an 80% equity interest in East Tennessee Materials and Energy Corporation ("M&EC"). This represents a very strategic acquisition of a unique mixed waste facility, which is located directly on a Department of Energy ("DOE") site and holds three Broad Spectrum contracts. The combination of the Gainesville mixed waste facility, DSSI, and now M&EC places Perma-Fix in a commanding position to capture a large portion of the mixed waste market. As you may recall, M&EC is in a start-up mode, currently designing and building the processing equipment, after having spent a great deal of time and money obtaining the RAD license and RCRA permits, leasing and preparing the facility within the K-1200 DOE building and putting a structure in place to be able to begin processing. Attached for your reference is the current financial model, as is being used by Ryan, Beck and Larkspur Capital, and an initial draft of a June 30, 2000 proforma balance sheet.

As a condition of the letter of intent and in an effort to meet the conditions of the Broad Spectrum contracts for waste processing deadlines, Perma-Fix agreed to loan M&EC \$50,000 at the date of signing the letter of intent and certain additional funds over the next several months, as required to complete the start-up. A portion of the 'use of funds' from the equity offering was specifically for the purpose of building the equipment, \$2.0 million in the initial models, which has now been expanded for an additional \$4.0 million of start-up and working capital funds, both of which are to now be funded from the proposed \$25.0 million of equity/sub-debt offering. All funds loaned by PESI to M&EC will be documented on a promissory note and security agreement to be repaid over a proposed three-year period, with interest only (at prime plus 1 3/4%) during the first year. As discussed, a portion of the \$750,000 RBB Bank bridge loan was intended to fund such M&EC acquisition activities.

1940 N.W. 67TH PLACE, SUITE A \* GAINESVILLE, FL 32653 \*  
TEL. (352) 373-4200 \* FAX (352) 373-0040

Pursuant to the terms of our loan and security agreement with Congress Financial, we would like to request your approval and consent to loan to M&EC the initial \$50,000, as contained in the letter of intent, and certain additional funds as deemed appropriate by management so as to initiate processing under the Broad Spectrum contract.

Please advise if you have any questions or concerns on the above.

Sincerely,

/s/ Richard T. Kelecy

Richard T. Kelecy  
Chief Financial Officer

Approval and Consent:

/s/ Gary Dixon          VP

---

Gary Dixon

7/31/00

---

Date

RTK/sm

cc: Dr. Louis F. Centofanti

Enclosure(s)

Perma-Fix Environmental Services, Inc.

Dear Mr. Strauss:

This letter agreement (Letter Agreement) is to provide the terms and conditions under which RBB Bank Aktiengesellschaft, a bank organized under the laws of Austria (RBB Bank) as agent for certain of its clients, shall loan \$750,000 to Chem-Met Services, Inc., a Michigan corporation (Chem-Met). Chem-Met is a wholly owned subsidiary of Perma-Fix Environmental Services, Inc., a Delaware corporation (PESI).

Loan.

Subject to and upon the terms and conditions contained herein, RBB Bank agrees to make a term loan (the Loan) to Chem-Met in the aggregate principal amount of \$750,000. Within three (3) days of the date of this Letter Agreement, RBB Bank shall deliver to Chem-Met \$750,000 in cash. The terms of the loan shall be as set forth in the Promissory Note, dated July 14, 2000, executed by Chem-Met.

Warrants.

In order to induce RBB Bank into granting the Loan to Chem-Met, PESI has agreed that if all principal and accrued and unpaid interest under the Loan is not paid in full by 5:00 p.m. New York time on September 1, 2000 then PESI shall issue to RBB Bank a five (5) year warrant to purchase up to 100,000 shares of PESI Common Stock, par value \$.001 per share (the ACommon Stock@), at an exercise price equal to the closing market price of the Common Stock on the National Association of Securities Dealers Automated Quotation System SmallCap Market (NASDAQ) on September 1, 2000.

If all principal and accrued and unpaid interest under the Loan is not paid in full by 5:00 p.m. New York time on October 1, 2000 then PESI shall issue to RBB Bank a five (5) year warrant to purchase up to an additional 150,000 shares of Common Stock at an exercise price equal to the closing market price of the Common Stock on the NASDAQ on October 2, 2000.

If all principal and accrued and unpaid interest under the Loan is not paid in full by 5:00 p.m. New York time on November 1, 2000 then PESI shall issue to RBB Bank a five (5) year warrant to purchase up to an additional 200,000 shares of Common Stock at an exercise price equal to the closing market price of the Common Stock on the NASDAQ on November 1, 2000.

If all principal and accrued and unpaid interest under the Loan is not paid in full by 5:00 p.m. New York time on December 1, 2000 then PESI shall issue to RBB Bank a five (5) year warrant to purchase up to an additional 250,000 shares of Common Stock at an exercise price equal to the closing market price of the Common Stock on the NASDAQ on December 1, 2000. Collectively, the warrants are hereinafter referred to as the Warrants and the shares of Common Stock to be issued upon exercise of such Warrants are hereinafter referred to as the Warrant Shares. Notwithstanding anything to the contrary, if all principal and accrued and unpaid interest under the Loan is paid in full by 5:00 p.m. New York time on September 1, 2000 then PESI shall have no obligation to issue any Warrants to RBB Bank.

The Warrants shall be executed by both PESI and RBB Bank and shall contain appropriate investment representations, warranties



and covenants. The issuance of the Warrants and Warrant Shares are subject to appropriate corporate and regulatory authority approval.

Use of Proceeds.

Chem-Met may use the proceeds of the Loan for any purposes which it deems appropriate in the best interest of Chem-Met and PESI.

Miscellaneous.

- a. Amendment; Waiver. Neither this Letter Agreement nor the Warrants shall be changed, modified or amended in any respect except by the mutual written agreement of the parties hereto. Any provision of this Letter Agreement or the Warrants may be waived in writing by the party which is entitled to the benefits thereof. No waiver of any provision of this Letter Agreement or the Warrants shall be deemed to, or shall constitute a waiver of, any other provision hereof or thereof (whether or not similar), nor shall any such waiver constitute a continuing waiver.
- b. Binding Effect; Assignment. Except as stated in this Section, neither this Letter Agreement nor the Warrants, nor any rights or obligations hereunder or thereunder, are assignable by RBB Bank. It is understood and acknowledged by PESI that the Warrants shall be held by RBB Bank as agent for certain of its clients who have provided to RBB Bank the \$750,000 described in this Letter Agreement. Therefore, the Warrants may be proportionately assigned to such clients who qualify as an accredited investor as defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended.
- c. Governing Law; Litigation Costs. This Letter Agreement and its validity, construction and performance shall be governed in all respects by the internal laws of the State of Delaware without giving effect to such State's conflicts of laws provisions.
- d. Counterparts. This Letter Agreement may be executed in one or more original or facsimile counterparts, each of which shall be deemed an original and all of which shall be considered one and the same agreement, binding on all of the parties hereto, notwithstanding that all parties are not signatories to the same counterpart. Upon delivery of an executed counterpart by RBB Bank to Chem-Met and PESI, which in turn is executed and delivered by the Chem-Met and PESI, this Letter Agreement shall be binding as one original agreement among RBB Bank, PESI and Chem-Met.
- e. Entire Agreement. This Letter Agreement, along with the Warrants merges and supersedes any and all prior agreements, understandings, discussions, assurances,

promises, representations or warranties among the parties with respect to the subject matter hereof, and contains the entire agreement among the parties with respect to the subject matter set forth herein and

therein.

- f. No Third Party Beneficiaries. This Letter Agreement and the rights, benefits, privileges, interests, duties and obligations contained or referred to herein shall be solely for the benefit of the parties hereto and no third party shall have any rights or benefits hereunder as a third party beneficiary or otherwise hereunder.

PERMA-FIX ENVIRONMENTAL  
SERVICES, INC.

By /s/ Louis Centofanti

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Dr. Louis F. Centofanti  
Chief Executive Officer

Accepted and agreed to by RBB Bank this 12 day of July, 2000.

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RBB BANK AKTIENGESELLSCHAFT

By /s/ Herbert Strauss

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Herbert Strauss  
Headtrader

UNSECURED PROMISSORY NOTE

\$750,000

July 14, 2000

FOR VALUE RECEIVED, the undersigned, CHEM-MET SERVICES, INC., a Michigan corporation (Maker), promises to pay to the order of RBB BANK AKTIENGESELLSCHAFT, a bank organized under the laws of Austria, and having its principal offices at Burgring 16, 8010 Graz, Austria ("Payee"), in lawful money of the United States of America, the principal sum of Seven Hundred Fifty Thousand and no/100 Dollars (\$750,000), together with interest on the unpaid principal balance at an annual rate equal to 10.0% in the manner provided below. Interest shall be calculated on the basis of a year of 360 days and charged for the actual number of days elapsed. The Maker is a wholly owned subsidiary of Perma-Fix Environmental Services, Inc., a Delaware corporation (Parent).

1. PAYMENTS

1.1 PRINCIPAL AND INTEREST

The principal amount of this Note and accrued interest thereon shall be payable in full upon the earlier of (i) December 31, 2000 or (ii) ten business days after the Parent raises \$3,000,000 or more through a private placement of capital securities of the Parent.

1.2 MANNER OF PAYMENT

All payments of principal and interest on this Note shall be delivered to Payee within ten (10) days of the due date described in Section 1.1 at Burgring 16, 8101 Graz, Austria or at such other place as Payee shall designate to Maker in writing. If any payment of principal or interest on this Note is due on a day which is not a Business Day, such payment shall be due on the next succeeding Business Day. "Business Day" means any day other than a Saturday, Sunday or legal holiday in the State of Delaware.

1.3 PREPAYMENT

Maker may, without premium or penalty, at any time and from time to time, prepay all or any portion of the outstanding principal balance due under this Note, provided that each such prepayment is accompanied by accrued interest on the amount of principal prepaid calculated to the date of such prepayment. Any partial prepayments shall be applied to reduce the principal under the Note.

2. DEFAULTS

2.1 EVENTS OF DEFAULT

The occurrence of any one or more of the following events with respect to Maker shall constitute an event of default hereunder ("Event of Default"):

(a) If Maker shall fail to pay when due any payment of principal or interest on this Note and such failure continues for fifteen (15) days after Payee notifies Maker in writing of such failure to pay;

(b) If, pursuant to or within the meaning of the United States Bankruptcy Code or any other federal or state law relating to insolvency or relief of debtors (a "Bankruptcy Law"), Maker shall (i) commence a voluntary case or proceeding; (ii) consent to the entry of an order for relief against it in an involuntary case; (iii) consent to the appointment of a trustee, receiver, assignee, liquidator or similar official; (iv) make an assignment for the benefit of its creditors; or (v) admit in writing its inability to pay its debts as they become due; or

(c) If a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (i) is for relief against Maker in an involuntary case, (ii) appoints a trustee, receiver, assignee, liquidator or similar official for Maker or for substantially all of Maker's properties, or (iii) orders the liquidation of Maker, and in each case the order or decree is not dismissed within 90 days.

## 2.2 REMEDIES

Upon the occurrence of an Event of Default hereunder (unless all Events of Default have been cured by Maker or waived by Payee), Payee may, at its option, (i) by written notice to Maker, declare the entire unpaid principal balance of this Note, together with all accrued interest thereon, immediately due and payable regardless of any prior forbearance, and (ii) exercise any and all rights and remedies available to it under applicable law, including, without limitation, the right to collect from Maker all sums due under this Note. Maker shall pay all reasonable costs and expenses incurred by or on behalf of Payee in connection with Payee's exercise of any or all of its rights and remedies under this Note, including, without limitation, reasonable attorneys' fees.

## 3. MISCELLANEOUS

### 3.1 WAIVER

The rights and remedies of Payee under this Note shall be cumulative and not alternative. No waiver by Payee of any right or remedy under this Note shall be effective unless in a writing signed by Payee. Neither the failure nor any delay in exercising any right, power or privilege under this Note will operate as a waiver of such right, power or privilege and no single or partial exercise of any such right, power or privilege by Payee will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. To the maximum extent permitted by applicable law, (a) no claim or right of Payee arising out of this Note can be discharged by Payee, in whole or in part, by a waiver or renunciation of the claim or right unless in a writing, signed by Payee; (b) no waiver that may be given by Payee will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on Maker will be deemed to be a waiver of any obligation of Maker or of the right of Payee to take further action without notice or demand as provided in this Note. Maker hereby waives presentment, demand, protest and notice of dishonor and protest.

### 3.2 NOTICES

Except as otherwise specified herein to the contrary, all notices, requests, demands and other communications required or

desired to be given hereunder shall only be effective if given in writing, by hand or by fax, by certified or registered mail, return receipt requested, postage prepaid, or by U.S. Express Mail service, or by private overnight mail service (e.g., Federal Express). Any such notice shall be deemed to have been given (i) on the business day actually received if given by hand or by fax, (ii) on the business day immediately subsequent to mailing, if sent by U.S. Express Mail service or private overnight mail service, or (iii) five (5) business days following the mailing thereof, if mailed by certified or registered mail, postage prepaid, return receipt requested, and all such notices shall be sent to the following addresses (or to such other address or addresses as a party may have advised the other in the manner provided in this Section 3.2):

If to the Maker:                   c/o Dr. Louis F. Centofanti  
Perma-Fix Environmental Services, Inc.  
1940 Northwest 67th Place  
Gainesville, Florida 32653  
Fax No.: (352) 373-0040

with copies simultaneously  
by like means to:               Irwin H. Steinhorn, Esquire  
Conner & Winters  
One Leadership Square, Suite 1700  
211 North Robinson  
Oklahoma City, Oklahoma 73102  
Fax No.: (405) 232-2695

If to the Payee:                 Herbert Strauss  
RBB Bank Aktiengesellschaft  
Burgring 16, 8010 Graz, Austria  
Fax No.: 011-43-316-8072 ext. 392

### 3.3 SEVERABILITY

If any provision in this Note is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Note will remain in full force and effect. Any provision of this Note held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

### 3.4 GOVERNING LAW

This Note will be governed by the laws of the State of Delaware without regard to conflicts of laws principles.

### 3.5 PARTIES IN INTEREST

3

This Note shall bind Maker and its successors and assigns.

### 3.6 SECTION HEADINGS, CONSTRUCTION

The headings of Sections in this Note are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Note unless otherwise specified.

All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise

expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

IN WITNESS WHEREOF, Maker has executed and delivered this Note as of the date first stated above.

CHEM-MET SERVICES, INC.,  
a Michigan corporation

By: /s/ Louis Centofanti

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Dr. Louis F. Centofanti, President

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