

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
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
State or other jurisdiction
of incorporation or organization

58-1954497
(IRS Employer Identification Number)

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

30350
(Zip Code)

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

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

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ___ No X

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ___ No X

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

Yes X No ___

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

Yes X No ___

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

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ___ No X

The aggregate market value of the Registrant's voting and non-voting common equity held by nonaffiliates of the Registrant computed by reference to the closing sale price of such stock as reported by NASDAQ as of the last business day of the most recently completed second fiscal quarter (June 30, 2016), was approximately \$54,307,000. For the purposes of this calculation, all directors of the Registrant (as indicated in Item 12) are deemed to be affiliates. Such determination should not be deemed an admission that such directors, are, in fact, affiliates of the Registrant. The Company's Common Stock is listed on the NASDAQ Capital Markets.

As of March 17, 2017, there were 11,681,349 shares of the registrant's Common Stock, \$.001 par value, outstanding.

Documents incorporated by reference: None

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

INDEX

Page No.

PART I

Item 1.	Business	1
Item 1A.	Risk Factors	7
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	17
Item 3.	Legal Proceedings	18
Item 4.	Mine Safety Disclosure	18

PART II

Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	18
Item 6.	Selected Financial Data	19
Item 7.	Management's Discussion and Analysis of Financial Condition And Results of Operations	19
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	35
	Special Note Regarding Forward-Looking Statements	35
Item 8.	Financial Statements and Supplementary Data	38
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	75
Item 9A.	Controls and Procedures	75
Item 9B.	Other Information	76

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	76
Item 11.	Executive Compensation	85
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	104
Item 13.	Certain Relationships and Related Transactions, and Director Independence	106
Item 14.	Principal Accountant Fees and Services	109

PART IV

Item 15.	Exhibits and Financial Statement Schedules	109
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PART I

ITEM 1. BUSINESS

Company Overview and Principal Products and Services

Perma-Fix Environmental Services, Inc. (the Company, which may be referred to as we, us, or our), a Delaware corporation incorporated in December of 1990, is an environmental and environmental technology know-how company.

We have grown through acquisitions and internal growth. Our goal is to continue to focus on the efficient operation of our facilities and on-site activities, to continue to evaluate strategic acquisitions, to continue the research and development (“R&D”) of innovative technologies to expand company service offering and to treat nuclear waste, mixed waste, and industrial waste. The Company continues to focus on expansion into both commercial and international markets to help offset the uncertainties of government spending in the USA, from which a significant portion of the Company’s revenue is derived. This includes new services, new customers and increased market share in our current markets.

Additionally, our goal is for our majority-owned subsidiary, Perma-Fix Medical S.A. and its wholly-owned subsidiary, Perma-Fix Medical Corporation (“PFM Corporation” – a Delaware corporation) (together known as “PF Medical” or our “Medical Segment), to raise the necessary substantial capital to continue its R&D activities in order to pursue commercialization of its medical isotope production technology (see “Medical Segment” below for further information in connection with this segment).

Segment Information and Foreign and Domestic Operations and Sales

The Company has three reportable segments. In accordance with Financial Accounting Standards Board (“FASB”) ASC 280, “Segment Reporting”, we define an operating segment as:

- a business activity from which we may earn revenue and incur expenses;
- whose operating results are regularly reviewed by the chief operating decision maker (“CODM”) to make decisions about resources to be allocated and assess its performance; and
- for which discrete financial information is available

TREATMENT SEGMENT reporting includes:

- nuclear, low-level radioactive, mixed (waste containing both hazardous and low-level radioactive waste), hazardous and non-hazardous waste treatment, processing and disposal services primarily through four uniquely licensed (Nuclear Regulatory Commission or state equivalent) and permitted (U.S. Environmental Protection Agency (“EPA”) or state equivalent) treatment and storage facilities held by the following subsidiaries: Perma-Fix of Florida, Inc. (“PFF”), Diversified Scientific Services, Inc., (“DSSI”), Perma-Fix Northwest Richland, Inc. (“PFNWR”), and East Tennessee Materials & Energy Corporation (“M&EC”) (see below for information regarding the pending shut down of the M&EC facility). The presence of nuclear and low-level radioactive constituents within the waste streams processed by this segment creates different and unique operational, processing and permitting/licensing requirements; and
- R&D activities to identify, develop and implement innovative waste processing techniques for problematic waste streams.

During the second quarter of 2016, the Company’s M&EC subsidiary was notified by the lessor that the lease agreement under which M&EC currently operates its Oak Ridge, Tennessee facility would not be renewed at the end of the current lease term ending January 21, 2018. In light of this event and our strategic review of operations within our Treatment Segment, the Company is proceeding with a plan to shut down the M&EC facility at the end of the lease term. Operations at the M&EC facility are continuing during the remaining term of the lease and the facility has begun the process of transitioning waste shipments and operational capabilities to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. Simultaneously, the Company has begun required clean-up/maintenance procedures at M&EC’s Oak Ridge, Tennessee facility in accordance with M&EC’s Resource Conservation and Recovery Act (“RCRA”) permit requirements.

For 2016, the Treatment Segment accounted for \$32,253,000 or 63.0% of total revenue, as compared to \$41,318,000 or 66.2% of total revenue for 2015. See “– Dependence Upon a Single or Few Customers” for further details and a discussion as to our Segments’ contracts with the federal government or with others as a subcontractor to the federal government.

SERVICES SEGMENT reporting includes:

- on-site waste management services to commercial and government customers;
- Technical services, which include:
 - o professional radiological measurement and site survey of large government and commercial installations using advanced methods, technology and engineering;
 - o integrated Occupational Safety and Health services including industrial hygiene (“IH”) assessments; hazardous materials surveys, e.g., exposure monitoring; lead and asbestos management/abatement oversight; indoor air quality evaluations; health risk and exposure assessments; health & safety plan/program development, compliance auditing and training services; and Occupational Safety and Health Administration (“OSHA”) citation assistance; and
 - o global technical services providing consulting, engineering, project management, waste management, environmental, decontamination and decommissioning (“D&D”) field, technical, and management personnel and services to commercial and government customers;
- Nuclear services, which include:
 - o technology-based services including engineering, D&D, specialty services and construction, logistics, transportation, processing and disposal;
 - o remediation of nuclear licensed and federal facilities and the remediation cleanup of nuclear legacy sites. Such services capability includes: project investigation; radiological engineering; partial and total plant D&D; facility decontamination, dismantling, demolition, and planning; site restoration; site construction; logistics; transportation; and emergency response; and
- a company owned equipment calibration and maintenance laboratory that services, maintains, calibrates, and sources (i.e., rental) of health physics, IH and customized nuclear, environmental, and occupational safety and health (“NEOSH”) instrumentation;

For 2016, the Services Segment accounted for \$18,966,000 or 37.0% of total revenue, as compared to \$21,065,000 or 33.8% of total revenue for 2015. See “– Dependence Upon a Single or Few Customers” for further details and a discussion as to our Segments’ contracts with the federal government or with others as a subcontractor to the federal government

MEDICAL SEGMENT reporting includes: R&D costs for the new medical isotope production technology from our majority-owned Polish subsidiary (of which we own approximately 60.5% at December 31, 2016), PF Medical. The Medical Segment has not generated any revenue as it has been primarily in the R&D stage. R&D costs consist primarily of employee salaries and benefits, laboratory costs, third party fees, and other related costs associated with the development of new technology. During 2016, our Medical Segment continued to commit significant resources to the R&D of its medical isotope production technology in attempt to pursue obtaining required governmental approvals from the U.S. Food and Drug Administration (“FDA”) and other regulatory agencies to commercialize this technology. During the latter part of 2016, our Medical Segment ceased a substantial portion of its R&D activities due to the need for substantial capital to fund such activities. We anticipate that our Medical Segment will not restart its full scale R&D activities until it obtains the necessary funding. The Medical Segment has entered into a letter of intent (“LOI”) to raise such funding which is subject to completion and execution of a definitive agreement. Although the LOI has expired, the parties to the LOI are continuing to negotiate definitive agreements as of the date of this report. (see “Part II – Item 7 - Management’s Discussion and Analysis of Financial Condition – Liquidity and Capital Resources – Financing Activities” for a further discussion of this proposed transaction).

Our Treatment and Services Segments provide services to research institutions, commercial companies, public utilities, and governmental agencies nationwide, including the U.S. Department of Energy (“DOE”) and U.S. Department of Defense (“DOD”). The distribution channels for our services are through direct sales to customers or via intermediaries.

Our corporate office is located at 8302 Dunwoody Place, Suite 250, Atlanta, Georgia 30350.

Foreign Revenue

Our consolidated revenue for 2016 and 2015 included approximately \$139,000 or 0.3% and \$199,000 or 0.3%, respectively, from our United Kingdom operation, Perma-Fix UK Limited (“PF UK Limited”).

Our consolidated revenue for 2016 and 2015 included approximately \$262,000 or 0.5% and \$279,000 or 0.4%, respectively, from customers located in Canada.

Importance of Patents, Trademarks and Proprietary Technology

We do not believe we are dependent on any particular trademark in order to operate our business or any significant segment thereof. We have received registration to May 2022 and December 2020, for the service marks “Perma-Fix Environmental Services” and “Perma-Fix”, respectively. In addition, we have received registration for two service marks for our Safety & Ecology Holdings Corporation and its subsidiaries (collectively known as “Safety and Ecology Corporation” or “SEC”) to periods ranging from 2017 to 2018.

We are active in the R&D of technologies that allow us to address certain of our customers' environmental needs. To date, we have sixteen active patents and the filing of several applications for which patents are pending. These sixteen active patents have remaining lives ranging from approximately three to seventeen years. These active patents granted to the Company include an U.S and an international patent for new technology for the production of radiological isotopes for certain types of medical applications; and which have been licensed to PFM Corporation. These patents are effective through March 2032.

Permits and Licenses

Waste management service companies are subject to extensive, evolving and increasingly stringent federal, state, and local environmental laws and regulations. Such federal, state and local environmental laws and regulations govern our activities regarding the treatment, storage, processing, disposal and transportation of hazardous, non-hazardous and radioactive wastes, and require us to obtain and maintain permits, licenses and/or approvals in order to conduct certain of our waste activities. We are dependent on our permits and licenses discussed below in order to operate our businesses. Failure to obtain and maintain our permits or approvals would have a material adverse effect on us, our operations, and financial condition. The permits and licenses have terms ranging from one to ten years, and provided that we maintain a reasonable level of compliance, renew with minimal effort, and cost. We believe that these permit and license requirements represent a potential barrier to entry for possible competitors.

PFF, located in Gainesville, Florida, operates its hazardous, mixed and low-level radioactive waste activities under a RCRA Part B permit, Toxic Substances Control Act (“TSCA”) authorization, Restricted RX Drug Distributor-Destruction license, and a radioactive materials license issued by the State of Florida.

DSSI, located in Kingston, Tennessee, conducts mixed and low-level radioactive waste storage and treatment activities under RCRA Part B permits and a radioactive materials license issued by the State of Tennessee Department of Environment and Conservation. Co-regulated TSCA Polychlorinated Biphenyl (“PCB”) wastes are also managed for PCB destruction under the EPA Approval effective June 2008.

M&EC, located in Oak Ridge, Tennessee, performs hazardous, low-level radioactive and mixed waste storage and treatment operations under a RCRA Part B permit and a radioactive materials license issued by the State of Tennessee Department of Environment and Conservation. Co-regulated TSCA PCB wastes are also managed under EPA Approvals applicable to site-specific treatment units. The Company is proceeding with a plan to shut down the M&EC facility by January 2018 with closure activities underway. During the second quarter of 2016, the Company fully impaired the permit value of approximately \$8,288,000 for our M&EC subsidiary. The permits at M&EC will be terminated upon completion of requirements pursuant to M&EC's closure plan.

PFNWR, located in Richland, Washington, operates a low-level radioactive waste processing facility as well as a mixed waste processing facility. Radioactive material processing is authorized under radioactive materials licenses issued by the State of Washington and mixed waste processing is additionally authorized under a RCRA Part B permit with TSCA authorization issued jointly by the State of Washington and the EPA.

The combination of a RCRA Part B hazardous waste permit, TSCA authorization, and a radioactive materials license, as held by our Treatment Segment are very difficult to obtain for a single facility and make these facilities unique.

Backlog

The Treatment Segment of our Company maintains a backlog of stored waste, which represents waste that has not been processed. The backlog is principally a result of the timing and complexity of the waste being brought into the facilities and the selling price per container. As of December 31, 2016, our Treatment Segment had a backlog of approximately \$5,250,000, as compared to approximately \$4,698,000 as of December 31, 2015. Additionally, the time it takes to process waste from the time it arrives may increase due to the types and complexities of the waste we are currently receiving. We typically process our backlog during periods of low waste receipts, which historically has been in the first or fourth quarters.

Dependence Upon a Single or Few Customers

Our Treatment and Services Segments have significant relationships with the federal government, and continue to enter into contracts, directly as the prime contractor or indirectly for others as a subcontractor, with the federal government. The contracts that we are a party to with the federal government or with others as a subcontractor to the federal government generally provide that the government may terminate or renegotiate the contracts on 30 days notice, at the government's election. Our inability to continue under existing contracts that we have with the federal government (directly or indirectly as a subcontractor) could have a material adverse effect on our operations and financial condition.

We performed services relating to waste generated by the federal government representing approximately \$27,354,000 or 53.4% of our total revenue during 2016, as compared to \$36,105,000 or 57.9% of our total revenue during 2015.

Revenue generated by one of the customers (PSC Metal, Inc.) (non-government related and excluded from above) in the Services Segment accounted for approximately \$9,763,000 or 19.1% of the total revenues generated for the twelve months ended December 31, 2016. Project work for this customer commenced in March 2016 and was completed in December 2016. Revenue generated by another customer (Prologis Teterboro, LLC) (non-government related and excluded from above) in the Services Segment accounted for \$10,686,000 or 17.1% of the total revenues generated for the twelve months ended December 31, 2015. Project work for this customer was completed in December 2015.

As our revenues are project/event based where the completion of one contract with a specific customer may be replaced by another contract with a different customer from year to year, we do not believe the loss of one specific customer from one year to the next will generally have a material adverse effect on our operations and financial condition.

Competitive Conditions

The Treatment Segment's largest competitor is EnergySolutions ("ES") which operates treatment and disposal facilities in Oak Ridge, TN and Clive, UT. Waste Control Specialists ("WCS"), which has licensed disposal capabilities in Andrews, TX, has also emerged as a competitor in the treatment market with increasing market share. Perma-Fix now has two options for disposal of treated nuclear waste and thus mitigates prior risk of ES providing the only outlet for disposal. ES has signed a definitive agreement to acquire WCS; however, this potential acquisition of WCS by ES is currently in litigation with the federal government with the federal government alleging the acquisition violates the anti-trust laws. In the event that this acquisition of WCS by ES is later consummated, ES will again become the owner of the only privately owned disposal sites for treated commercially generated nuclear waste. In such event, if ES should refuse to accept our nuclear and mixed waste or make demands on us that are unreasonable or cease operations at its sites, such may have a material adverse effect on us for commercial wastes. The Treatment Segment treats and disposes of DOE generated wastes largely at DOE owned sites and thus this potential acquisition should not have any significant adverse impact on our Treatment Segment. Smaller competitors are also present in the market place; however, we believe they do not present a significant challenge at this time. Our Treatment Segment currently solicits business primarily on a North American basis with both government and commercial clients; however, we continue to focus on emerging international markets for additional work.

We believe that the permitting and licensing requirements, and the cost to obtain such permits, are barriers to the entry of hazardous waste and radioactive and mixed waste activities as presently operated by our waste treatment subsidiaries. If the permit requirements for hazardous waste treatment, storage, and disposal ("TSD") activities and/or the licensing requirements for the handling of low level radioactive matters are eliminated or if such licenses or permits were made less rigorous to obtain, we believe such would allow companies to enter into these markets and provide greater competition.

Our Services Segment is engaged in highly competitive businesses in which a number of our government contracts and some of our commercial contracts are awarded through competitive bidding processes. The extent of such competition varies according to the industries and markets in which our customers operate as well as the geographic areas in which we operate. The degree and type of competition we face is also often influenced by the project specification being bid on and the different specialty skill sets of each bidder for which our Services Segment competes, especially projects subject to the governmental bid process. We also have the ability to prime federal government small business procurements (small business set asides). Based on past experience, we believe that large businesses are more willing to team with small businesses in order to be part of these often substantial procurements. There are a number of qualified small businesses in our market that will provide intense competition that may provide a challenge to our ability to maintain strong growth rates and acceptable profit margins. For international business there are additional competitors, many from within the country the work is to be performed, making winning work in foreign countries more challenging. If our Services Segment is unable to meet these competitive challenges, it could lose market share and experience an overall reduction in its profits.

Certain Environmental Expenditures and Potential Environmental Liabilities

Environmental Liabilities

We have three remediation projects, which are currently in progress at our Perma-Fix of Dayton, Inc. ("PFD"), Perma-Fix of Memphis, Inc. ("PFM"), and Perma-Fix South Georgia, Inc. ("PFSG") subsidiaries, which are all included within our discontinued operations. These remediation projects principally entail the removal/remediation of contaminated soil and, in most cases, the remediation of surrounding ground water. These remediation activities are closely reviewed and monitored by the applicable state regulators.

At December 31, 2016, we had total accrued environmental remediation liabilities of \$925,000, of which \$677,000 are recorded as a current liability, which reflects an increase of \$25,000 from the December 31, 2015 balance of \$900,000. The net increase of \$25,000 represents payments on remediation projects at PFSG and an increase to the reserve of approximately \$66,000 at PFD due to reassessment of the remediation reserve.

No insurance or third party recovery was taken into account in determining our cost estimates or reserves.

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

Research and Development (“R&D”)

Innovation and technical know-how by our operations is very important to the success of our business. Our goal is to discover, develop and bring to market innovative ways to process waste that address unmet environmental needs. We conduct research internally, and also through collaborations with other third parties. The majority of our research activities are performed as we receive new and unique waste to treat. Our competitors also devote resources to R&D and many such competitors have greater resources at their disposal than we do. During 2016, PF Medical continued to commit significant resources to the R&D of its medical isotope production technology in pursuing the necessary steps required for eventual submission of this technology for FDA and other regulatory approvals and commercialization of this technology. During the latter part of 2016, our Medical Segment ceased a substantial portion of its R&D activities due to the need for substantial capital to fund such activities. We anticipate that our Medical Segment will not restart its full scale R&D activities until it obtains the necessary funding. The Medical Segment has entered into a LOI to raise such funding, which is subject to completion and execution of a definitive agreement. Although this LOI has expired, the parties to the LOI are continuing to negotiate definitive agreements as of the date of this report. We have estimated that during 2016 and 2015, we spent approximately \$2,046,000 and \$2,302,000, respectively, in R&D activities, of which approximately \$1,489,000 and \$2,114,000, respectively, were spent by our Medical Segment for the R&D of its medical isotope production technology.

Number of Employees

In our service-driven business, our employees are vital to our success. We believe we have good relationships with our employees. As of December 31, 2016, we employed approximately 253 employees, of whom 249 are full-time employees and four are part-time/temporary employees.

Governmental Regulation

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

The Resource Conservation and Recovery Act of 1976, as amended (“RCRA”)

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

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

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

Health and Safety Regulations

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

Atomic Energy Act

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

Other Laws

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

ITEM 1A. RISK FACTORS

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

Risks Relating to our Operations

Failure to maintain our financial assurance coverage that we are required to have in order to operate our permitted treatment, storage and disposal facilities could have a material adverse effect on us.

We maintain finite risk insurance policies which provide financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure of those facilities. We are required to provide and to maintain financial assurance that guarantees to the state that in the event of closure, our permitted facilities will be closed in accordance with the regulations. In the event that we are unable to obtain or maintain our financial assurance coverage for any reason, this could materially impact our operations and our permits which we are required to have in order to operate our treatment, storage, and disposal facilities.

If we cannot maintain adequate insurance coverage, we will be unable to continue certain operations.

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

The inability to maintain existing government contracts or win new government contracts over an extended period could have a material adverse effect on our operations and adversely affect our future revenues.

A material amount of our Treatment and Services Segments' revenues are generated through various U.S. government contracts or subcontracts involving the U.S. government. Our revenues from governmental contracts and subcontracts relating to governmental facilities within our segments were approximately \$27,354,000 or 53.4% and \$36,105,000 or 57.9%, of our consolidated operating revenues for 2016 and 2015, respectively. Most of our government contracts or our subcontracts granted under government contracts are awarded through a regulated competitive bidding process. Some government contracts are awarded to multiple competitors, which increase overall competition and pricing pressure and may require us to make sustained post-award efforts to realize revenues under these government contracts. All contracts with, or subcontracts involving, the federal government are terminable, or subject to renegotiation, by the applicable governmental agency on 30 days notice, at the option of the governmental agency. If we fail to maintain or replace these relationships, or if a material contract is terminated or renegotiated in a manner that is materially adverse to us, our revenues and future operations could be materially adversely affected.

Our existing and future customers may reduce or halt their spending on hazardous waste and nuclear services with outside vendors, including us.

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

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

These events could result in or cause the federal government to terminate or cancel its existing contracts involving us to treat, store or dispose of contaminated waste and/or to perform remediation projects, at one or more of the federal sites since all contracts with, or subcontracts involving, the federal government are terminable upon or subject to renegotiation at the option of the government on 30 days notice. These events also could adversely affect us to the extent that they result in the reduction or elimination of contractual requirements, lower demand for nuclear services, burdensome regulation, disruptions of shipments or production, increased operational costs or difficulties or increased liability for actual or threatened property damage or personal injury.

Economic downturns and/or reductions in government funding could have a material negative impact on our businesses.

Demand for our services has been, and we expect that demand will continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including economic conditions, reductions in the budget for spending to remediate federal sites due to numerous reasons, including, without limitation, the substantial deficits that the federal government has and is continuing to incur. During economic downturns and large budget deficits that the federal government and many states are experiencing, the ability of private and government entities to spend on waste services, including nuclear services, may decline significantly. Our operations depend, in large part, upon governmental funding, particularly funding levels at the DOE. Significant reductions in the level of governmental funding (for example, the annual budget of the DOE) or specifically mandated levels for different programs that are important to our business could have a material adverse impact on our business, financial position, results of operations and cash flows.

The loss of one or a few customers could have an adverse effect on us.

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

As a government contractor, we are subject to extensive government regulation, and our failure to comply with applicable regulations could subject us to penalties that may restrict our ability to conduct our business.

Our governmental contracts, which are primarily with the DOE or subcontracts relating to DOE sites, are a significant part of our business. Allowable costs under U.S. government contracts are subject to audit by the U.S. government. If these audits result in determinations that costs claimed as reimbursable are not allowed costs or were not allocated in accordance with applicable regulations, we could be required to reimburse the U.S. government for amounts previously received.

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

We are a holding company and depend, in large part, on receiving funds from our subsidiaries to fund our indebtedness.

Because we are a holding company and operations are conducted through our subsidiaries, our ability to meet our obligations depends, in large part, on the operating performance and cash flows of our subsidiaries.

Loss of certain key personnel could have a material adverse effect on us.

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

Changes in environmental regulations and enforcement policies could subject us to additional liability and adversely affect our ability to continue certain operations.

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

Our Treatment Segment has limited end disposal sites to utilize to dispose of its waste which could significantly impact our results of operations.

Our Treatment Segment has limited options available for disposal of its nuclear waste. Currently, there are only two disposal sites, each site having different owners, for our low level radioactive waste we receive from non-governmental sites, allowing us to take advantage of the pricing competition between the two sites. There is currently an agreement whereby the owner of one site has agreed to buy the other site; however, the federal government has brought suit to prohibit this transaction alleging that such transaction violates the federal anti-trust laws. In the event that this transaction is later consummated, we could become subject to the unreasonable demands as to pricing and other terms of the acquiring party that owns both disposal sites, which could significantly increase our cost of disposal and negatively impact our results of operations. Further, if such acquisition is completed, and the owner refuses to accept our waste or demands terms that we deem to be unreasonable, such could have a material adverse effect on us.

Our businesses subject us to substantial potential environmental liability.

Our business of rendering services in connection with management of waste, including certain types of hazardous waste, low-level radioactive waste, and mixed waste (waste containing both hazardous and low-level radioactive waste), subjects us to risks of liability for damages. Such liability could involve, without limitation:

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

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

As our operations expand, we may be subject to increased litigation, which could have a negative impact on our future financial results.

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

Our operations are subject to seasonal factors, which cause our revenues to fluctuate.

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

If environmental regulation or enforcement is relaxed, the demand for our services will decrease.

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

We and our customers operate in a politically sensitive environment, and the public perception of nuclear power and radioactive materials can affect our customers and us.

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

We may be exposed to certain regulatory and financial risks related to climate change.

Climate change is receiving ever increasing attention from scientists and legislators alike. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions.

Presently there are no federally mandated greenhouse gas reduction requirements in the United States. However, there are a number of legislative and regulatory proposals to address greenhouse gas emissions, which are in various phases of discussion or implementation. The outcome of federal and state actions to address global climate change could result in a variety of regulatory programs including potential new regulations. Any adoption by federal or state governments mandating a substantial reduction in greenhouse gas emissions could increase costs associated with our operations. Until the timing, scope and extent of any future regulation becomes known, we cannot predict the effect on our financial position, operating results and cash flows.

We may not be successful in winning new business mandates from our government and commercial customers or international customers.

We must be successful in winning mandates from our government, commercial customers and international customers to replace revenues from projects that we have completed or that are nearing completion and to increase our revenues. Our business and operating results can be adversely affected by the size and timing of a single material contract.

The elimination or any modification of the Price-Anderson Acts indemnification authority could have adverse consequences for our business.

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

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

We are engaged in highly competitive businesses and typically must bid against other competitors to obtain major contracts.

We are engaged in highly competitive business in which most of our government contracts and some of our commercial contracts are awarded through competitive bidding processes. We compete with national and regional firms with nuclear and/or hazardous waste services practices, as well as small or local contractors. Some of our competitors have greater financial and other resources than we do, which can give them a competitive advantage. In addition, even if we are qualified to work on a new government contract, we might not be awarded the contract because of existing government policies designed to protect certain types of businesses and under-represented minority contractors. Although the Company has the ability to certify and bid government contract as a small business, there are a number of qualified small businesses in our market that will provide intense competition. For international business, which we continue to focus on, there are additional competitors, many from within the country the work is to be performed, making winning work in foreign countries more challenging. Competition places downward pressure on our contract prices and profit margins. If we are unable to meet these competitive challenges, we could lose market share and experience on overall reduction in our profits.

Our failure to maintain our safety record could have an adverse effect on our business.

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

We may be unable to utilize loss carryforwards in the future.

We have approximately \$10,372,000 and \$65,658,000 in net operating loss carryforwards for federal and state income tax purposes, respectively, which will expire in various amounts starting in 2021 if not used against future federal and state income tax liabilities, respectively. Our net loss carryforwards are subject to various limitations. Our ability to use the net loss carryforwards depends on whether we are able to generate sufficient income in the future years. Further, our net loss carryforwards have not been audited or approved by the Internal Revenue Service.

If any of our permits, other intangible assets, and tangible assets become impaired, we may be required to record significant charges to earnings.

Under accounting principles generally accepted in the United States (“U.S. GAAP”), we review our intangible and tangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Our permits are tested for impairment at least annually (the Company has no goodwill at December 31, 2016). Factors that may be considered a change in circumstances, indicating that the carrying value of our permit, other intangible assets, and tangible assets may not be recoverable, include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. During 2016, we recorded approximately \$8,288,000 and \$1,816,000 in impairment charges for intangible and tangible assets, respectively, in connection with Company’s decision to shut down our M&EC subsidiary by January 2018. We may be required, in the future, to record additional impairment charges in our financial statements, in which any impairment of our permit, other intangible assets, and tangible assets is determined. Such impairment charges could negatively impact our results of operations.

We bear the risk of cost overruns in fixed-price contracts. We may experience reduced profits or, in some cases, losses under these contracts if costs increase above our estimates.

Our revenues may be earned under contracts that are fixed-price in nature. Fixed-price contracts expose us to a number of risks not inherent in cost-reimbursable contracts. Under fixed price and guaranteed maximum-price contracts, contract prices are established in part on cost and scheduling estimates which are based on a number of assumptions, including assumptions about future economic conditions, prices and availability of labor, equipment and materials, and other exigencies. If these estimates prove inaccurate, or if circumstances change such as unanticipated technical problems, difficulties in obtaining permits or approvals, changes in laws or labor conditions, weather delays, cost of raw materials or our suppliers’ or subcontractors’ inability to perform, cost overruns may occur and we could experience reduced profits or, in some cases, a loss for that project. Errors or ambiguities as to contract specifications can also lead to cost-overruns.

Adequate bonding is necessary for us to win certain types of new work and support facility closure requirements.

We are often required to provide performance bonds to customers under fixed-price contracts, primarily within our Services Segment. These surety instruments indemnify the customer if we fail to perform our obligations under the contract. If a bond is required for a particular project and we are unable to obtain it due to insufficient liquidity or other reasons, we may not be able to pursue that project. In addition, we provide bonds to support financial assurance in the event of facility closure pursuant to state requirements. We currently have a bonding facility but, the issuance of bonds under that facility is at the surety’s sole discretion. Moreover, due to events that affect the insurance and bonding markets generally, bonding may be more difficult to obtain in the future or may only be available at significant additional cost. There can be no assurance that bonds will continue to be available to us on reasonable terms. Our inability to obtain adequate bonding and, as a result, to bid on new work could have a material adverse effect on our business, financial condition and results of operations.

Shut down of our East Tennessee Materials and Energy Corporation (“M&EC”) facility located in Oak Ridge, Tennessee could negatively impact our financial results.

Our M&EC subsidiary was notified by the lessor that the lease agreement under which M&EC currently operates its Oak Ridge, Tennessee facility would not be renewed at the end of the current lease term ending January 21, 2018. In light of this event and our strategic review of operations within our Treatment Segment, we are proceeding with a plan to shut down our M&EC facility located in Oak Ridge, Tennessee at the end of the lease term. Operations at the M&EC facility are continuing during the remaining term of the lease and the facility has begun the process of transitioning waste shipments and operational capabilities to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. Simultaneously, we have begun required clean-up/maintenance procedures at M&EC’s Oak Ridge, Tennessee facility in accordance with M&EC’s RCRA permit requirements. We believe that our plan to shut down our M&EC facility in Oak Ridge, Tennessee should reduce our fixed costs within our Treatment Segment with minimal loss in revenue, thereby improving our Treatment Segment gross margin. However, as certain waste shipments are dependent on our customers’ requirements and the operational capabilities of our other Treatment facilities to accept and treat these wastes, there are no guarantees that our other Treatment facilities will be able to treat these wastes. In such event, our financial results could be materially impacted.

Failure to maintain effective internal control over financial reporting or failure to remediate a material weakness in internal control over financial reporting could have a material adverse effect on our business, operating results, and stock price.

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial reports and is important in helping to prevent financial fraud. If we are unable to maintain adequate internal controls, our business and operating results could be harmed. We are required to satisfy the requirements of Section 404 of Sarbanes Oxley and the related rules of the Commission, which require, among other things, management to assess annually the effectiveness of our internal control over financial reporting. If we are unable to maintain adequate internal control over financial reporting or effectively remediate any material weakness identified in internal control over financial reporting, there is a reasonable possibility that a misstatement of our annual or interim financial statements will not be prevented or detected in a timely manner. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our common stock could decline significantly, and our business, financial condition, and reputation could be harmed.

Systems failures, interruptions or breaches of security and other cyber security risks could have an adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, cyber security breaches, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We depend upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the internet. We also rely on the services of a variety of vendors to meet our data processing and communication needs. Despite our implemented security measures and established policies, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures or failures on the part of our employees to follow our established security measures and policies. Information security risks have increased significantly due to the use of online banking channels and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our technologies, systems, and networks may become the target of cyber-attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information and the disruption of our business operations. A security breach could result in violations of applicable privacy and other laws, financial loss to us or to our customers or to our employees, loss of confidence in our security measures, litigation exposure, and harm to our reputation. Although we are aware that on at least one occasion during 2017 that there was a breach of our existing security procedures and policies as to employee information due to an employee's error in not following our existing security procedures and policies, we do not believe this breach would have a material adverse effect on us. While we maintain a system of internal controls and procedures, any breach, attack, or failure discussed above could have a material adverse effect on our business, financial condition, and results of operations or liquidity.

Risks Relating to our Intellectual Property

If we cannot maintain our governmental permits or cannot obtain required permits, we may not be able to continue or expand our operations.

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

We believe our proprietary technology is important to us.

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

Risks Relating to our Financial Position and Need for Financing**Breach of any of the covenants in our credit facility could result in a default, triggering repayment of outstanding debt under the credit facility.**

Our credit facility with our bank contains financial covenants. A breach of any of these covenants could result in a default under our credit facility triggering our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. We failed to meet our minimum quarterly fixed charge coverage ratio in each of the first to third quarters of 2016; however, each of these instances of non-compliance was waived by our lender. In addition, during 2016, our lender also amended the methodology in calculating the quarterly fixed charge coverage ratio in certain instances to assist us so we can meet our quarterly fixed charge coverage ratio. We met our minimum quarterly fixed charge coverage ratio requirement in the fourth quarter of 2016. If we fail to meet the minimum quarterly fixed charge coverage ratio requirement or any of our other covenants in our loan agreement in the future and our lender does not waive the non-compliance or revise our covenant requirement so that we are in compliance, our lender could accelerate the payment of our borrowings under our credit facility. In such event, we may not have sufficient liquidity to repay our debt under our credit facility and other indebtedness.

Our amount of debt could adversely affect our operations.

At December 31, 2016, our aggregate consolidated debt was approximately \$8,833,000. Our Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated October 31, 2011, as subsequently amended (“Revised Loan Agreement”) provides for a total credit facility commitment of approximately \$18,100,000, consisting of a \$12,000,000 revolving line of credit and a term loan of \$6,100,000. The maximum we can borrow under the revolving part of the credit facility is based on a percentage of the amount of our eligible receivables outstanding at any one time. As of December 31, 2016, we had borrowings under the revolving part of our credit facility of approximately \$3,803,000 and borrowing availability of up to an additional \$1,748,000 based on our outstanding eligible receivables. A lack of positive operating results could have material adverse consequences on our ability to operate our business. Our ability to make principal and interest payments, or to refinance indebtedness, will depend on both our and our subsidiaries' future operating performance and cash flow. Prevailing economic conditions, interest rate levels, and financial, competitive, business, and other factors affect us. Many of these factors are beyond our control.

Our substantial level of indebtedness could limit our financial and operating activities, and adversely affect our ability to incur additional debt to fund future needs.

We currently have a substantial amount of indebtedness. As a result, this level of indebtedness could, among other things:

- require us to dedicate a substantial portion of our cash flow to the payment of principal and interest, thereby reducing the funds available for operations and future business opportunities;
- make it more difficult for us to satisfy our obligations;
- limit our ability to borrow additional money if needed for other purposes, including working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes, on satisfactory terms or at all;
- limit our ability to adjust to changing economic, business and competitive conditions;
- place us at a competitive disadvantage with competitors who may have less indebtedness or greater access to financing;
- make us more vulnerable to an increase in interest rates, a downturn in our operating performance or a decline in general economic conditions; and
- make us more susceptible to changes in credit ratings, which could impact our ability to obtain financing in the future and increase the cost of such financing.

Any of the foregoing could adversely impact our operating results, financial condition, and liquidity. Our ability to continue our operations depends on our ability to generate profitable operations or complete equity or debt financings to increase our capital.

Risks Relating to our Common Stock

Issuance of substantial amounts of our Common Stock could depress our stock price.

Any sales of substantial amounts of our Common Stock in the public market could cause an adverse effect on the market price of our Common Stock and could impair our ability to raise capital through the sale of additional equity securities. The issuance of our Common Stock will result in the dilution in the percentage membership interest of our stockholders and the dilution in ownership value. As of December 31, 2016, we had 11,669,383 shares of Common Stock outstanding.

In addition, as of December 31, 2016, we had outstanding options to purchase 247,200 shares of our Common Stock at exercise prices ranging from \$2.79 to \$14.75 per share. Further, our preferred share rights plan, if triggered, could result in the issuance of a substantial amount of our Common Stock. The existence of this quantity of rights to purchase our Common Stock under the preferred share rights plan could result in a significant dilution in the percentage ownership interest of our stockholders and the dilution in ownership value. Future sales of the shares issuable could also depress the market price of our Common Stock.

We do not intend to pay dividends on our Common Stock in the foreseeable future.

Since our inception, we have not paid cash dividends on our Common Stock, and we do not anticipate paying any cash dividends in the foreseeable future. Our credit facility prohibits us from paying cash dividends on our Common Stock without prior approval from our lender.

The price of our Common Stock may fluctuate significantly, which may make it difficult for our stockholders to resell our Common Stock when a stockholder wants or at prices a stockholder finds attractive.

The price of our Common Stock on the Nasdaq Capital Markets constantly changes. We expect that the market price of our Common Stock will continue to fluctuate. This may make it difficult for our stockholders to resell the Common Stock when a stockholder wants or at prices a stockholder finds attractive.

Future issuance of our Common Stock could adversely affect the price of our Common Stock, our ability to raise funds in new stock offerings and could dilute the percentage ownership of our common stockholders.

Future sales of substantial amounts of our Common Stock or equity-related securities in the public market, or the perception that such sales or conversions could occur, could adversely affect prevailing trading prices of our Common Stock and could dilute the value of Common Stock held by our existing stockholders. No prediction can be made as to the effect, if any, that future sales of shares of our Common Stock or the availability of shares of our Common Stock for future sale will have on the trading price of our Common Stock. Such future sales or conversions could also significantly reduce the percentage ownership of our common stockholders.

Delaware law, certain of our charter provisions, our stock option plans, outstanding warrants and our Preferred Stock may inhibit a change of control under circumstances that could give you an opportunity to realize a premium over prevailing market prices.

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

We have authorized and unissued 18,075,775 (which include shares issuable under outstanding options to purchase 247,200 shares of our Common Stock) shares of our Common Stock and 2,000,000 shares of our Preferred Stock as of December 31, 2016 (which includes 600,000 shares of our Preferred Stock reserved for issuance under our preferred share rights plan). These unissued shares could be used by our management to make it more difficult, and thereby discourage an attempt to acquire control of us.

Our Preferred Share Rights Plan (the “Rights Plan”) may adversely affect our stockholders.

In May 2008, we adopted a Rights Plan, designed to ensure that all of our stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer. However, the Rights Plan may also have the effect of deterring, delaying, or preventing a change in control that might otherwise be in the best interests of our stockholders.

In general, under the terms of the Rights Plan, subject to certain limited exceptions, if a person or group acquires 20% or more of our Common Stock or a tender offer or exchange offer for 20% or more of our Common Stock is announced or commenced, our other stockholders may receive upon exercise of the rights (the “Rights”) issued under the Rights Plan the number of shares our Common Stock or of one-one hundredths of a share of our Series A Junior Participating Preferred Stock, par value \$.001 per share, having a value equal to two times the purchase price of the Right. In addition, if we are acquired in a merger or other business combination transaction in which we are not the survivor or more than 50% of our assets or earning power is sold or transferred, then each holder of a Right (other than the acquirer) will thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the purchase price of the Right. The initial purchase price of each Right was \$13, subject to adjustment, including adjustment for reverse stock split.

The Rights will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. The Rights may be redeemed by us at \$0.001 per Right at any time before any person or group acquires 20% or more of our outstanding common stock. The rights should not interfere with any merger or other business combination approved by our board of directors. The Rights expire on May 2, 2018.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

Our principal executive office is in Atlanta, Georgia. Our Business Center is located in Knoxville, Tennessee. Our Treatment Segment facilities are located in Gainesville, Florida; Kingston, Tennessee; Oak Ridge, Tennessee (which is currently undergoing closure requirements and which we plan to shut down by January 2018), and Richland, Washington. Our Services Segment maintains operations located in Knoxville, Tennessee and Blyden On Tyne, England, of which we lease all of the properties. PF Medical maintains two leased administrative offices as noted below. We maintain properties in Valdosta, Georgia and Memphis, Tennessee, which are all non-operational and are included within our discontinued operations.

The properties where three of our facilities operate on (Kingston, Tennessee; Gainesville, Florida; and Richland, Washington) are held by our senior lender as collateral for our credit facility. The Company currently leases properties in the following locations:

Location	Square Footage	Expiration of Lease
Knoxville, TN (Safety and Ecology Corporation or "SEC")	20,850	May 31, 2018
Knoxville, TN (SEC)	5,000	September 30, 2017
Blaydon On Tyne, England (PF UK Limited)	1,000	Monthly
Pittsburgh, PA (SEC)	640	Monthly
Newport, KY (SEC)	1,566	Monthly
Oak Ridge, TN (M&EC)	150,000	January 31, 2018
Atlanta, GA (Corporate)	6,499	February 28, 2018
Mobile, AL (PF Medical)	1,200	August 31, 2017
Park City, UT (PF Medical)	640	May 31, 2017

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

ITEM 3. LEGAL PROCEEDINGS

In the normal course of conducting our business, we may become involved in litigation or be subject to local, state and federal agency (government) proceedings. We are not a party to any litigation or governmental proceeding, which our management believes could result in any judgments or fines that would have a material adverse effect on our financial position, liquidity or results of future operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable.

PART II

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

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

		2016		2015	
		Low	High	Low	High
Common Stock	1 st Quarter	\$ 3.42	\$ 3.95	\$ 3.78	\$ 4.69
	2 nd Quarter	3.62	5.64	3.32	4.01
	3 rd Quarter	4.29	5.62	3.45	4.34
	4 th Quarter	3.25	5.24	3.65	4.37

As of February 22, 2017, there were approximately 189 stockholders of record of our Common Stock, including brokerage firms and/or clearing houses holding shares of our Common Stock for their clientele (with each brokerage house and/or clearing house being considered as one holder). However, the total number of beneficial stockholders as of February 22, 2017 was approximately 2,345.

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

No sales of unregistered securities occurred during the first, second, and fourth quarter of 2016. On August 2, 2016, the Company issued an aggregate 70,000 shares of its Common Stock resulting from the exercise of two Warrants for the purchase of up to 70,000 shares of the Company's Common Stock at an exercise price of \$2.23 per share, resulting total proceeds received by the Company of approximately \$156,000. See Item 7 – “Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financing Activities” for further information of these two Warrants.

There were no purchases made by us or on behalf of us or any of our affiliated members of shares of our Common Stock during 2016.

We have adopted a preferred share rights plan, which is designed to protect us against certain creeping acquisitions, open market purchases, and certain mergers and other combinations with acquiring companies. See Item 1A. - Risk Factors – “Our Preferred Share Rights Plan (the “Rights Plan”) may adversely affect our stockholders” as to further discussion relating to the terms of our Rights Plan.

See “Equity Compensation Plan” in Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matter” for securities authorized for issuance under equity compensation plans which is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Not required under Regulation S-K for smaller reporting companies.

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

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

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

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

Review

Revenue decreased \$11,164,000 or 17.9% to \$51,219,000 for the twelve months ended December 31, 2016 from \$62,383,000 for the corresponding period of 2015. The decrease in revenue was primarily due to the decrease in revenue in our Treatment Segment of approximately \$9,065,000 or 21.9% due, in large part, to lower waste volume. Services Segment revenue decreased \$2,099,000 or 10.0% for the twelve months ended December 31, 2016 as compared to the corresponding period of 2015. Total gross profit decreased \$7,267,000 or 50.6% for the twelve months ended December 31, 2016 as compared to the corresponding period of 2015 primarily due to lower revenue generated from our Treatment Segment. Total selling, general, and administrative (“SG&A”) expenses decreased \$272,000 or 2.5% for the twelve months ended December 31, 2016 as compared to the corresponding period of 2015.

Our 2016 financial results were significantly impacted by certain large waste treatment shipments that we expected to receive but were delayed by certain governmental customers. Although we saw receipt of certain of these delayed shipments in the fourth quarter of 2016, we expect to receive the remaining delayed waste shipment within the first nine months of 2017.

Our financial results for the twelve months ended December 31, 2016 included certain non-cash impairment losses, write-offs and accruals which were recorded during the second quarter of 2016 in connection with the pending shut down of our East Tennessee Materials and Energy Corporation (“M&EC”) subsidiary as discussed below.

During the second quarter of 2016, our M&EC subsidiary was notified by the lessor that the lease agreement under which M&EC currently operates its Oak Ridge, Tennessee facility would not be renewed at the end of the current lease term ending January 21, 2018. In light of this event and our strategic review of operations within our Treatment Segment, we are proceeding with a plan to shut down our M&EC facility located in Oak Ridge, Tennessee at the end of the lease term. Operations at the M&EC facility are continuing during the remaining term of the lease and the facility has begun the process of transitioning waste shipments and operational capabilities to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. Simultaneously, we have begun required clean-up/maintenance procedures at M&EC’s Oak Ridge, Tennessee facility in accordance with M&EC’s Resource Conservation and Recovery Act (“RCRA”) permit requirements. As a result of this triggering event which occurred during the second quarter of 2016, we recorded non-cash impairment losses on our tangible and intangible (permit) assets of approximately \$1,816,000 and \$8,288,000, respectively, in the second quarter of 2016. We also recorded a write-off of approximately \$587,000 in prepaid expenses in connection with certain tangible asset at our M&EC facility which was impaired. As a result of the intangible impairment losses discussed above, we recorded a tax benefit in the amount of \$3,203,000.

In addition, M&EC is required to complete certain clean-up/maintenance activities at its Oak Ridge, Tennessee facility pursuant to its RCRA permits. The extent and cost of these activities are determined by federal/state mandate requirements. We performed an analysis and related estimate of the cost to complete the RCRA portion of these activities during the second quarter of 2016 and based on this analysis, we recorded an additional \$1,626,000 in closure liabilities during the second quarter of 2016 with a corresponding increase to capitalized asset retirement costs, as reported as a component of “Net Property and equipment” in the Consolidated Balance Sheet.”

During the year ended December 31, 2016 and 2015, M&EC’s revenues were approximately \$4,419,000 and \$6,591,000, respectively.

We had working capital deficit of approximately \$2,131,000 at December 31, 2016, as compared to working capital of \$2,966,000 at December 31, 2015, a decrease of \$5,097,000.

Business Environment, Outlook and Liquidity

Our Treatment and Services Segments’ business continues to be heavily dependent on services that we provide to governmental customers directly as the contractor or indirectly as a subcontractor. We believe demand for our services will continue to be subject to fluctuations due to a variety of factors beyond our control, including the current economic conditions and the manner in which the government will be required to spend funding to remediate federal sites. In addition, our governmental contracts and subcontracts relating to activities at governmental sites are generally subject to termination or renegotiation on 30 days notice at the government’s option. We believe that significant reductions in the level of governmental funding or specifically mandated levels for different programs that are important to our business could have a material adverse impact on our business, financial position, results of operations and cash flows.

Our cash flow requirements during 2016 were primarily financed by our operations and credit facility availability. Our Medical Segment has not generated any revenue to date. During 2016, our Medical Segment continued to commit substantial resources to the research and development (“R&D”) of the new medical isotope production technology in pursuing the necessary steps required for eventual submission of this technology for the U.S. Food and Drug Administration (“FDA”) and other regulatory approvals and commercialization of this technology. During the latter part of 2016, our Medical Segment ceased a substantial portion its R&D activities due to the need for substantial capital to fund such activities. We anticipate that our Medical Segment will not restart its full scale R&D activities until it obtains the necessary funding through obtaining its own credit facility or additional equity raise. The Medical Segment has entered into a letter of intent (“LOI”) to raise capital, which is subject to the completion of a definitive agreement. Although the LOI has expired, the parties to the LOI are continuing to negotiate definitive agreements as of the date of this report (see “Liquidity and Capital Resources - Financing Activities” in this “Management’s Discussion and Analysis” for a further discussion of this proposed transaction). If the Medical Segment is unable to raise the necessary capital, the Medical Segment would be required to reduce, further delay or eliminate its R&D program.

We are continually reviewing operating costs and are committed to further reducing operating costs to bring them in line with revenue levels, when needed.

We continue to focus on expansion into both commercial and international markets to increase revenues in our Treatment and Services Segments to offset the uncertainties of government spending in the United States of America. See “Liquidity and Capital Resources” below for further discussion of our liquidity.

Results of Operations

The reporting of financial results and pertinent discussions are tailored to our three reportable segments: The Treatment Segment (“Treatment”), the Services Segment (“Services”), and the Medical Segment (“Medical”). Our Medical Segment has not generated any revenue and all costs incurred are included within R&D:

Below are the results of continuing operations for our years ended December 31, 2016 and 2015 (amounts in thousands):

(Consolidated)	2016	%	2015	%
Net revenues	\$ 51,219	100.0	\$ 62,383	100.0
Cost of goods sold	44,135	86.2	48,032	77.0
Gross profit	7,084	13.8	14,351	23.0
Selling, general and administrative	10,724	20.9	10,996	17.6
Research and development	2,046	4.0	2,302	3.7
Loss (gain) on disposal of property and equipment	2	—	(80)	(.1)
Impairment loss on tangible assets	1,816	3.5	—	—
Impairment loss on intangible assets	8,288	16.2	—	—
(Loss) income from operations	(15,792)	(30.8)	1,133	1.8
Interest income	110	.2	53	.1
Interest expense	(489)	(.9)	(489)	(.8)
Interest expense – financing fees	(108)	(.2)	(228)	(.3)
Other	22	—	11	—
(Loss) income from continuing operations before taxes	(16,257)	(31.7)	480	.8
Income tax (benefit) expense	(2,994)	(5.8)	543	.9
Loss from continuing operations	\$ (13,263)	(25.9)	\$ (63)	(.1)

Summary - Years Ended December 31, 2016 and 2015

Net Revenue

Consolidated revenues from continuing operations decreased \$11,164,000 for the year ended December 31, 2016, compared to the year ended December 31, 2015, as follows:

(In thousands)	2016	% Revenue	2015	% Revenue	Change	% Change
Treatment						
Government waste	\$ 21,433	41.9	\$ 30,130	48.2	\$ (8,697)	(28.9)
Hazardous/non-hazardous	4,511	8.8	4,344	7.0	167	3.8
Other nuclear waste	6,309	12.3	6,844	11.0	(535)	(7.8)
Total	32,253	63.0	41,318	66.2	(9,065)	(21.9)
Services						
Nuclear	17,035	33.2	18,743	30.0	(1,708)	(9.1)
Technical	1,931	3.8	2,322	3.8	(391)	(16.8)
Total	18,966	37.0	21,065	33.8	(2,099)	(10.0)
Total	\$ 51,219	100.0	\$ 62,383	100.0	\$ (11,164)	(17.9)

Net Revenue

Treatment Segment revenue decreased \$9,065,000 or 21.9% for the year ended December 31, 2016 over the same period in 2015. The revenue decrease was primarily due to lower revenue generated from government customers of approximately \$8,697,000 or 28.9% due to lower waste volume. Our Services Segment revenue decreased by \$2,099,000 or 10.0%. Our Services Segment revenues are project based; as such, the scope, duration and completion of each project varies. As a result, our Services Segment revenues are subject to differences relating to timing and project value.

Cost of Goods Sold

Cost of goods sold decreased \$3,897,000 for the year ended December 31, 2016, as compared to the year ended December 31, 2015, as follows:

(In thousands)	2016	% Revenue	2015	% Revenue	Change
Treatment	\$ 28,238	87.6	\$ 30,408	73.6	\$ (2,170)
Services	15,897	83.8	17,624	83.7	(1,727)
Total	\$ 44,135	86.2	\$ 48,032	77.0	\$ (3,897)

Cost of goods sold for the Treatment Segment decreased by \$2,170,000 or approximately 7.1%. Included in the cost of goods sold is a write-off of approximately \$587,000 in prepaid fees recorded in the second quarter of 2016 resulting from the impairment of certain equipment at our M&EC facility. Such fees were incurred for emission performance testing certification requirements as mandated by the state (see "Overview" under this "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further details of transactions recorded during the second quarter of 2016 due to pending shut down of our M&EC facility). Excluding this write-off, cost of goods sold for the Treatment Segment decreased by approximately \$2,757,000 or 9.1% primarily due to lower revenue. We incurred lower disposal, transportation, lab, and material and supplies costs totaling approximately \$2,279,000. Our overall fixed costs were lower by approximately \$478,000 resulting from the following: salaries and payroll related expenses were lower by approximately \$399,000 resulting from lower headcount; general expenses were lower by approximately \$307,000 in various categories as we continue to streamline our costs; maintenance costs were lower by approximately \$395,000. In the prior period of 2015, we incurred higher costs in connection with the maintenance of certain buildings and equipment. The lower fixed costs described above were partially offset by higher depreciation expense of approximately \$506,000 primarily due the re-evaluation of the estimated useful lives of M&EC facility's remaining tangible assets conducted during the second quarter of 2016 due to the pending shut down of the facility and higher regulatory expenses of approximately \$117,000. Services Segment cost of goods sold decreased \$1,727,000 or 9.8% primarily due to lower labor and travel expenses totaling approximately \$1,302,000 and lower material and supplies expenses by approximately \$566,000. The decrease was partially offset by higher disposal/transportation costs of approximately \$134,000. Included within cost of goods sold is depreciation and amortization expense of \$4,002,000 and \$3,548,000 for the twelve months ended December 31, 2016, and 2015, respectively.

Gross Profit

Gross profit for the year ended December 31, 2016, was \$7,267,000 lower than 2015, as follows:

(In thousands)	2016	% Revenue	2015	% Revenue	Change
Treatment	\$ 4,015	12.4	\$ 10,910	26.4	\$ (6,895)
Services	3,069	16.2	3,441	16.3	(372)
Total	\$ 7,084	13.8	\$ 14,351	23.0	\$ (7,267)

Treatment Segment gross profit decreased \$6,895,000 or 63.2% and gross margin decreased to 12.4% from 26.4%. Excluding the write-off of the \$587,000 in prepaid fees resulting from the impairment of certain equipment at our M&EC subsidiary as discussed above, Treatment Segment gross profit decreased \$6,308,000 or 57.8% and gross margin decreased to 14.3% from 26.4% primarily due to decreased revenue from lower waste volume and the impact of our fixed costs. In the Services Segment, the decrease in gross profit of \$372,000 or 10.8% was primarily due to the decrease in revenue. Gross margin remained constant. As discussed previously, our overall Services Segment gross margin is impacted by our current projects which are competitively bid on and will therefore, have varying margin structures.

SG&A

SG&A expenses decreased \$272,000 for the year ended December 31, 2016, as compared to the corresponding period for 2015, as follows:

(In thousands)	2016	% Revenue	2015	% Revenue	Change
Administrative	\$ 4,919	—	\$ 5,045	—	\$ (126)
Treatment	3,506	10.9	3,721	9.0	(215)
Services	2,299	12.1	2,230	10.6	69
Total	\$ 10,724	20.9	\$ 10,996	17.6	\$ (272)

The decrease in administrative SG&A was primarily the result of lower outside services expenses by approximately \$105,000 resulting from fewer consulting/business/legal matters. Bonus/incentive expenses were lower by approximately \$214,000 as our executive officers earned a total of approximately \$214,000 in compensation under the Management Incentive Plans (“MIPs”) in 2015 and no compensation was earned under any of the MIPs in 2016. In addition, general expenses were lower by approximately \$34,000 in various categories. The decrease was partially offset by higher amortization expense of approximately \$40,000 resulting from the write-off of a patent and higher salaries and payroll related expenses of approximately \$187,000 resulting from the hiring of our new executive vice president in the second quarter of 2016. Treatment SG&A was lower primarily due to lower marketing expenses by approximately \$100,000 due to fewer tradeshows. Total payroll related and travel expenses were lower by approximately \$50,000 and general expenses were lower by approximately \$70,000 in various categories as we continue our efforts towards reducing costs. The increase in SG&A in the Services Segment was primarily due to higher payroll expenses of approximately \$271,000 incurred primarily in the first half of 2016 related to bids and proposal work for potential projects. The increase was partially offset by lower outside services expenses by approximately \$161,000 from fewer consulting/legal/business matters and lower amortization expenses by approximately \$42,000 as a certain amortizable intangible asset became fully amortized in June 2015. Included in SG&A expenses is depreciation and amortization expense of \$163,000 and \$169,000 for the twelve months ended December 31, 2016 and 2015, respectively.

R&D

R&D expenses decreased \$256,000 for the year ended December 31, 2016, as compared to the corresponding period of 2015 as follows:

(In thousands)	2016	2015	Change
Administrative	\$ 15	\$ 9	\$ 6
Treatment	504	179	325
Services	38	—	38
PF Medical	1,489	2,114	(625)
Total	<u>\$ 2,046</u>	<u>\$ 2,302</u>	<u>\$ (256)</u>

R&D costs consist primarily of employee salaries and benefits, laboratory costs, third party fees, and other related costs associated with the development of new technologies and technological enhancement of new potential waste treatment processes. The decrease in R&D costs for 2016 as compared to 2015 was primarily due to reduced R&D performed by our Medical Segment. The decrease was partially offset primarily by increase in R&D costs incurred by our Treatment Segment for enhancement of treatment processes.

Interest Expense

No changes were noted in interest expense for the twelve months ended December 31, 2016 as compared to the corresponding period of 2015. Interest expense for 2016 included a \$68,000 loss on debt extinguishment incurred in the first quarter of 2016 as a result of the amendment dated March 24, 2016 that we entered into with our lender which extended the due date of our credit facility, among other things, to March 24, 2021. Excluding this \$68,000 loss on debt extinguishment, the decrease in interest expense was primarily due to lower interest from our declining term loan balance and lower interest from the declining \$3,000,000 loan dated August 2, 2013, which was paid in full by us in August 2016. The decrease was partially offset by higher interest from higher average revolver loan balance outstanding in 2016.

Interest Expense- Financing Fees

Interest expense-financing fees decreased approximately \$120,000 for the twelve months ended December 31, 2016 as compared to the corresponding period of 2015. The decrease was primarily due to lower monthly amortized financing fees resulting from our amended credit facility pursuant to the amendment dated March 24, 2016 as discussed above.

Income Taxes

We had income tax benefit of \$2,994,000 and income tax expense of \$543,000 for continuing operations for the years ended December 31, 2016 and 2015, respectively. The Company's effective tax rates were approximately 18.4% and 113.1% for the twelve months ended December 31, 2016 and 2015, respectively. Our income tax benefit for the year ended 2016 was primarily the result of a tax benefit recorded in the amount of approximately \$3,203,000 resulting from the permit impairment loss recorded for the M&EC subsidiary during the second quarter of 2016. Our income tax expense for 2015 was primarily due to deferred tax expense related to our indefinite-lived intangibles not covered by valuation allowance.

Discontinued Operations

Our discontinued operations consist of all our subsidiaries included in our Industrial Segment which were divested in 2011 and prior, previously closed locations, and our Perma-Fix of South Georgia, Inc. ("PFSG") facility which is currently undergoing closure, subject to regulatory approval.

On May 2, 2016, Perma-Fix of Michigan, Inc. ("PFMI" – a closed location) entered into an Agreement for the sale of the property for a price of \$450,000. The Agreement provides for a down payment of approximately \$75,000. After certain closing and settlement costs, PFMI received approximately \$46,000. The Agreement also provides for, among other things, the balance of the purchase price of \$375,000 to be paid by the buyer in 60 equal monthly installments of approximately \$7,250, with the first payment due June 15, 2016.

Our discontinued operations had no revenue for the twelve months ended December 31, 2016 and 2015. We incurred net losses of \$730,000 and \$1,864,000 for our discontinued operations for the twelve months ended December 31, 2016 and 2015, respectively. Our losses for the twelve months ended December 31, 2015 included a penalty in the amount of approximately \$201,000 recorded for PFSG in connection with a Consent Order from the Georgia Department of Natural Resources Environmental Protection Division and an asset impairment charge of \$150,000 recorded for PFMI in connection with the sale of the property as discussed above. In addition, our net loss for the twelve months ended December 31, 2015 included \$407,000 in expenses (with \$400,000 recorded as interest expenses) recorded in connection with an arbitration award that PFSG was required to pay to a contractor hired to perform emergency response services at our PFSG subsidiary resulting from the fire which occurred at the facility in 2013. Remaining losses for the periods discussed above were primarily due to costs incurred in the administration and continued monitoring of our discontinued operations.

Liquidity and Capital Resources

Our 2016 financial results were negatively impacted by certain waste treatment shipments which we expected to receive during 2016 but were delayed by certain governmental customers. Although we saw receipt of certain of these delayed shipments in the fourth quarter of 2016, we expect to receive the remaining delayed waste shipments within the first nine months of 2017. Our 2016 financial results were also impacted by certain non-cash impairment losses, write-offs and accruals which were recorded during the second quarter of 2016 in connection with our decision to shut down the facility by January 2018. However, with this pending shut down of the M&EC facility, we expect to benefit from reductions in certain operating costs. In addition, we are in the process of transitioning waste shipments and operational capabilities from our M&EC facility to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals.

Our cash flow requirements during 2016 consisted of general working capital needs, scheduled payments on our debt obligations, remediation projects and planned capital expenditures and were financed primarily by our operations and credit facility availability. We continue to explore all sources of increasing revenue. We are continually reviewing operating costs and are committed to further reducing operating costs to bring them in line with revenue levels, when necessary.

Our cash flow requirements for 2017 and into the first quarter of 2018 will consist primarily of general working capital needs, scheduled principal payments on our debt obligations, remediation projects, planned capital expenditures, and closure spending requirements in the amount of approximately \$3,058,000 (of which approximately \$2,177,000 will be required in 2017) in connection with the pending shut down of our M&EC facility. We plan to fund these requirements from our operations, our credit facility availability, and the finite risk sinking funds that we expect to receive in connection with our Perma-Fix Northwest Richland, Inc. (“PFNWR”) financial assurance policy (see a discussion of the pending receipt of the finite risk sinking funds related to our PFNWR financial assurance policy in “Investing Activities” below). We continue to explore all sources of increasing revenue. We are continually reviewing operating costs and are committed to further reducing operating costs to bring them in line with revenue levels, when necessary. Although there are no assurances, we believe that our cash flows from operations, our available liquidity from our credit facility, and the finite risk sinking funds that we expect to receive are sufficient to fund our Treatment and Services Segment operations for at least the next twelve months and beyond.

The following table reflects the cash flow activity for the year ended December 31, 2016 and the corresponding period of 2015:

(In thousands)	2016	2015
Cash provided by operating activities of continuing operations	\$ 1,063	\$ 1,744
Cash used in operating activities of discontinued operations	(959)	(2,862)
Cash used in investing activities of continuing operations	(499)	(492)
Proceeds from sale of property of discontinued operations	84	—
Cash used in financing activities of continuing operations	(956)	(530)
Effect of exchange rate changes on cash	(5)	(105)
Decrease in cash	<u>\$ (1,272)</u>	<u>\$ (2,245)</u>

As of December 31, 2016, we were in a net borrowing position (revolving credit) of approximately \$3,803,000. At December 31, 2016, we had cash on hand of approximately \$163,000, which presents primarily account balances for our foreign subsidiaries.

Operating Activities

Accounts receivable (including Accounts receivable – non-current), net of allowances for doubtful accounts, totaled \$8,917,000 at December 31, 2016, a decrease of \$756,000 from the December 31, 2015 balance of \$9,673,000. The decrease was primarily due to lower revenue and the timing of accounts receivable collections due to the variety of payment terms we offer to our customers.

Accounts payable, totaled \$4,244,000 at December 31, 2016, a decrease of \$1,865,000 from the December 31, 2015 balance of \$6,109,000. The decrease was primarily due to reduced payables resulting from lower revenue and the pay down of our accounts payable. Also, we continue to manage payment terms with our vendors to maximize our cash position throughout all segments.

Disposal/transportation accrual as of December 31, 2016, totaled \$1,390,000, an increase of \$283,000 over the December 31, 2015 balance of \$1,107,000. Our disposal accrual can vary based on revenue mix and the timing of waste shipments for final disposal. During the first twelve months of 2016, we shipped less waste for disposal.

We had working capital deficit of \$2,131,000 (which included working capital of our discontinued operations) as of December 31, 2016, as compared to working capital of \$2,966,000 as of December 31, 2015. Our working capital was negatively impacted primarily by reduced revenue and the net loss we incurred during 2016. In addition, our working capital was negatively impacted by the reclass of approximately \$2,177,000 in accrued closure costs from long-term to current resulting from expected spending relating to the pending shut down of our M&EC facility.

Investing Activities

During 2016, our purchases of capital equipment totaled approximately \$436,000. These expenditures were primarily for improvements in our Treatment Segment. These capital expenditures were funded by cash from operations. We have budgeted approximately \$1,000,000 for 2017 capital expenditures for our Treatment and Services Segments to maintain operations and regulatory compliance requirements. Certain of these budgeted projects may either be delayed until later years or deferred altogether. We have traditionally incurred actual capital spending totals for a given year at less than the initial budgeted amount. We plan to fund our capital expenditures from cash from operations and/or financing. The initiation and timing of projects are also determined by financing alternatives or funds available for such capital projects.

We have a closure policy for our PFNWR facility with American International Group, Inc. (“AIG”) (“PFNWR policy”) which provides financial assurance to the state of Washington in the event of closure of the PFNWR facility. As of December 31, 2016, our financial coverage under this policy stood at approximately \$7,973,000 and this PFNWR policy is collateralized by a finite risk sinking fund in the amount of approximately \$5,941,000 which is recorded in other long term assets on our Consolidated Balance Sheets as of December 31, 2016. During the latter part of 2016, we initiated a plan to secure other options in providing financial assurance coverage for our PFNWR facility, including acquiring a separate bonding mechanism, which would enable us to cancel the PFNWR policy, thereby allowing for the release of the sinking fund securing the PFNWR policy as discussed above. We are currently waiting on final approval on the release of the PFNWR policy from Washington state regulators. Once we obtain this release, we will cancel the PFNWR policy with AIG which would result in the release of the \$5,941,000 in sinking fund securing the PFNWR back to the Company. The new bonding mechanism in the amount of approximately \$7,000,000 (“new bond”) which is to provide financial assurance for the PFNWR facility will require approximately \$2,500,000 in collateral and will be provided for by the \$5,941,000 in sinking fund to be released by AIG. We expect this transaction to be completed by the end of the second quarter of 2017. After the release of the \$5,941,000 in finite sinking fund by AIG and payment of the required collateral for the new bond, we expect to receive the approximately remaining \$3,441,000 in finite sinking funds which will be used to pay down our revolving credit.

Financing Activities

We are subject to an Amended and Restated Revolving Credit, Term Loan and Security Agreement (“Loan Agreement”) with PNC National Association (“PNC”), acting as agent and lender. The Loan Agreement, as subsequently amended prior to the March 24, 2016 amendment discussed below (“Amended Loan Agreement”), provided us with the following credit facility: (a) up to \$12,000,000 revolving line of credit (“revolving credit”), subject to the amount of borrowings based on a percentage of eligible receivables (as defined) and (b) a term loan (“term loan”) of \$16,000,000, which required monthly installments of approximately \$190,000 (based on a seven-year amortization).

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

On March 24, 2016, we entered into an amendment to the Amended Loan Agreement with PNC which provided, among other things, the following (the amendment, together with the Amended Loan Agreement is collectively known as the “Revised Loan Agreement”):

- extended the due date of our credit facility from October 31, 2016 to March 24, 2021 (“maturity date”);
- amended the term loan to approximately \$6,100,000, which requires monthly payments of \$101,600 (based on a five-year amortization) and which approximated the term loan balance under the existing credit facility at the date of the amendment. The revolving credit remains at up to \$12,000,000 (subject to the amount of borrowings based on a percentage of eligible receivables as previously defined under the Amended Loan Agreement);
- released \$1,000,000 of the \$1,500,000 borrowing availability restriction that the lender had previously placed on us in connection with the insurance settlement proceeds received in 2014 by our PFSG facility. Our lender had authorized us to use such proceeds for working capital purposes but had placed an indefinite reduction on our borrowing availability of \$1,500,000;
- revised the interest payment options to paying an annual rate of interest due on the revolving credit at prime plus 1.75% or LIBOR plus 2.75% and the term loan at prime plus 2.25% or LIBOR plus 3.25%; and
- revised our annual capital spending maximum limit from \$6,000,000 to \$3,000,000.

In connection with the March 24, 2016 amendment, we paid our lender total closing fees of approximately \$72,000. As a result of the amendment dated March 24, 2016, we recorded approximately \$68,000 in loss on extinguishment of debt in accordance with ASC 470-50, “Debt – Modifications and Extinguishments,” which was included in interest expense in the accompanying Consolidated Statements of Operations.

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

Our credit facility with our lender contains certain financial covenants, along with customary representations and warranties. A breach of any of these financial covenants, unless waived by our lender, could result in a default under our credit facility allowing our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. The following table illustrates the quarterly financial covenant requirements under our credit facility as of December 31, 2016.

(Dollars in thousands)	Quarterly Requirement	1st Quarter Actual	2nd Quarter Actual	3rd Quarter Actual	4th Quarter Actual
Senior Credit Facility					
Fixed charge coverage ratio	1.15:1	0.91:1	0.64:1	0.06:1	4.03:1
Minimum tangible adjusted net worth	\$30,000 (1)	\$40,539	\$32,150	\$30,706	\$30,871

(1) Effective with the third quarter of 2016, minimum tangible adjusted net worth was reduced to \$26,000 (see below for further details)

We failed to meet our minimum quarterly fixed charge coverage ratio (“FCCR”) requirement of 1.15:1 in the first quarter of 2016. On May 23, 2016, our lender waived this non-compliance. In connection with this waiver, we paid PNC a fee of \$5,000. We met our financial covenant requirements in the second quarter of 2016 except for our quarterly FCCR requirement. On August 22, 2016, we entered into an amendment to the Revised Loan Agreement with our lender which waived our non-compliance with the minimum quarterly FCCR for the second quarter of 2016. In addition, the amendment revised the methodology to be used in calculating the FCCR in the third quarter of 2016, the fourth quarter of 2016 and the first quarter of 2017. This amendment also revised our minimum Tangible Adjusted Net Worth requirement (as defined in the Revised Loan Agreement) from \$30,000,000 to \$26,000,000. In connection with this amendment, we paid PNC a fee of \$25,000. We failed to meet our quarterly FCCR requirement for the third quarter of 2016 due in large part, to the decrease in revenues sustained by our Treatment Segment as a result of delays in certain waste shipments that we expected to receive during the third quarter of 2016. On November 17, 2016, we entered into another amendment to our Revised Loan Agreement with our lender. This amendment included the following:

- waived our non-compliance with the minimum quarterly FCCR for the third quarter of 2016;
- further revised the methodology to be used in calculating the FCCR as follows (with continued requirement to maintain a minimum 1:15:1 ratio in each of the quarters): FCCR for the fourth quarter of 2016 is to be calculated using the financial results for the three month period ending December 31, 2016; FCCR for first quarter of 2017 is to be calculated using financial results for the six month period ending March 31, 2017; FCCR for second quarter of 2017 is to be calculated using the financial results for the nine month period ending June 30, 2017; and FCCR for the third quarter of 2017 and each fiscal quarter thereafter is to be calculated using the financial results for a trailing twelve month period basis;
- placed an immediate additional restriction on our borrowing availability of \$750,000, in addition to the restriction on our borrowing availability of \$500,000 which had been previously placed by our lender; and
- revised the interest payment options to paying an annual rate of interest due on the revolving credit at prime plus 2% or LIBOR plus 3% and the term loan at Prime plus 2.5% or LIBOR plus 3.5%. Such interest payment option will automatically revert back to interest payment options as revised on the March 24, 2016 amendment (see the March 24, 2016 amendment that we entered into with our lender above) if we are able to attain minimally a FCCR of 1:15:1, as calculated using a trailing twelve month period, subsequent to any quarters after the third quarter of 2016.

As of December 31, 2016, the availability under our revolving credit was \$1,748,000, based on our eligible receivables and includes the remaining indefinite reduction of borrowing availability of \$1,250,000 as discussed above.

Pursuant to the November 17, 2016 amendment discussed above, our lender also established a “Condition Subsequent” which requires us to receive restricted cash released from a finite risk sinking fund in connection with our PFNWR subsidiary’s closure policy (see “Investing Activities” above for further discussion of the finite risk sinking funds in connection with our PFNWR facility). Immediately upon the receipt of the funds, our lender will immediately place another \$750,000 restriction on our borrowing availability resulting in a total of \$2,000,000 restriction on our borrowing availability.

All other terms of the Revised Loan Agreement remain principally unchanged. In connection with this amendment, we paid our lender a fee of \$25,000. We met our quarterly financial covenant requirements for the fourth quarter of 2016 and we expect to meet our quarterly financial covenant requirements in 2017; however, in the event that we fail to meet any of our quarterly financial covenant requirements in 2017 and our lender does not waive the non-compliance or further revise our covenant so that we are in compliance, our lender could accelerate the repayment of borrowings under our credit facility. In the event that our lender accelerates the payment of our borrowings, we may not have sufficient liquidity to repay our debt under our credit facility and other indebtedness.

Upon the receipt of the finite risk sinking funds (net of the required collateral for the new bond) relating to our PFNWR facility, which is expected to occur by the end of the second quarter of 2017 as discussed above (see “Investing Activities” above), our borrowing availability will increase by approximately \$2,691,000 which will include the additional \$750,000 restriction that our lender will place on our borrowing availability pursuant to the “Condition Subsequent” clause as noted in the November 17, 2016 amendment as discussed above.

We entered into a \$3,000,000 loan dated August 2, 2013 with Messrs. Robert Ferguson and William Lampson (each known as the “Lender”) which was repaid in full by us in August 2016. Mr. Ferguson serves as an advisor to our Board of Directors (“Board”) and is also a member of the Supervisory Board of PF Medical, our majority-owned Polish subsidiary (see “Related Party Transactions – Mr. Robert Ferguson”). The loan was unsecured with a term of three years with interest payable at a fixed interest rate of 2.99% per annum. The loan required monthly payments of accrued interest only during the first year of the loan and monthly payments of \$125,000 in principal plus accrued interest for the second and third year of the loan. As consideration for us receiving the loan, we issued to each Lender a Warrant to purchase up to 35,000 shares of the Company’s Common at an exercise price of \$2.23 per share. On August 2, 2016, each Lender exercised his Warrant for the purchase of 35,000 shares of our Common Stock, resulting in total proceeds paid to us of approximately \$156,000. As further consideration for the loan, we had also issued to each Lender 45,000 shares of our Common Stock. The fair value of the Warrants and Common Stock and the related closing fees incurred from this transaction were recorded as a debt discount, which has been fully amortized using the effective interest method over the term of the loan as interest expense – financing fees.

On October 11, 2016, the Company, the Company’s majority-owned Polish subsidiary, Perma-Fix Medical S.A (“PFMSA”) and PFMSA’s wholly-owned subsidiary, Perma-Fix Medical Corporation (“PFM Corporation”), a Delaware corporation (“PFMSA” and “PFM Corporation” are together known as “PF Medical”), entered into a letter of intent (“LOI”) with a private investor, subject to certain closing and other conditions, including, but not limited to, the execution of a definitive agreement, for the purchase of \$10,000,000 of Preferred Shares in PFM Corporation at a price of \$8.00 per share. The termination date of this LOI has since expired but the parties continue to negotiate definitive agreements with the following proposed terms, among other things, \$5,000,000 to be invested by the investor at the initial closing and \$5,000,000 to be invested at the second closing which is to occur within 120 days after the initial closing. Upon the initial closing, one half of the Preferred Shares will be issued to the investor and the remaining half of the Preferred Shares will be issued to the investor at the second closing. The Preferred Shares of PFM Corporation to be issued to the investor would be voting securities and, after completion of both closings, the investor will own approximately 48.6% of PFM Corporation’s issued and outstanding voting securities and PFMSA will own the balance of PFM Corporation’s voting securities. At each closing, subject to certain terms and conditions, the investor would also receive a 48-month warrant to purchase up to 468,750 shares of PFM Corporation’s common stock at an exercise price of \$9.00 for each share. In addition, at the initial closing, we would receive a 48 month warrant, subject to certain terms and conditions, to purchase up to 183,606 shares of PFM Corporation’s common stock at an exercise price of \$14.00 per share. Further, we would be repaid \$500,000 of the amounts owed to it by the Medical Segment within 30 days after the initial closing and the remaining balance (which stands at approximately \$1,962,000 at December 31, 2016) within 120 days after the initial closing.

If the above-described funding transaction is consummated, the LOI provides that the Board of Directors of PFM Corporation shall consist of seven directors. Two of the directors shall be nominees of the investor, two of the directors shall be nominees of the Company, one director shall be a nominee of another stockholder of PFMSA, and two independent directors shall be nominees of the PFM Corporation board.

Off Balance Sheet Arrangements

We have a number of routine operating leases, primarily related to office space rental, office equipment rental and equipment rental for contract projects as of December 31, 2016, which total approximately \$878,000, payable as follows: \$700,000 in 2017 with the remaining \$178,000 in 2018.

From time to time, we are required to post standby letters of credit and various bonds to support contractual obligations to customers and other obligations, including facility closures. As of December 31, 2016, the total amount of these bonds and letters of credit outstanding was approximately \$1,514,000, of which the majority of the amount relates to various bonds. Our Treatment Segment facilities operate under licenses and permits that require financial assurance for closure and post-closure costs. We provide for these requirements through financial assurance policies. As of December 31, 2016, the closure and post-closure requirements for these facilities were approximately \$37,136,000 which included a reduction in financial assurance requirement of approximately \$9,711,000 for our DSSI subsidiary made in the fourth quarter of 2016. We have recorded approximately \$21,487,000 in a sinking funds related to these policies in other long term assets on the accompanying Consolidated Balance (See "Liquidity and Capital Resources - Investing Activities" above for our plan to replace the financial assurance closure policy for our PFNWR facility with a new bonding mechanism and the related sinking funds for the PFNWR financial assurance closure policy).

Critical Accounting Policies

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

Revenue Recognition Estimates. We utilize a performance based methodology for purposes of revenue recognition in our Treatment Segment. As we accept more complex waste streams in this segment, the treatment of those waste streams becomes more complicated and time consuming. We have continued to enhance our waste tracking capabilities and systems, which has enabled us to better match the revenue earned to the processing phases achieved using a proportional performance method. The major processing phases are receipt, treatment/processing and shipment/final disposition. Upon receiving various wastes we recognize a certain percentage (generally ranging from 9.0% to 33%) of revenue as we incur costs for transportation, analyses and labor associated with the receipt of mixed waste. As the waste is processed, shipped and disposed of, we recognize the remaining revenue and the associated costs of transportation and burial where applicable. We review and evaluate our revenue recognition estimates and policies on an annual basis.

For our Services Segment, revenues on services are performed under time and material, fixed price, and cost-reimbursement contracts. Revenues and costs associated with fixed price contracts are recognized using the percentage of completion (efforts expended) method. We estimate our percentage of completion based on attainment of project milestones. Revenues and costs associated with time and material contracts are recognized as revenue when earned and costs are incurred.

Under cost-reimbursement contracts, we are reimbursed for costs incurred plus a certain percentage markup for indirect costs, in accordance with contract provisions. Costs incurred in excess of contract funding may be renegotiated for reimbursement. We also earn a fee based on the approved costs to complete the contract. We recognize this fee using the proportion of costs incurred to total estimated contract costs.

Contract costs include all direct labor, material and other non-labor costs and those indirect costs related to contract support, such as depreciation, fringe benefits, overhead labor, supplies, tools, repairs and equipment rental. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Allowance for Doubtful Accounts. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts, which is a valuation allowance that reflects management's best estimate of the amounts that are uncollectible. We regularly review all accounts receivable balances that exceed 60 days from the invoice date and, based on an assessment of current credit worthiness, estimate the portion, if any, of the balances that are uncollectible. Specific accounts that are deemed to be uncollectible are reserved at 100% of their outstanding balance. The remaining balances aged over 60 days have a percentage applied by aging category (5% for balances 61-90 days, 20% for balances 91-120 days and 40% for balances over 120 days aged), based on a historical collections patterns, that allows us to calculate the total allowance required. This allowance was approximately 0.5% of revenue for 2016 and 3.0% of accounts receivable as of December 31, 2016. Additionally, this allowance was approximately 2.4% of revenue for 2015 and 13.2% of accounts receivable as of December 31, 2015.

Intangible Assets. Intangible assets consist primarily of the recognized value of the permits required to operate our business. We continually monitor the propriety of the carrying amount of our permits to determine whether current events and circumstances warrant adjustments to the carrying value.

Indefinite-lived intangible assets are not amortized but are reviewed for impairment annually as of October 1, or when events or changes in the business environment indicate that the carrying value may be impaired. If the fair value of the asset is less than the carrying amount, we perform a quantitative test to determine the fair value. The impairment loss, if any, is measured as the excess of the carrying value of the asset over its fair value. Significant judgments are inherent in these analyses and include assumptions for, among other factors, forecasted revenue, gross margin, growth rate, operating income, timing of expected future cash flows, and the determination of appropriate long term discount rates.

During the second quarter of 2016, based on our analysis, we fully impaired the permit value of approximately \$8,288,000 for our M&EC subsidiary as a result of our decision to shut down the M&EC facility by January 2018. We performed impairment testing of our remaining permits related to our Treatment reporting unit as of October 1, 2016 and determined there was no impairment. Impairment testing of our permits related to our Treatment reporting unit as of October 1, 2015 also resulted in no impairment charges.

Intangible assets that have definite useful lives are amortized using the straight-line method over the estimated useful lives (with the exception of customer relationships which are amortized using an accelerated method) and are excluded from our annual intangible asset valuation review as of October 1. We have one definite-lived permit which was excluded from our annual impairment review as noted above. The net carrying value of this one definite-lived permit as of December 31, 2016 and 2015 was approximately \$117,000 and \$172,000, respectively. Intangible assets with definite useful lives are also tested for impairment whenever events or changes in circumstances indicate that the asset's carrying value may not be recoverable.

Accrued Closure Costs and Asset Retirement Obligations ("ARO"). Accrued closure costs represent our estimated environmental liability to clean up our facilities as required by our permits, in the event of closure. Accounting Standards Codification ("ASC") 410, "Asset Retirement and Environmental Obligations" requires that the discounted fair value of a liability for an ARO be recognized in the period in which it is incurred with the associated ARO capitalized as part of the carrying cost of the asset. The recognition of an ARO requires that management make numerous estimates, assumptions and judgments regarding such factors as estimated probabilities, timing of settlements, material and service costs, current technology, laws and regulations, and credit adjusted risk-free rate to be used. This estimate is inflated, using an inflation rate, to the expected time at which the closure will occur, and then discounted back, using a credit adjusted risk free rate, to the present value. ARO's are included within buildings as part of property and equipment and are depreciated over the estimated useful life of the property. In periods subsequent to initial measurement of the ARO, the Company must recognize period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. Increases in the ARO liability due to passage of time impact net income as accretion expense and are included in cost of goods sold in the Consolidated Statements of Operations. Changes in the estimated future cash flows costs underlying the obligations (resulting from changes or expansion at the facilities) require adjustment to the ARO liability calculated and are capitalized and charged as depreciation expense, in accordance with our depreciation policy. As a result of our decision to shut down our M&EC facility by January 2018, during the second quarter of 2016, we recorded an additional \$1,626,000 in closure liabilities with the offset to ARO.

Accrued Environmental Liabilities. We have three remediation projects in progress (all within discontinued operations). The current and long-term accrual amounts for the projects are our best estimates based on proposed or approved processes for clean-up. The circumstances that could affect the outcome range from new technologies that are being developed every day to reduce our overall costs, to increased contamination levels that could arise as we complete remediation which could increase our costs, neither of which we anticipate at this time. In addition, significant changes in regulations could adversely or favorably affect our costs to remediate existing sites or potential future sites, which cannot be reasonably quantified (See “Environmental Contingencies” below for further information of these liabilities).

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

Stock-Based Compensation. We account for stock-based compensation in accordance with ASC 718, “Compensation – Stock Compensation.” ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. We use the Black-Scholes option-pricing model to determine the fair-value of stock-based awards which requires subjective assumptions. Assumptions used to estimate the fair value of stock options granted include the exercise price of the award, the expected term, the expected volatility of our stock over the option’s expected term, the risk-free interest rate over the option’s expected term, and the expected annual dividend yield. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited.

Income Taxes. The provision for income tax is determined in accordance with ASC 740, “Income Taxes.” As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. We record this amount as a provision or benefit for taxes. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, and assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent that we believe recovery is not likely, we establish a valuation allowance. As of December 31, 2016 and 2015, we had net deferred tax assets of approximately \$12,528,000 and \$8,592,000, respectively (which excludes a deferred tax liability relating to goodwill and indefinite lived intangible assets), which were primarily related to federal and state net operating loss (“NOL”) carryforwards, impairment charges, and closure costs. As of December 31, 2016 and 2015, we concluded that it was more likely than not that \$12,528,000 and \$8,592,000 of our deferred income tax assets would not be realized, and as such, a full valuation allowance was applied against those deferred income tax assets. Our net operating losses are subject to audit by the Internal Revenue Services, and, as a result, the amounts could be reduced.

Known Trends and Uncertainties

Economic Conditions. Our business continues to be heavily dependent on services that we provide to governmental clients (including the U.S. Department of Energy (“DOE”) and U.S. Department of Defense (“DOD”)) directly as the prime contractor or indirectly for others as a subcontractor. We believe demand for our services will continue to be subject to fluctuations due to a variety of factors beyond our control, including the current economic conditions, the large budget deficit that the government is facing, and the manner in which the government will be required to spend funding to remediate federal sites. In addition, our governmental contracts and subcontracts relating to activities at governmental sites are generally subject to termination or renegotiation on 30 days notice at the government’s option. Significant reductions in the level of governmental funding or specifically mandated levels for different programs that are important to our business could have a material adverse impact on our business, financial position, results of operations and cash flows.

Significant Customers. Our Treatment and Services Segments have significant relationships with the federal government, and continue to enter into contracts, directly as the prime contractor or indirectly for others as a subcontractor, with the federal government. The contracts that we are a party to with the federal government or with others as a subcontractor to the federal government generally provide that the government may terminate or renegotiate the contracts on 30 days notice, at the government's election. Our inability to continue under existing contracts that we have with the federal government (directly or indirectly as a subcontractor) could have a material adverse effect on our operations and financial condition.

We performed services relating to waste generated by the federal government representing approximately \$27,354,000 or 53.4% of our total revenue during 2016, as compared to \$36,105,000 or 57.9% of our total revenue during 2015.

Revenue generated by one of the customers (PSC Metal, Inc.) (non-government related and excluded from above) in the Services Segment accounted for approximately \$9,763,000 or 19.1% of the total revenues generated for the twelve months ended December 31, 2016. Project work for this customer commenced in March 2016 and was completed in December 2016. Revenue generated by another customer (Prologis Teterboro, LLC) (non-government related and excluded from above) in the Services Segment accounted for \$10,686,000 or 17.1% of the total revenues generated for the twelve months ended December 31, 2015. Project work for this customer was completed in December 2015.

As our revenues are event/project based where the completion of one contract with a specific customer may be replaced by another contract with a different customer from year to year, we do not believe the loss of one specific customer from one year to the next will generally have a material adverse effect on our operations and financial condition.

Environmental Contingencies

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

We routinely use third party disposal companies, who ultimately destroy or secure landfill residual materials generated at our facilities or at a client's site. In the past, numerous third party disposal sites have improperly managed waste and consequently require remedial action; consequently, any party utilizing these sites may be liable for some or all of the remedial costs. Despite our aggressive compliance and auditing procedures for disposal of wastes, we could further be notified, in the future, that we are a potentially responsible party (“PRP”) at a remedial action site, which could have a material adverse effect.

We have three remediation projects, which are currently in progress at our Perma-Fix of Dayton, Inc. (“PFD”), Perma-Fix of Memphis, Inc. (“PFM” – closed location), and PFSG (in closure status) subsidiaries. The Company divested PFD in 2008; however, the environmental liability of PFD was retained by the Company upon the divestiture of PFD. These remediation projects principally entail the removal/remediation of contaminated soil and, in most cases, the remediation of surrounding ground water. The remediation activities are closely reviewed and monitored by the applicable state regulators. While no assurances can be made that we will be able to do so, we expect to fund the expenses to remediate these sites from funds generated internally.

At December 31, 2016, we had total accrued environmental remediation liabilities of \$925,000, of which \$677,000 are recorded as a current liability, which reflects an increase of \$25,000 from the December 31, 2015 balance of \$900,000. The net increase of \$25,000 represents payments on remediation projects at PFSG and an increase to the reserve of approximately \$66,000 at PFD due to reassessment of the remediation reserve.

Related Party Transactions

Mr. David Centofanti

Mr. David Centofanti serves as our Vice President of Information Systems. For such position, he received annual compensation of \$168,000 for each of the years 2016 and 2015. Mr. David Centofanti is the son of our Chief Executive Officer (“CEO”), President and a Board member, Dr. Louis F. Centofanti. We believe the compensation received by Mr. Centofanti for his technical expertise which he provides to us is competitive and comparable to compensation we would have to pay to an unaffiliated third party with the same technical expertise.

Mr. Robert L. Ferguson

Mr. Robert L. Ferguson serves as an advisor to our Board and is also a member of the Supervisory Board of PF Medical, our majority-owned Polish subsidiary. Mr. Ferguson previously served as a member of our Board from June 2007 to February 2010 and again from August 2011 to September 2012. As an advisor to our Board, Mr. Ferguson is paid \$4,000 monthly plus reasonable expenses. For such services, Mr. Ferguson received compensation of approximately \$59,000 and \$58,000 for the years ended December 31, 2016 and 2015, respectively. On August 2, 2013, we completed a lending transaction with Messrs. Robert Ferguson and William Lampson (“collectively, the “Lenders”), whereby we borrowed from the Lenders the sum of \$3,000,000 (which was paid off by us in August 2016) pursuant to the terms of a Loan and Security Purchase Agreement and promissory note (the “Loan”) (see further details and terms of this Loan in this “MD&A – Liquidity and Capital Resources - Financing Activities”).

Mr. John Climaco

On June 2, 2015, Mr. Climaco, a current member of our Board, was elected as the Executive Vice President (“EVP”) of PF Medical. As EVP of PF Medical, Mr. Climaco receives an annual salary of \$150,000 and is not eligible to receive compensation for serving on our Board.

Mr. Climaco previously had a consulting agreement with us effective September 2014 (approved by the Board with Mr. Climaco abstaining) to perform certain consulting functions for us as determined by the Board, including review of operating and accounting functions, strategic opportunity and other initiatives, and the development of our medical isotope production technology. The consulting agreement was terminated effective June 2, 2015 upon Mr. Climaco’s election as EVP of PF Medical. Mr. Climaco was paid \$22,000 per month under the consulting agreement and received approximately \$117,000 in 2015 for his services under the consulting agreement.

Mr. Climaco is also a Director of Digirad Corporation, a publicly held company the common stock of which is listed on the Nasdaq (“Digirad”). On July 24, 2015, PF Medical and Digirad entered into a multi-year Tc-99m Supplier Agreement (the “Supplier Agreement”) and a Series F Stock Subscription Agreement (the “Subscription Agreement” and, together with the “Supplier Agreement”, the “Digirad Agreements”). The Supplier Agreement became effective upon the completion of the Subscription Agreement. Pursuant to the terms of the Digirad Agreements, Digirad purchased, in a private placement, 71,429 shares of PF Medical’s restricted Series F Stock for an aggregate purchase price of \$1,000,000. The 71,429 share investment made by Digirad constituted approximately 5.4% of the outstanding common shares of PF Medical. The Supplier Agreement provides, among other things, that upon PF Medical’s commercialization of certain Tc99m generators, Digirad will purchase agreed upon quantities of Tc-99m for its nuclear imaging operations either directly or in conjunction with its preferred nuclear pharmacy supplier and PF Medical will supply Digirad, or its preferred nuclear pharmacy supplier, with Tc-99m at a preferred pricing, subject to certain conditions.

Employment Agreements

We have employment agreements (each dated July 10, 2014 and effective for three years) with each of Dr. Centofanti (our President and CEO) and Ben Naccarato (our Chief Financial Officer ("CFO")). Each employment agreement provides for annual base salaries, bonuses (including Management Incentive Plan ("MIP") as approved by our Board), and other benefits commonly found in such agreements. In addition, each employment agreement provides that in the event of termination of such officer without cause or termination by the officer for good reason (as such terms are defined in the employment agreement), the terminated officer shall receive payments of an amount equal to benefits that have accrued as of the termination but had not yet been paid, plus an amount equal to one year's base salary at the time of termination. In addition, each of the employment agreements provide that in the event of a change in control (as defined in the employment agreements), all outstanding stock options to purchase our Common Stock granted to, and held by, the officer covered by the employment agreement to be immediately vested and exercisable. Mr. John Lash, our previous Chief Operating Officer ("COO") who retired from the position effective September 30, 2016 and who remained a part-time employee through December 31, 2016, also had an employment agreement dated July 10, 2014 with substantially the same provisions as described above. Upon Mr. Lash's resignation as COO effective September 30, 2016, his employment agreement also terminated. No amount was payable under Mr. Lash's employment agreement upon his resignation as COO.

On January 19, 2017, our Compensation and Stock Option Committee ("Compensation Committee") and the Board approved, and we entered into, an employment agreement (the "EVP/COO Employment Agreement") with Mr. Mark Duff, EVP/COO. Upon Mr. Lash's retirement as COO effective September 30, 2016 as discussed above, Mr. Duff assumed the additional position of COO and continues his position as our EVP. The EVP/COO Employment Agreement is effective June 11, 2016 (Mr. Duff's effective date of employment as EVP) and has a term of three years. The EVP/COO Employment Agreement provides substantially the same provisions as the employment agreements described above for the CEO and CFO.

MIPs

On January 19, 2017, our Board and Compensation Committee approved individual MIPs for our CEO, EVP/COO, and CFO. The MIPs are effective January 1, 2017. Each MIP provides guidelines for the calculation of annual cash incentive based compensation, subject to Compensation Committee oversight and modification. Each MIP awards cash compensation based on achievement of performance thresholds, with the amount of such compensation established as a percentage of base salary. The potential target performance compensation ranges from 5% to 100% of the 2017 base salary for the CEO (\$13,962 to \$279,248), 5% to 100% of the 2017 base salary for the EVP/COO (\$13,350 to \$267,000), and 5% to 100% of the 2017 base salary for the CFO (\$11,033 to \$220,667).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required under Regulation S-K for smaller reporting companies.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking Statements

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

- demand for our services;
- ability to achieve profitability;

- continue to focus on expansion into both commercial and international markets to increase revenues;
- reductions in the level of government funding in future years;
- ability of our Medical Segment to fund its R&D program;
- reducing operating costs;
- expect to meet our quarterly financial covenant requirements in 2017;
- cash flow requirements;
- government funding for our services;
- may not have liquidity to repay debt if our lender accelerates payment of our borrowings;
- our cash flows from operations and our available liquidity from our credit facility are sufficient to service our Treatment and Services Segments' obligations;
- manner in which the government will be required to spend funding to remediate federal sites;
- audit by the Internal Revenue Services of our net operating losses;
- fund capital expenditures from cash from operations and/or financing;
- fund remediation expenditures for sites from funds generated internally;
- expect to receive certain delayed waste treatment shipments within the first nine months of 2017;
- compliance with environmental regulations;
- potential effect of being a PRP;
- benefits from the shut down of M&EC;
- definitive agreement for PF Medical;
- large business are more willing to team with small businesses in order to be part of these often substantial procurements;
- permit and license requirements represent a potential barrier to entry for possible competitors;
- process backlog during periods of low waste receipts, which historically has been in the first and fourth quarters;
- potential sites for violations of environmental laws and remediation of our facilities;
- receipt of finite sinking funds by the end of the second quarter of 2017 and the approval we expect to receive;
- release of PFNWR policy by Washington state regulators;
- reduction in certain operating costs resulting from pending shut down of M&EC facility; and
- disposal of our waste.

While the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors, which could cause future outcomes to differ materially from those described in this report, including, but not limited to:

- general economic conditions;
- material reduction in revenues;
- ability to meet PNC covenant requirements;
- inability to collect in a timely manner a material amount of receivables;
- increased competitive pressures;
- inability to maintain and obtain required permits and approvals to conduct operations;
- public not accepting our new technology;
- inability to develop new and existing technologies in the conduct of operations;
- inability to maintain and obtain closure and operating insurance requirements;
- inability to retain or renew certain required permits;
- discovery of additional contamination or expanded contamination at any of the sites or facilities leased or owned by us or our subsidiaries which would result in a material increase in remediation expenditures;
- delays at our third party disposal site can extend collection of our receivables greater than twelve months;
- refusal of third party disposal sites to accept our waste;

- changes in federal, state and local laws and regulations, especially environmental laws and regulations, or in interpretation of such;
- requirements to obtain permits for TSD activities or licensing requirements to handle low level radioactive materials are limited or lessened;
- potential increases in equipment, maintenance, operating or labor costs;
- management retention and development;
- financial valuation of intangible assets is substantially more/less than expected;
- the requirement to use internally generated funds for purposes not presently anticipated;
- inability to continue to be profitable on an annualized basis;
- inability of the Company to maintain the listing of its Common Stock on the NASDAQ;
- terminations of contracts with federal agencies or subcontracts involving federal agencies, or reduction in amount of waste delivered to the Company under the contracts or subcontracts;
- renegotiation of contracts involving the federal government;
- federal government's inability or failure to provide necessary funding to remediate contaminated federal sites;
- disposal expense accrual could prove to be inadequate in the event the waste requires re-treatment;
- inability to raise capital on commercially reasonable terms;
- inability to increase profitable revenue;
- lender refuses to waive non-compliance or revises our covenant so that we are in compliance;
- required governmental approvals to release the finite sinking funds are not obtained, or, if obtained, are not obtained in a timely manner to receive such funds by the end of the second quarter of 2017; and
- Risk factors contained in Item 1A of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Consolidated Financial Statements	Page No.
Report of Independent Registered Public Accounting Firm	39
Consolidated Balance Sheets as of December 31, 2016 and 2015	40
Consolidated Statements of Operations for the years ended December 31, 2016 and 2015	42
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2016 and 2015	43
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2016 and 2015	44
Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015	45
Notes to Consolidated Financial Statements	46

Financial Statement Schedules

In accordance with the rules of Regulation S-X, schedules are not submitted because they are not applicable to or required by the Company.

**REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM**

Board of Directors and Stockholders of
Perma-Fix Environmental Services, Inc.

We have audited the accompanying consolidated balance sheets of Perma-Fix Environmental Services, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, stockholders’ equity, and cash flows for each of the two years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Perma-Fix Environmental Services, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP
Atlanta, Georgia
March 24, 2017

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED BALANCE SHEETS

As of December 31,

(Amounts in Thousands, Except for Share and per Share Amounts)

2016

2015

ASSETS	2016	2015
Current assets:		
Cash	\$ 163	\$ 1,435
Restricted cash	—	99
Accounts receivable, net of allowance for doubtful accounts of \$272 and \$1,474, respectively	8,705	9,673
Unbilled receivables - current	2,926	4,569
Inventories	370	377
Prepaid and other assets	2,358	3,929
Current assets related to discontinued operations	85	34
Total current assets	<u>14,607</u>	<u>20,116</u>
Property and equipment:		
Buildings and land	22,544	20,209
Equipment	33,454	35,191
Vehicles	409	422
Leasehold improvements	11,626	11,626
Office furniture and equipment	1,738	1,755
Construction-in-progress	667	497
	<u>70,438</u>	<u>69,700</u>
Less accumulated depreciation	<u>(53,323)</u>	<u>(49,707)</u>
Net property and equipment	17,115	19,993
Property and equipment related to discontinued operations	81	531
Intangibles and other long term assets:		
Permits	8,474	16,761
Other intangible assets - net	1,721	2,066
Accounts receivable - non-current	212	—
Unbilled receivables – non-current	216	707
Finite risk sinking fund	21,487	21,380
Other assets	1,154	1,359
Other assets related to discontinued operations	268	—
Total assets	<u>\$ 65,335</u>	<u>\$ 82,913</u>

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

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

As of December 31,

(Amounts in Thousands, Except for Share and per Share Amounts)	2016	2015
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,244	\$ 6,109
Accrued expenses	4,094	4,341
Disposal/transportation accrual	1,390	1,107
Deferred revenue	2,691	2,631
Accrued closure costs - current	2,177	—
Current portion of long-term debt	1,184	1,481
Current portion of long-term debt - related party	—	950
Current liabilities related to discontinued operations	958	531
Total current liabilities	<u>16,738</u>	<u>17,150</u>
Accrued closure costs	5,138	5,301
Other long-term liabilities	931	867
Deferred tax liabilities	2,362	5,424
Long-term debt, less current portion	7,649	7,405
Long-term liabilities related to discontinued operations	361	1,064
Total long-term liabilities	<u>16,441</u>	<u>20,061</u>
Total liabilities	33,179	37,211
Commitments and Contingencies (Note 14)		
Series B Preferred Stock of subsidiary, \$1.00 par value; 1,467,396 shares authorized, 1,284,730 shares issued and outstanding, liquidation value \$1.00 per share plus accrued and unpaid dividends of \$931 and \$867, respectively (Note 8)		
	1,285	1,285
Stockholders' Equity:		
Preferred Stock, \$.001 par value; 2,000,000 shares authorized, no shares issued and outstanding	—	—
Common Stock, \$.001 par value; 30,000,000 shares authorized; 11,677,025 and 11,551,232 shares issued, respectively; 11,669,383 and 11,543,590 shares outstanding, respectively	11	11
Additional paid-in capital	106,048	105,556
Accumulated deficit	(74,213)	(60,808)
Accumulated other comprehensive loss	(162)	(117)
Less Common Stock in treasury, at cost; 7,642 shares	(88)	(88)
Total Perma-Fix Environmental Services, Inc. stockholders' equity	<u>31,596</u>	<u>44,554</u>
Non-controlling interest	(725)	(137)
Total stockholders' equity	<u>30,871</u>	<u>44,417</u>
Total liabilities and stockholders' equity	<u>\$ 65,335</u>	<u>\$ 82,913</u>

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

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

For the years ended December 31,

(Amounts in Thousands, Except for Per Share Amounts)	2016	2015
Net revenues	\$ 51,219	\$ 62,383
Cost of goods sold	44,135	48,032
Gross profit	7,084	14,351
Selling, general and administrative expenses	10,724	10,996
Research and development	2,046	2,302
Loss (gain) on disposal of property and equipment	2	(80)
Impairment loss on tangible assets	1,816	—
Impairment loss on intangible assets	8,288	—
(Loss) income from operations	(15,792)	1,133
Other income (expense):		
Interest income	110	53
Interest expense	(489)	(489)
Interest expense-financing fees	(108)	(228)
Other	22	11
(Loss) income from continuing operations before taxes	(16,257)	480
Income tax (benefit) expense	(2,994)	543
Loss from continuing operations, net of taxes	(13,263)	(63)
Loss from discontinued operations, net of taxes (Note 9)	(730)	(1,864)
Net loss	(13,993)	(1,927)
Net loss attributable to non-controlling interest	(588)	(877)
Net loss attributable to Perma-Fix Environmental Services, Inc. common stockholders	\$ (13,405)	\$ (1,050)
Net (loss) income per common share attributable to Perma-Fix Environmental Services, Inc. stockholders - basic and diluted:		
Continuing operations	\$ (1.09)	\$.07
Discontinued operations	(.06)	(.16)
Net loss per common share	\$ (1.15)	\$ (.09)
Number of common shares used in computing net income (loss) per share:		
Basic	11,608	11,516
Diluted	11,608	11,552

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

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31,

(Amounts in Thousands)	2016	2015
Net loss	\$ (13,993)	\$ (1,927)
Other comprehensive loss:		
Foreign currency translation adjustments	(45)	(128)
Total other comprehensive loss	(45)	(128)
Comprehensive loss	(14,038)	(2,055)
Comprehensive loss attributable to non-controlling interest	(588)	(877)
Comprehensive loss attributable to Perma-Fix Environmental Services, Inc. common stockholders	\$ (13,450)	\$ (1,178)

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

PERMA-FIX ENVIRONMENTAL SERVICES, INC
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

*For the years ended December 31,
(Amounts in Thousands, Except for Share Amounts)*

	Common Stock		Additional Paid-In Capital	Common Stock Held In Treasury	Accumulated Other Comprehensive Loss	Non- controlling Interest in Subsidiary	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount						
Balance at December 31, 2014	<u>11,476,485</u>	<u>\$ 11</u>	<u>\$ 104,541</u>	<u>\$ (88)</u>	<u>\$ 11</u>	<u>\$ 333</u>	<u>\$ (59,758)</u>	<u>\$ 45,050</u>
Net loss	—	—	—	—	—	(877)	(1,050)	(1,927)
Foreign currency translation	—	—	—	—	(128)	—	—	(128)
Issuance of stock - Perma-Fix Medical S.A., net of expenses of \$29	—	—	631	—	—	407	—	1,038
Issuance of Common Stock upon exercise of options	3,423	—	10	—	—	—	—	10
Issuance of Common Stock for services	71,324	—	282	—	—	—	—	282
Stock-Based Compensation	—	—	92	—	—	—	—	92
Balance at December 31, 2015	<u>11,551,232</u>	<u>\$ 11</u>	<u>\$ 105,556</u>	<u>\$ (88)</u>	<u>\$ (117)</u>	<u>\$ (137)</u>	<u>\$ (60,808)</u>	<u>\$ 44,417</u>
Net loss	—	—	—	—	—	(588)	(13,405)	(13,993)
Foreign currency translation	—	—	—	—	(45)	—	—	(45)
Issuance of Common Stock upon exercise of Warrants	70,000	—	156	—	—	—	—	156
Issuance of Common Stock for services	55,793	—	238	—	—	—	—	238
Stock-Based Compensation	—	—	98	—	—	—	—	98
Balance at December 31, 2016	<u>11,677,025</u>	<u>\$ 11</u>	<u>\$ 106,048</u>	<u>\$ (88)</u>	<u>\$ (162)</u>	<u>\$ (725)</u>	<u>\$ (74,213)</u>	<u>\$ 30,871</u>

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

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

For the years ended December 31,

(Amounts in Thousands)	2016	2015
Cash flows from operating activities:		
Net loss	\$ (13,993)	\$ (1,927)
Less: loss on discontinued operations, net of taxes (Note 9)	(730)	(1,864)
Loss from continuing operations	(13,263)	(63)
Adjustments to reconcile net loss from continuing operations to cash provided by (used in) operating activities:		
Depreciation and amortization	4,165	3,717
Amortization of debt issuance costs	173	221
Deferred tax (benefit) expense	(3,062)	418
Recovery of bad debt reserves	(314)	(433)
Loss (gain) on disposal of plant, property and equipment	2	(80)
Impairment loss on tangible assets	1,816	—
Impairment loss on intangible assets	8,288	—
Issuance of common stock for services	238	282
Stock-based compensation	98	92
Changes in operating assets and liabilities of continuing operations:		
Restricted cash	35	—
Accounts receivable	1,070	(968)
Unbilled receivables	2,134	2,174
Prepaid expenses, inventories and other assets	2,870	41
Accounts payable, accrued expenses and unearned revenue	(3,187)	(3,657)
Cash provided by continuing operations	1,063	1,744
Cash used in discontinued operations	(959)	(2,862)
Cash provided by (used in) operating activities	104	(1,118)
Cash flows from investing activities:		
Purchases of property and equipment	(436)	(623)
Proceeds from sale of property and equipment	44	127
Release of proceeds previously held in escrow from sale of SYA subsidiary in 2014	—	50
Payments to finite risk sinking fund	(107)	(46)
Cash used in investing activities of continuing operations	(499)	(492)
Proceeds from sale of property of discontinued operations	84	—
Cash used in investing activities	(415)	(492)
Cash flows from financing activities:		
Borrowing on revolving credit	57,976	67,614
Repayments of revolving credit	(56,522)	(65,265)
Principal repayments of long term debt	(1,508)	(2,320)
Principal repayments of long term debt - related party	(1,000)	(1,500)
Payment of debt issuance costs	(122)	(40)
Proceeds from issuance of common stock upon exercise of warrants/options	156	10
Proceeds from stock subscription - Perma-Fix Medical S.A.	64	971
Cash used in financing activities of continuing operations	(956)	(530)
Effect of exchange rate changes on cash	(5)	(105)
Decrease in cash	(1,272)	(2,245)
Cash at beginning of period	1,435	3,680
Cash at end of period	\$ 163	\$ 1,435
Supplemental disclosure:		
Interest paid	\$ 424	\$ 903
Income taxes paid	41	116
Proceeds from stock subscription for Perma-Fix Medical S.A. held in escrow	—	67

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

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1

DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

TREATMENT SEGMENT, which includes:

- nuclear, low-level radioactive, mixed waste (containing both hazardous and low-level radioactive constituents), hazardous and non-hazardous waste treatment, processing and disposal services primarily through four uniquely licensed and permitted treatment and storage facilities; and
- research and development (“R&D”) activities to identify, develop and implement innovative waste processing techniques for problematic waste streams.

SERVICES SEGMENT, which includes:

- On-site waste management services to commercial and governmental customers;
- Technical services, which include:
 - o professional radiological measurement and site survey of large government and commercial installations using advanced methods, technology and engineering;
 - o integrated Occupational Safety and Health services including industrial hygiene (“IH”) assessments; hazardous materials surveys, e.g., exposure monitoring; lead and asbestos management/abatement oversight; indoor air quality evaluations; health risk and exposure assessments; health & safety plan/program development, compliance auditing and training services; and Occupational Safety and Health Administration (“OSHA”) citation assistance;
 - o global technical services providing consulting, engineering, project management, waste management, environmental, and decontamination and decommissioning field, technical, and management personnel and services to commercial and government customers;
- Nuclear services, which include:
 - o technology-based services including engineering, decontamination and decommissioning (“D&D”), specialty services and construction, logistics, transportation, processing and disposal;
 - o remediation of nuclear licensed and federal facilities and the remediation cleanup of nuclear legacy sites. Such services capability includes: project investigation; radiological engineering; partial and total plant D&D; facility decontamination, dismantling, demolition, and planning; site restoration; site construction; logistics; transportation; and emergency response; and
- A company owned equipment calibration and maintenance laboratory that services, maintains, calibrates, and sources (i.e., rental) of health physics, IH and customized nuclear, environmental, and occupational safety and health (“NEOSH”) instrumentation.

MEDICAL SEGMENT, which includes: R&D of a new medical isotope production technology by our majority-owned Polish subsidiary, Perma-Fix Medical S.A. and its wholly-owned subsidiary Perma-Fix Medical Corporation (“PFM Corporation”) (together known as “PF Medical”). The Company’s Medical Segment has not generated any revenue as it has been primarily in the R&D stage. All costs incurred by the Medical Segment are reflected within R&D in the accompanying consolidated financial statements (see “Financial Position and Liquidity” below for further discussion of Medical Segment’s significant curtailment of its R&D activities during the latter part of 2016).

The Company’s continuing operations consist of Diversified Scientific Services, Inc. (“DSSI”), East Tennessee Materials & Energy Corporation (“M&EC”) (see “Note 3 – M&EC Facility” regarding the Company’s decision to shut down this facility by January 2018), Perma-Fix of Florida, Inc. (“PFF”), Perma-Fix of Northwest Richland, Inc. (“PFNWR”), Safety & Ecology Corporation (“SEC”), Perma-Fix Environmental Services UK Limited (“PF UK Limited”), Perma-Fix of Canada, Inc. (“PF Canada”), and PF Medical (a majority-owned Polish subsidiary).

The Company's discontinued operations (see Note 9) consist of all our subsidiaries included in our Industrial Segment which were divested in 2011 and prior, previously closed locations, and our Perma-Fix of South Georgia, Inc. ("PFSG") facility which is non-operational and is in closure status.

Financial Position and Liquidity

The Company's 2016 financial results were negatively impacted by certain waste treatment shipments which we expected to receive but were delayed by certain governmental customers. Although the Company saw receipt of certain of these delayed shipments in the fourth quarter of 2016, the Company expects to receive the remaining delayed waste shipments within the first nine months of 2017. The Company's 2016 financial results were also impacted by certain non-cash impairment losses, write-offs and accruals which were recorded during the second quarter of 2016 in connection with our decision to shut down one of our facilities by January 2018 (see "Note 3 – M&EC Facility"). However, with this pending shut down of the M&EC facility, the Company expects to benefit from reductions in certain operating costs. We are in the process of transitioning waste shipments and operational capabilities from our M&EC facility to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals.

The Company's cash flow requirements during 2016 consisted of general working capital needs, scheduled payments on our debt obligations, remediation projects and planned capital expenditures and were financed primarily by our operations and credit facility availability. The Company continues to explore all sources of increasing revenue. The Company is continually reviewing operating costs and is committed to further reducing operating costs to bring them in line with revenue levels, when necessary.

During 2016, our Medical Segment continued to commit resources to the R&D of the new medical isotope production technology in pursuing the necessary steps required for eventual submission of this technology for the U.S. Food and Drug Administration ("FDA") and other regulatory approvals and commercialization of this technology. During the latter part of 2016, our Medical Segment ceased a substantial portion of its R&D activities due to the need for substantial capital to fund such activities. We anticipate that our Medical Segment will not restart its full scale R&D activities until it obtains the necessary funding through obtaining its own credit facility or additional equity raise. The Medical Segment has entered into a letter of intent ("LOI") to raise capital, which is subject to the completion of a definitive agreement. Although the LOI has expired, the parties to the LOI are continuing to negotiate definitive agreements (see "Note 4 – PF Medical" for a further discussion of this proposed transaction). If the Medical Segment is unable to raise the necessary capital, the Medical Segment would be required to reduce, further delay or eliminate its R&D program.

The Company's cash flow requirements for 2017 and into the first quarter of 2018 will consist primarily of general working capital needs, scheduled principal payments on our debt obligations, remediation projects, planned capital expenditures and closure spending requirements in connection with the pending shut down of our M&EC facility which we plan to fund from operations, our credit facility availability, and the finite risk sinking funds related to our PFNWR financial assurance policy which we expect to receive by the end of the second quarter of 2017 (see "Note 14 – Commitments and Contingencies" – "Insurance" for a discussion of the finite risk sinking funds).

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Our consolidated financial statements include our accounts, those of our wholly-owned subsidiaries, and our majority-owned Polish subsidiary, PF Medical, after elimination of all significant intercompany accounts and transactions.

Reclassifications

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

Use of Estimates

When the Company prepares financial statements in conformity with accounting standards generally accepted in the United States of America ("US GAAP"), the Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as, the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See Notes 9, 12, 13 and 14 for estimates of discontinued operations and environmental liabilities, closure costs, income taxes and contingencies for details on significant estimates.

Restricted Cash

During the first quarter of 2016, all of the restricted cash previously held in escrow at December 31, 2015 was released. Such amount represented \$35,000 held in escrow for our worker's compensation policy with the remaining representing proceeds held in escrow resulting from stock subscription agreements executed in connection with the sale of common stock by PF Medical in 2014.

Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms requiring payment within 30 or 60 days from the invoice date based on the customer type (government, broker, or commercial). The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts, which is a valuation allowance that reflects management's best estimate of the amounts that will not be collected. The Company regularly reviews all accounts receivable balances that exceed 60 days from the invoice date and based on an assessment of current credit worthiness, estimate the portion, if any, of the balance that will not be collected. This analysis excludes government related receivables due to our past successful experience in their collectability. Specific accounts that are deemed to be uncollectible are reserved at 100% of their outstanding balance. The remaining balances aged over 60 days have a percentage applied by aging category, based on historical experience that allows us to calculate the total allowance required. Once the Company has exhausted all options in the collection of a delinquent accounts receivable balance, which includes collection letters, demands for payment, collection agencies and attorneys, the account is deemed uncollectible and subsequently written off. The write off process involves approvals from senior management based on required approval thresholds.

The following table set forth the activity in the allowance for doubtful accounts for the years ended December 31, 2016 and 2015 (in thousands):

	Year Ended December 31,	
	2016	2015
Allowance for doubtful accounts-beginning of year	\$ 1,474	\$ 2,170
Net recovery of bad debt reserve	(314)	(433)
Write-off	(888)	(263)
Allowance for doubtful accounts-end of year	<u>\$ 272</u>	<u>\$ 1,474</u>

Retainage receivables represent amounts that are billed or billable to our customers, but are retained by the customer until completion of the project or as otherwise specified in the contract. Our retainage receivable balances are all current. Retainage receivables of approximately \$0 and \$229,000 as of December 31, 2016 and 2015, respectively, are included in the accounts receivable balance on the Company's Consolidated Balance Sheets in the respective periods.

Unbilled Receivables

Unbilled receivables are generated by differences between invoicing timing and our proportional performance based methodology used for revenue recognition purposes. As major processing and contract completion phases are completed and the costs are incurred, the Company recognizes the corresponding percentage of revenue. Within our Treatment Segment, the facilities experience delays in processing invoices due to the complexity of the documentation that is required for invoicing, as well as the difference between completion of revenue recognition milestones and agreed upon invoicing terms, which results in unbilled receivables. The timing differences occur for several reasons: partially from delays in the final processing of all wastes associated with certain work orders and partially from delays for analytical testing that is required after the facilities have processed waste but prior to our release of waste for disposal. The tasks relating to these delays usually take several months to complete. As the Company now has historical data to review the timing of these delays, the Company realizes that certain issues, including, but not limited to, delays at our third party disposal site, can extend collection of some of these receivables greater than twelve months. However, our historical experience suggests that a significant portion of unbilled receivables are ultimately collectible with minimal concession on our part. The Company, therefore, segregates the unbilled receivables between current and long term.

Unbilled receivables within our Services Segment can result from: (1) revenue recognized by our Earned Value Management program (a program which integrates project scope, schedule, and cost to provide an objective measure of project progress) but invoice milestones have not yet been met and/or (2) contract claims and pending change orders, including Requests for Equitable Adjustments (“REAs”) when work has been performed and collection of revenue is reasonably assured.

Inventories

Inventories consist of treatment chemicals, saleable used oils, and certain supplies. Additionally, the Company has replacement parts in inventory, which are deemed critical to the operating equipment and may also have extended lead times should the part fail and need to be replaced. Inventories are valued at the lower of cost or market with cost determined by the first-in, first-out method.

Property and Equipment

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

In accordance with Accounting Standards Codification (“ASC”) 360, “Property, Plant, and Equipment”, long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

During the second quarter of 2016, the Company recorded approximately \$1,816,000 in tangible asset impairment loss in connection with the Company’s decision to shut down the M&EC facility by January 2018 (see “Note 3 – M&EC Facility” for further information of this impairment).

Our depreciation expense totaled approximately \$3,717,000 and \$3,246,000 in 2016 and 2015, respectively.

Intangible Assets

Intangible assets consist primarily of the recognized value of the permits required to operate our business. We continually monitor the propriety of the carrying amount of our permits to determine whether current events and circumstances warrant adjustments to the carrying value.

Indefinite-lived intangible assets are not amortized but are reviewed for impairment annually as of October 1, or when events or changes in the business environment indicate that the carrying value may be impaired. If the fair value of the asset is less than the carrying amount, we perform a quantitative test to determine the fair value. The impairment loss, if any, is measured as the excess of the carrying value of the asset over its fair value. Significant judgments are inherent in these analyses and include assumptions for, among other factors, forecasted revenue, gross margin, growth rate, operating income, timing of expected future cash flows, and the determination of appropriate long term discount rates.

During the second quarter of 2016, we fully impaired the permit value of our M&EC subsidiary (see “Note 3 – M&EC Facility” for further information of this impairment). We performed impairment testing of our remaining permits related to our Treatment reporting unit as of October 1, 2016 and determined there was no impairment. Impairment testing of our permits related to our Treatment reporting unit as of October 1, 2015 resulted in no impairment charges for the year ended December 31, 2015.

Intangible assets that have definite useful lives are amortized using the straight-line method over the estimated useful lives (with the exception of customer relationships which are amortized using an accelerated method) and are excluded from our annual intangible asset valuation review as of October 1. The Company has one definite-lived permit which was excluded from our annual impairment review as noted above. Definite-lived intangible assets are also tested for impairment whenever events or changes in circumstances suggest impairment might exist.

Research and Development (“R&D”)

Operational innovation and technical know-how is very important to the success of our business. Our goal is to discover, develop, and bring to market innovative ways to process waste that address unmet environmental needs and to develop new company service offerings. The Company conducts research internally and also through collaborations with other third parties. R&D costs consist primarily of employee salaries and benefits, laboratory costs, third party fees, and other related costs associated with the development and enhancement of new potential waste treatment processes and new technology and are charged to expense when incurred in accordance with ASC Topic 730, “Research and Development.” The Company’s R&D expenses included approximately \$1,489,000 and \$2,114,000 for the years ended December 31, 2016 and 2015, respectively, incurred by our Medical Segment in the R&D of its medical isotope production technology.

Accrued Closure Costs and Asset Retirement Obligations (“ARO”)

Accrued closure costs represent our estimated environmental liability to clean up our facilities, as required by our permits, in the event of closure. ASC 410, “Asset Retirement and Environmental Obligations” requires that the discounted fair value of a liability for an ARO be recognized in the period in which it is incurred with the associated ARO capitalized as part of the carrying cost of the asset. The recognition of an ARO requires that management make numerous estimates, assumptions and judgments regarding such factors as estimated probabilities, timing of settlements, material and service costs, current technology, laws and regulations, and credit adjusted risk-free rate to be used. This estimate is inflated, using an inflation rate, to the expected time at which the closure will occur, and then discounted back, using a credit adjusted risk free rate, to the present value. ARO’s are included within buildings as part of property and equipment and are depreciated over the estimated useful life of the property. In periods subsequent to initial measurement of the ARO, the Company must recognize period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Increases in the ARO liability due to passage of time impact net income as accretion expense, which is included in cost of goods sold. Changes in costs resulting from changes or expansion at the facilities require adjustment to the ARO liability and are capitalized and charged as depreciation expense, in accordance with the Company’s depreciation policy.

Income Taxes

Income taxes are accounted for in accordance with ASC 740, “Income Taxes.” Under ASC 740, the provision for income taxes is comprised of taxes that are currently payable and deferred taxes that relate to the temporary differences between financial reporting carrying values and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740 requires that deferred income tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The Company evaluates the realizability of its deferred income tax assets annually (see “Note 13 – Income Taxes” for further information of this assessment).

ASC 740 sets out a consistent framework for preparers to use to determine the appropriate recognition and measurement of uncertain tax positions. ASC 740 uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit which is greater than 50% likely to be realized. ASC 740 also sets out disclosure requirements to enhance transparency of an entity’s tax reserves. The Company recognizes accrued interest and income tax penalties related to unrecognized tax benefits as a component of income tax expense.

The Company reassesses the validity of our conclusions regarding uncertain income tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause us to change our judgment regarding the likelihood of a tax position’s sustainability under audit.

Foreign Currency

The Company’s foreign subsidiaries include PF UK Limited, PF Canada and PF Medical. Assets and liabilities are translated to U.S. dollars at the exchange rate in effect at the balance sheet date and revenue and expenses at the average exchange rate for the period. Foreign currency translation adjustments for these subsidiaries are accumulated as a separate component of accumulated other comprehensive income (loss) in stockholders’ equity. Gains and losses resulting from foreign currency transactions are recognized in the Consolidated Statements of Operations.

Concentration Risk

The Company performed services relating to waste generated by the federal government, either directly as a prime contractor or indirectly for others as a subcontractor to the federal government, representing approximately \$27,354,000 or 53.4% of total revenue during 2016, as compared to \$36,105,000 or 57.9% of total revenue during 2015.

Revenue generated by one of the customers (PSC Metal, Inc.) (non-government related and excluded from above) in the Services Segment accounted for approximately \$9,763,000 or 19.1% of the total revenues generated for the twelve months ended December 31, 2016. Project work for this customer commenced in March 2016 and was completed in December 2016. Revenue generated by another customer (Prologis Teterboro, LLC) (non-government related and excluded from above) in the Services Segment accounted for \$10,686,000 or 17.1% of the total revenues generated for the twelve months ended December 31, 2015. Project work for this customer was completed in December 2015.

As our revenues are project/event based where the completion of one contract with a specific customer may be replaced by another contract with a different customer from year to year, we do not believe the loss of one specific customer from one year to the next will generally have a material adverse effect on our operations and financial condition.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable. The Company maintains cash with high quality financial institutions, which may exceed Federal Deposit Insurance Corporation (“FDIC”) insured amounts from time to time. Concentration of credit risk with respect to accounts receivable is limited due to the Company’s large number of customers and their dispersion throughout the United States as well as with the significant amount of work that we perform for the federal government as discussed above.

The Company has two customers whose net outstanding receivable balance represented 10.1% and 20.8% of the Company’s total consolidated net accounts receivable at December 31, 2016. The Company had one customer whose net outstanding receivable balance represented 16.2% of the Company’s total consolidated net accounts receivable at December 31, 2015.

Gross Receipts Taxes and Other Charges

ASC 605-45, "Revenue Recognition – Principal Agent Consideration" provides guidance regarding the accounting and financial statement presentation for certain taxes assessed by a governmental authority. These taxes and surcharges include, among others, universal service fund charges, sales, use, waste, and some excise taxes. In determining whether to include such taxes in its revenue and expenses, the Company assesses, among other things, whether it is the primary obligor or principal taxpayer for the taxes assessed in each jurisdiction where the Company does business. As the Company is merely a collection agent for the government authority in certain of our facilities, the Company records the taxes on a net bases and excludes them from revenue and cost of services.

Revenue Recognition

Treatment Segment revenues. The processing of mixed waste is complex and may take several months or more to complete; as such, the Treatment Segment recognizes revenues using a proportional performance based methodology with its measure of progress towards completion determined based on output measures consisting of milestones achieved and completed. The Treatment Segment has waste tracking capabilities, which it continues to enhance, to allow for better matching of revenues earned to the processing phases achieved. The revenues are recognized as each of the following three processing phases are completed: receipt, treatment/processing and shipment/final disposal. However, based on the processing of certain waste streams, the treatment/processing and shipment/final disposal phases may be combined as sometimes they are completed concurrently. As major processing phases are completed and the costs are incurred, the Treatment Segment recognizes the corresponding percentage of revenue utilizing a proportional performance model. The Treatment Segment experiences delays in processing invoices due to the complexity of the documentation that is required for invoicing, as well as the difference between completion of revenue recognition milestones and agreed upon invoicing terms, which results in unbilled receivables. The timing differences occur for several reasons, partially from delays in the final processing of all wastes associated with certain work orders and partially from delays for analytical testing that is required after the waste is processed waste but prior to our release of the waste for disposal. As the waste moves through these processing phases and revenues are recognized, the correlating costs are expensed as incurred. Although the Treatment Segment uses its best estimates and all available information to accurately determine these disposal expenses, the risk does exist that these estimates could prove to be inadequate in the event the waste requires retreatment. Furthermore, should the waste be returned to the customer, the related receivables could be uncollectible; however, historical experience has not indicated this to be a material uncertainty.

Services Segment revenues. Revenue includes services performed under time and material, fixed price, and cost-reimbursement contracts. Revenues and costs associated with fixed price contracts are recognized using the percentage of completion (efforts expended) method. The Services Segment estimates its percentage of completion based on attainment of project milestones. Revenues and costs associated with time and material contracts are recognized as revenue when earned and costs are incurred.

Under cost reimbursement contracts, the Services Segment is reimbursed for costs incurred plus a certain percentage markup for indirect costs, in accordance with contract provisions. Costs incurred in excess of contract funding may be renegotiated for reimbursement. The Services Segment also earns a fee based on the approved costs to complete the contract. The Services Segment recognizes this fee using the proportion of costs incurred to total estimated contract costs.

Contract costs include all direct labor, material and other non-labor costs and those indirect costs related to contract support, such as depreciation, fringe benefits, overhead labor, supplies, tools, repairs and equipment rental. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation". ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards which requires subjective assumptions. Assumptions used to estimate the fair value of stock options granted include the exercise price of the award, the expected term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the expected annual dividend yield.

The Company recognizes stock-based compensation expense using a straight-line amortization method over the requisite service period, which is the vesting period of the stock option grant. As ASC 718 requires that stock-based compensation expense be based on options that are ultimately expected to vest, our stock-based compensation expense is reduced by an estimated forfeiture rate. Our estimated forfeiture rate is generally based on historical trends of actual forfeitures.

Comprehensive Income (Loss)

The components of comprehensive income (loss) are net income (loss) and the effects of foreign currency translation adjustments.

Income (Loss) Per Share

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

Fair Value of Financial Instruments

Certain assets and liabilities are required to be recorded at fair value on a recurring basis, while other assets and liabilities are recorded at fair value on a nonrecurring basis. Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants.

Financial instruments include cash and restricted cash (Level 1), accounts receivable, accounts payable, and debt obligations (Level 3). Credit is extended to customers based on an evaluation of a customer's financial condition and, generally, collateral is not required. At December 31, 2016 and December 31, 2015, the fair value of the Company's financial instruments approximated their carrying values. The fair value of the Company's revolving credit and term loan approximate its carrying value due to the variable interest rate.

Recently Adopted Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge asset. It is effective for annual reporting periods beginning after December 15, 2015 (including interim reporting periods), but early adoption is permitted. The Company adopted ASU 2015-03 retroactively in the first quarter of 2016. The adoption of ASU 2015-03 did not have a material impact to the Company's results of operations, cash flows or financial position. The adoption of ASU 2015-03 resulted in a decrease in prepaid and other assets of approximately \$152,000, a decrease in current portion of long-term debt of \$27,000, and a decrease in long-term debt, less current portion of \$125,000 for the previously reported balances as of December 31, 2015 in the accompanying Consolidated Balance Sheets.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard is effective for all entities for the first annual period ending after December 15, 2016. The adoption of ASU 2014-15 during the fourth quarter of 2016 did not have a material impact on our financial statements (see "Note 1 – Description of Business and Basis of Presentation" for discussion of the Company's liquidity).

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." ASU 2015-11 requires that inventory within the scope of this update be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this update do not apply to inventory that is measured using last-in, first-out ("LIFO") or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out ("FIFO") or average cost. For all entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. The adoption of ASU 2015-11 by the Company in the fourth quarter of 2016 did not have a material impact on our financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual periods beginning after December 15, 2016. The adoption of ASU 2015-11 did not have a material impact on our financial statements.

Recently Issued Accounting Standards – Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," as amended, which will supersede nearly all existing revenue recognition guidance. ASU 2014-09 provides a single, comprehensive revenue recognition model for all contracts with customers. ASU 2014-09 require a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Early adoption is permitted for ASU 2014-09, as amended, to the original effective date of period beginning after December 15, 2016 (including interim reporting periods within those periods). ASU 2014-09 may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the early stages of evaluating these ASUs to determine the impact they will have on our financial statements. Also, the Company is currently still reviewing the transition method it will select upon adoption of this guidance.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is still evaluating the potential impact of adopting this guidance on our financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)," which aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. Subsequently, in November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230), Restricted Cash, a consensus of the FASB Emerging Issues Task Force," which clarifies the guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. ASU 2016-15 and ASU 2016-18 are effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company does not expect the adoption of these ASUs to have a material impact on our financial statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which eliminates the existing exception in U.S. GAAP prohibiting the recognition of the income tax consequences for intra-entity asset transfers. Under ASU 2016-16, entities will be required to recognize the income tax consequences of intra-entity asset transfers other than inventory when the transfer occurs. ASU 2016-16 is effective on a modified retrospective basis for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is still evaluating the potential impact of this ASU on its consolidated financial statements.

NOTE 3

M&EC FACILITY

During the second quarter of 2016, the Company's M&EC subsidiary was notified by the lessor that the lease agreement under which M&EC currently operates its Oak Ridge, Tennessee facility would not be renewed at the end of the current lease term ending January 21, 2018. In light of this event and our strategic review of operations within our Treatment Segment, the Company is proceeding with a plan to close its M&EC facility located in Oak Ridge, Tennessee at the end of the lease term. Operations at the M&EC facility are continuing during the remaining term of the lease and the facility has begun the process of transitioning waste shipments and operational capabilities to our other Treatment Segment facilities, subject to customer requirements and regulatory approvals. Simultaneously, the Company has begun required clean-up/maintenance procedures at M&EC's Oak Ridge, Tennessee facility in accordance with M&EC's Resource Conservation and Recovery Act ("RCRA") permit requirements. As a result of the Company's decision to close its M&EC facility, the Company's financial results were impacted by certain non-cash impairment losses, write-offs and accruals recorded during the second quarter of 2016 as described below.

The Company performs its annual intangible test as of October 1 of each year. As permitted by ASC 350, "Intangibles-Goodwill and Other," when an impairment indicator arises during an interim reporting period, the Company may recognize its best estimates of that impairment loss. The Company performed a discounted cash flow analysis prepared as of June 30, 2016 for M&EC's intangible assets (permits), utilizing our best estimates of projected future cash flows. Based on this analysis, the Company concluded that potential impairment existed and subsequently determined that the permit for our M&EC subsidiary was fully impaired as a result of the non-renewal of the lease, resulting in an intangible impairment loss of approximately \$8,288,000.

M&EC is required to complete certain clean-up/maintenance activities at its Oak Ridge, Tennessee facility pursuant to its RCRA permit. The extent and cost of these activities are determined by federal/state mandate requirements. The Company performed an analysis and related estimate of the cost to complete the RCRA portion of these activities and based on this analysis, the Company recorded an additional \$1,626,000 in closure liabilities with a corresponding increase to capitalized ARO costs, which is to be depreciated over the remaining term of the lease. The capitalized ARO costs is reported as a component of "Net Property and equipment" in the Consolidated Balance Sheets.

In accordance with ASC 360, "Property, Plant, and Equipment," the Company also performed an updated financial valuation of M&EC's long-lived tangible assets, inclusive of the capitalized asset retirement costs, for potential impairment. Based on our analysis using an undiscounted cash flows approach, the Company concluded that the carrying value of certain tangible assets (property and equipment) for M&EC was not recoverable and exceeded its fair value. Consequently, the Company recorded \$1,816,000 in tangible asset impairment loss in the second quarter of 2016. The Company also reevaluated the estimated useful lives of the remaining tangible assets and as a result of this analysis, reduced the current estimated useful lives of these assets ranging from 2 to 28 years at June 30, 2016 to 1.6 years, the remaining term of the lease. Accordingly, the Company is depreciating the carrying value of M&EC's remaining tangible assets of approximately \$4,728,000 at June 30, 2016 over a period of approximately 1.6 years to the lease expiration date.

In the second quarter of 2016, the Company also wrote-off approximately \$587,000 in fees previously incurred relating to emission performance testing certification requirement in order to meet state compliance mandate in connection with certain M&EC equipment which was impaired. Such amount had been previously included in "Prepaid and other assets" on the Consolidated Balance Sheets.

During the year ended December 31, 2016 and 2015, M&EC's revenues were approximately \$4,419,000 and \$6,591,000, respectively.

NOTE4**PF MEDICAL**

On July 24, 2015, PF Medical, the Company's majority-owned Polish subsidiary, and Digirad Corporation, a Delaware corporation ("Digirad"), Nasdaq: DRAD, entered into a multi-year Tc-99m Supplier Agreement (the "Supplier Agreement") and a Series F Stock Subscription Agreement (the "Subscription Agreement"), (together, the "Digirad Agreements"). The Supplier Agreement became effective upon the completion of the Subscription Agreement. Pursuant to the terms of the Digirad Agreements, Digirad purchased, in a private placement, 71,429 shares of PF Medical's restricted Series F Stock for an aggregate purchase price of \$1,000,000, which was received on July 24, 2015. Legal expenses incurred for this offering totaled approximately \$29,000. The 71,429 share investment made by Digirad constituted approximately 5.4% of the outstanding common shares of PF Medical. As a result of this transaction, the Company's ownership interest in PF Medical diluted from approximately 64.0% to 60.5%. The Supplier Agreement provides, among other things, that upon PF Medical's commercialization of certain Tc99m generators, Digirad will purchase agreed upon quantities of Tc-99m for its nuclear imaging operations either directly or in conjunction with its preferred nuclear pharmacy supplier and PF Medical will supply Digirad, or its preferred nuclear pharmacy supplier, with Tc-99m at a preferred pricing, subject to certain conditions.

On October 11, 2016, the Company and its Medical Segment entered into a letter of intent ("LOI") with a private investor, subject to certain closing and other conditions, including, but not limited to, the execution of a definitive agreement, for the purchase of \$10,000,000 of Preferred Shares in PFM Corporation at a price of \$8.00 per share. The termination date of the LOI has since expired but the parties continue to negotiate definitive agreements with the following proposed terms, among other things, \$5,000,000 to be invested by the investor at the initial closing and \$5,000,000 to be invested at the second closing which is to occur within 120 days after the initial closing. Upon the initial closing, one half of the Preferred Shares will be issued to the investor and the remaining half of the Preferred Shares will be issued to the investor at the second closing. The Preferred Shares of PFM Corporation to be issued to the investor would be voting securities and, after completion of both closings, the investor will own approximately 48.6% of PFM Corporation's issued and outstanding voting securities and Perma-Fix Medical S.A. will own the balance of PFM Corporation's voting securities. At each closing, subject to certain terms and conditions, the investor would also receive a 48-month warrant to purchase up to 468,750 shares of PFM Corporation's common stock at an exercise price of \$9.00 for each share. In addition, at the initial closing, the Company would receive a 48 month warrant, subject to certain terms and conditions, to purchase up to 183,606 shares of PFM Corporation's common stock at an exercise price of \$14.00 per share. Further, the Company would be repaid \$500,000 of the amounts owed to it by the Medical Segment within 30 days after the initial closing and the remaining balance (which stands at approximately \$1,962,000 at December 31, 2016) within 120 days after the initial closing.

NOTE 5**PERMIT AND OTHER INTANGIBLE ASSETS**

The following table summarizes changes in the carrying amount of permits. No permit exists at our Services and Medical Segment.

Permit (amount in thousands)	Treatment
Balance as of December 31, 2014	\$ 16,709
PCB permit amortized ⁽¹⁾	(55)
Permit in progress	107
Balance as of December 31, 2015	16,761
PCB permit amortized ⁽¹⁾	(55)
Permit in progress	56
Permit impairment for M&EC subsidiary	(8,288)
Balance as of December 31, 2016	<u>\$ 8,474</u>

⁽¹⁾ Amortization for the one definite-lived permit capitalized in 2009. This permit is being amortized over a ten year period in accordance with its estimated useful life. Net carrying value of this permit was approximately \$117,000 and \$172,000 as of December 31, 2016 and 2015, respectively.

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

	Useful Lives (Years)	December 31, 2016			December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangibles (amount in thousands)							
Patent	3 - 17	\$ 577	\$ (274)	\$ 303	\$ 539	\$ (203)	\$ 336
Software	3	405	(383)	22	395	(364)	31
Customer relationships	12	3,370	(1,974)	1,396	3,370	(1,671)	1,699
Permit	10	545	(428)	117	545	(373)	172
Total		<u>\$ 4,897</u>	<u>\$ (3,059)</u>	<u>\$ 1,838</u>	<u>\$ 4,849</u>	<u>\$ (2,611)</u>	<u>\$ 2,238</u>

The intangible assets are amortized on a straight-line basis over their useful lives with the exception of customer relationships which are being amortized using an accelerated method.

The following table summarizes the expected amortization over the next five years for our definite-lived intangible assets:

Year	Amount (In thousands)
2017	\$ 372
2018	337
2019	254
2020	218
2021	198
	<u>\$ 1,379</u>

Amortization expense recorded for definite-lived intangible assets was approximately \$448,000 and \$471,000, for the years ended December 31, 2016 and 2015, respectively.

NOTE 6**CAPITAL STOCK, STOCK PLANS, WARRANTS, AND STOCK BASED COMPENSATION****Stock Option Plans**

The Company adopted the 2003 Outside Directors Stock Plan (the “2003 Plan”), which was approved by our stockholders at the Annual Meeting of Stockholders on July 29, 2003. Options granted under the 2003 Plan generally have a vesting period of six months from the date of grant and a term of 10 years, with an exercise price equal to the closing trade price on the date prior to grant date. The 2003 Plan also provides for the issuance to each outside director a number of shares of Common Stock in lieu of 65% or 100% (based on option elected by each director) of the fee payable to the eligible director for services rendered as a member of the Board of Directors (“Board”). The number of shares issued is determined at 75% of the market value as defined in the plan. The 2003 Plan, as amended, also provides for the grant of an option to purchase up to 6,000 shares of Common Stock for each outside director upon initial election to the Board, and the grant of an option to purchase 2,400 shares of Common Stock upon each re-election. The number of shares of the Company’s Common Stock authorized under the 2003 Plan is 800,000, pursuant to the 2003 Plan, as amended.

On April 28, 2010, the Company adopted the 2010 Stock Option Plan (“2010 Plan”), which was approved by our stockholders at the Company’s Annual Meeting of Stockholders on September 29, 2010. The 2010 Plan authorizes an aggregate grant of 200,000 Non-Qualified Stock Options (“NQSOs”) and Incentive Stock Options (“ISOs”) to officers and employees of the Company for the purchase of up to 200,000 shares of the Company’s Common Stock. The term of each stock option granted shall be fixed by the Compensation and Stock Option Committee (“Compensation Committee”), but no stock options will be exercisable more than ten years after the grant date, or in the case of an incentive stock option granted to a 10% stockholder, five years after the grant date. The exercise price of any ISO granted under the 2010 Plan to an individual who is not a 10% stockholder at the time of the grant shall not be less than the fair market value of the shares at the time of the grant, and the exercise price of any incentive stock option granted to a 10% stockholder shall not be less than 110% of the fair market value at the time of grant. The exercise price of any NQSOs granted under the plan shall not be less than the fair market value of the shares at the time of grant.

No employees exercised options during 2016 and 2015. During 2015, the Company issued a total of 3,423 shares of our Common Stock upon exercise of 3,423 NQSOs by an outside director from the 2003 Plan, at an exercise price of \$2.79 per share which resulted in total proceeds of approximately \$10,000.

The summary of the Company’s total plans as of December 31, 2016 and 2015, and changes during the period then ended are presented as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (2)
Options outstanding January 1, 2016	218,200	\$ 7.65		
Granted	62,000	4.09		
Exercised	—	—		
Forfeited/expired	(33,000)	8.14		
Options outstanding end of period (1)	247,200	\$ 6.69	4.3	\$ 20,940
Options exercisable at December 31, 2016(1)	181,867	\$ 7.61	3.7	\$ 20,940
Options vested and expected to be vested at December 31, 2016	239,750	\$ 6.78	4.3	\$ 20,940

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ⁽²⁾
Options outstanding January 1, 2015	239,023	\$ 7.81		
Granted	12,000	4.19		
Exercised	(3,423)	2.79		\$ 4,298
Forfeited/expired	(29,400)	8.13		
Options outstanding end of period ⁽¹⁾	218,200	\$ 7.65	4.8	\$ 14,676
Options exercisable at December 31, 2015 ⁽¹⁾	169,533	\$ 8.47	4.5	\$ 14,676
Options vested and expected to be vested at December 31, 2015	212,333	\$ 7.72	4.8	\$ 14,676

⁽¹⁾ Options with exercise prices ranging from \$2.79 to \$14.75

⁽²⁾ The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The summary of the Company's nonvested options as of December 31, 2016 and changes during the period then ended are presented as follows:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested options January 1, 2016	48,667	\$ 2.87
Granted	62,000	2.19
Vested	(30,334)	2.87
Forfeited	(15,000)	2.88
Non-vested options at December 31, 2016	65,333	\$ 2.23

Capital Stock Issued for Services

The Company issued a total of 55,793 and 71,324 shares of our Common Stock in 2016 and 2015, respectively, under our 2003 Plan to our outside directors as compensation for serving on our Board. As a member of the Board, each director elects to receive either 65% or 100% of the director's fee in shares of our Common Stock. The number of shares received is calculated based on 75% of the fair market value of our Common Stock determined on the business day immediately preceding the date that the quarterly fee is due. The balance of each director's fee, if any, is payable in cash. The Company recorded approximately \$233,000 and \$269,000 in compensation expense for the twelve months ended December 31, 2016 and 2015, respectively, for the portion of director fees earned in the Company's Common Stock.

Preferred Share Rights Plan

In May 2008, the Company adopted a preferred share rights plan (the "Rights Plan"), designed to ensure that all of our stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer.

In general, under the terms of the Rights Plan, subject to certain limited exceptions, if a person or group acquires 20% or more of our Common Stock or a tender offer or exchange offer for 20% or more of our Common Stock is announced or commenced, our other stockholders may receive upon exercise of the rights (the "Rights") issued under the Rights Plan the number of shares our Common Stock or of one-one hundredths of a share of our Series A Junior Participating Preferred Stock, par value \$.001 per share, having a value equal to two times the purchase price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction in which we are not the survivor or more than 50% of our assets or earning power is sold or transferred, then each holder of a Right (other than the acquirer) will thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the purchase price of the Right. The initial purchase price of each Right was \$13.00, subject to adjustment as defined in plan.

The Rights will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. The Rights may be redeemed by us at \$0.001 per Right at any time before any person or group acquires 20% or more of our outstanding Common Stock. The Rights expire on May 2, 2018.

Warrants and Capital Stock Issuance for Debt

As of December 31, 2016, the Company has no Warrant outstanding. On August 2, 2016, the Company issued an aggregate of 70,000 shares of the Company Common Stock resulting from the exercise of two Warrants, at an exercise price of \$2.23, issued to two lenders in connection with a \$3,000,000 loan dated August 2, 2013 received by the Company (See Note 10 – “Long-Term Debt – Promissory Note” for further information on the exercise of the Warrants and the loan).

Shares Reserved

At December 31, 2016, the Company has reserved approximately 247,200 shares of Common Stock for future issuance under all of the option arrangements.

Stock Based Compensation

As discussed above, the Company has certain stock option plans which it awards NQSOs and ISOs to employees, officers, and outside directors. Stock options granted to employees generally have a six year contractual term with one-third yearly vesting over a three year period. Stock options granted to outside directors generally have a ten year contractual term with vesting period of six months.

On May 15, 2016, the Company granted 50,000 ISOs from the Company’s 2010 Stock Option Plan to our newly named Executive Vice President (“EVP”). The ISOs granted were for a contractual term of six years with one-third vesting annually over a three year period. The exercise price of the ISOs was \$3.97 per share, which was equal to the fair market value of the Company’s Common Stock on the date of grant.

On July 28, 2016, the Company granted an aggregate of 12,000 NQSOs from the Company’s 2003 Plan to five of the seven re-elected directors at our Annual Meeting of Stockholders held on July 28, 2016. Two of the directors are not eligible to receive options under the 2003 Plan as they are employees of the Company or its subsidiaries. The NQSOs granted were for a contractual term of ten years with a vesting period of six months. The exercise price of the NQSOs was \$4.60 per share, which was equal to the Company’s closing stock price the day preceding the grant date, pursuant to the 2003 Plan.

The Company estimates fair value of stock options using the Black-Scholes valuation model. Assumptions used to estimate the fair value of stock options granted include the exercise price of the award, the expected term, the expected volatility of the Company’s stock over the option’s expected term, the risk-free interest rate over the option’s expected term, and the expected annual dividend yield. The fair value of the options granted during 2016 and 2015 and the related assumptions used in the Black-Scholes option model used to value the options granted were as follows (No options were granted to employees during 2015):

	Employee Stock Option Granted May 15, 2016
Weighted-average fair value per share	\$ 2.00
Risk -free interest rate ⁽¹⁾	1.27%
Expected volatility of stock ⁽²⁾	53.12%
Dividend yield	None
Expected option life ⁽³⁾ (in years)	6.0

	Outside Director Stock Options Granted	
	July 28, 2016	September 17, 2015
Weighted-average fair value per share	\$ 3.0	\$ 2.84
Risk -free interest rate ⁽¹⁾	1.52%	2.21%
Expected volatility of stock ⁽²⁾	55.99%	57.98%
Dividend yield	None	None
Expected option life ⁽³⁾ (in years)	10.0	10.0

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

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

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

The following table summarizes stock-based compensation recognized for fiscal years 2016 and 2015.

	Year Ended	
	2016	2015
Employee Stock Options	\$ 53,000	\$ 53,000
Director Stock Options	45,000	39,000
Total	\$ 98,000	\$ 92,000

As of December 31, 2016, the Company has approximately \$74,000 of total unrecognized compensation cost related to unvested options, of which \$43,000 is expected to be recognized in 2017, \$30,000 in 2018, with the remaining \$1,000 in 2019.

NOTE 7
INCOME (LOSS) PER SHARE

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

(Amounts in Thousands, Except for Per Share Amounts)	Twelve Months Ended December 31,	
	2016	2015
Net income (loss) attributable to Perma-Fix Environmental Services, Inc., common stockholders:		
(Loss) income from continuing operations attributable to Perma-Fix Environmental Services, Inc. common stockholders	\$ (12,675)	\$ 814
Loss from discontinuing operations attributable to Perma-Fix Environmental Services, Inc. common stockholders	(730)	(1,864)
Net loss attributable to Perma-Fix Environmental Services, Inc. common stockholders	<u>\$ (13,405)</u>	<u>\$ (1,050)</u>
Basic loss per share attributable to Perma-Fix Environmental Services, Inc. common stockholders	<u>\$ (1.15)</u>	<u>\$ (.09)</u>
Diluted loss per share attributable to Perma-Fix Environmental Services, Inc. common stockholders	<u>\$ (1.15)</u>	<u>\$ (.09)</u>
Weighted average shares outstanding:		
Basic weighted average shares outstanding	11,608	11,516
Add: dilutive effect of stock options	—	6
Add: dilutive effect of warrants	—	30
Diluted weighted average shares outstanding	<u>11,608</u>	<u>11,552</u>
Potential shares excluded from above weighted average share calculations due to their anti-dilutive effect include:		
Stock options	150	183

NOTE 8
PREFERRED STOCK ISSUANCE AND CONVERSION
Series B Preferred Stock

The Series B Preferred Stock of the Company's subsidiary, M&EC, is non-voting and non-convertible, has a \$1.00 liquidation preference per share and may be redeemed at the option of the former stockholders of M&EC at any time for the per share price of \$1.00. The holders of the Series B Preferred Stock will be entitled to receive when, as, and if declared by the Board of M&EC out of legally available funds, dividends at the rate of 5% per year per share applied to the amount of \$1.00 per share, which dividends are fully cumulative. M&EC has not paid any of the cumulative dividends since the Series B Preferred Stock was issued. M&EC has been accruing dividends for the Series B Preferred Stock issued July 2002, and have accrued a total of approximately \$931,000 of unpaid cumulative dividends since July 2002, of which \$64,000 was accrued in each of the years ended December 31, 2003 to 2016 and is included in other long term liabilities in the accompanying Consolidated Balance Sheets.

NOTE 9
DISCONTINUED OPERATIONS

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

The following table presents the major class of assets of discontinued operations as of December 31, 2016 and 2015. On May 2, 2016, Perma-Fix of Michigan, Inc. (“PFMI” – a closed location) entered into an Agreement for the sale of the property (which was held for sale as of December 31, 2015) for a price of \$450,000. The Agreement provides for a down payment of approximately \$75,000. After certain closing and settlement costs, PFMI received approximately \$46,000. The Agreement also provides for, among other things, the balance of the purchase price of \$375,000 to be paid by the buyer in 60 equal monthly installments of approximately \$7,250, with the first payment due June 15, 2016. As of December 31, 2016, receivables related to this transaction totaled approximately \$337,000, of which approximately \$69,000 is included in “Current assets related to discontinued operations” and approximately \$268,000 is included in “Other assets related to discontinued operations” in the accompanying Consolidated Balance Sheets. No assets and liabilities are held for sale as of December 31, 2016.

(Amounts in Thousands)	December 31, 2016	December 31, 2015
Current assets		
Other assets	\$ 85	\$ 34
Total current assets	85	34
Long-term assets		
Property, plant and equipment, net ⁽¹⁾	81	531
Other assets	268	—
Total long-term assets	349	531
Total assets	\$ 434	\$ 565
Current liabilities		
Accounts payable	\$ 13	\$ 85
Accrued expenses and other liabilities	268	437
Environmental liabilities	677	9
Total current liabilities	958	531
Long-term liabilities		
Closure liabilities	113	173
Environmental liabilities	248	891
Total long-term liabilities	361	1,064
Total liabilities	\$ 1,319	\$ 1,595

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

The following table summarizes the results of discontinued operations for the years ended December 31, 2016 and 2015.

Amount in Thousands	For The Year Ended December 31,	
	2016	2015
Interest expense	\$ —	\$ (401)
Operating loss from discontinued operations	(730)	(1,915)
Income tax benefit	—	(51)
Loss from discontinued operations	(730)	(1,864)

Our loss for the twelve months ended December 31, 2015 included a penalty in the amount of approximately \$201,000 recorded for PFSG in connection with a Consent Order from the Georgia Department of Natural Resources Environmental Protection Division and an asset impairment charge of \$150,000 recorded for PFMI in connection with the sale of property as discussed above. In addition, our net loss for the twelve months ended December 31, 2015 included \$407,000 in expenses (with \$400,000 recorded as interest expenses) recorded in the fourth quarter of 2015 in connection with an arbitration award that PFSG was required to pay to a contractor hired to perform emergency response services at our PFSG subsidiary resulting from the fire which occurred at the facility in 2013. Remaining losses for the periods discussed above were primarily due to costs incurred in the administration and continued monitoring of our discontinued operations.

Environmental Liabilities

The Company has three remediation projects, which are currently in progress at our Perma-Fix of Dayton, Inc. (“PFD”), Perma-Fix of Memphis, Inc. (“PFM” – closed location), and PFSG (in closure status) subsidiaries. The Company divested PFD in 2008; however, the environmental liability of PFD was retained by the Company upon the divestiture of PFD. These remediation projects principally entail the removal/remediation of contaminated soil and, in most cases, the remediation of surrounding ground water. The remediation activities are closely reviewed and monitored by the applicable state regulators.

At December 31, 2016, we had total accrued environmental remediation liabilities of \$925,000, of which \$677,000 are recorded as a current liability, an increase of \$25,000 from the December 31, 2015 balance of \$900,000. The net increase of \$25,000 represents payments on remediation projects at PFSG and an increase to the reserve of approximately \$66,000 at PFD due to reassessment of the remediation reserve.

The current and long-term accrued environmental liability at December 31, 2016 is summarized as follows (in thousands).

	Current Accrual	Long-term Accrual	Total
PFD	\$ 75	\$ 60	\$ 135
PFM	—	15	15
PFSG	602	173	775
Total liability	<u>\$ 677</u>	<u>\$ 248</u>	<u>\$ 925</u>

NOTE 10

LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2016 and December 31, 2015:

(Amounts in Thousands)	December 31, 2016	December 31, 2015
Revolving Credit facility dated October 31, 2011, as amended, borrowings based upon eligible accounts receivable, subject to monthly borrowing base calculation, balance due March 24, 2021. Effective interest rate for 2016 and 2015 was 3.9% and 4.0%, respectively. (1) (2)	\$ 3,803	\$ 2,349
Term Loan dated October 31, 2011, as amended, payable in equal monthly installments of principal of \$102, balance due on March 24, 2021. Effective interest rate for 2016 and 2015 was 3.8% and 3.7%, respectively. (1) (2)	5,030 ⁽⁵⁾	6,514 ⁽⁵⁾
Promissory Note dated August 2, 2013, payable in twelve monthly installments of interest only, starting September 1, 2013 followed with twenty-four monthly installments of \$125 in principal plus accrued interest (at annual rate of 2.99%). Note paid in full in August 2016. (3) (4)	—	950 ⁽⁴⁾
Capital lease (interest at rate of 6.0%)	—	23
Total debt	<u>8,833</u>	<u>9,836</u>
Less current portion of long-term debt	1,184	2,431
Long-term debt	<u>\$ 7,649</u>	<u>\$ 7,405</u>

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

(2) See below “Revolving Credit and Term Loan Agreement” for monthly payment interest options. Prior to April 1, 2016, the monthly installment payment under the term loan was approximately \$190,000.

(3) Uncollateralized note.

(4) Net of debt discount of (\$50,000) at December 31, 2015. See “Promissory Notes” below for additional information.

(5) Net of debt issuance costs of (\$151,000) and (\$152,000) at December 31, 2016 and December 31, 2015, respectively.

Revolving Credit and Term Loan Agreement

The Company is subject to an Amended and Restated Revolving Credit, Term Loan and Security Agreement (“Loan Agreement”) with PNC National Association (“PNC”), acting as agent and lender. The Loan Agreement, as subsequently amended prior to the March 24, 2016 amendment discussed below (“Amended Loan Agreement”), provided the Company with the following credit facility: (a) up to \$12,000,000 revolving line of credit (“revolving credit”), subject to the amount of borrowings based on a percentage of eligible receivables (as defined) and (b) a term loan (“term loan”) of \$16,000,000, which required monthly installments of approximately \$190,000 (based on a seven-year amortization).

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

On March 24, 2016, the Company entered into an amendment to the Amended Loan Agreement with PNC which provided, among other things, the following (the amendment, together with the Amended Loan Agreement is collectively the “Revised Loan Agreement”):

- extended the due date of our credit facility from October 31, 2016 to March 24, 2021 (“maturity date”);
- amended the term loan to approximately \$6,100,000, which requires monthly payments of \$101,600 (based on a five-year amortization) and which approximated the term loan balance under the existing credit facility at the date of the amendment. The revolving credit remains at up to \$12,000,000 (subject to the amount of borrowings based on a percentage of eligible receivables as previously defined under the Amended Loan Agreement);
- released \$1,000,000 of the \$1,500,000 borrowing availability restriction that the lender had previously placed on the Company in connection with the insurance settlement proceeds received in 2014 by our PFSG facility. The Company’s lender had authorized the Company to use such proceeds for working capital purposes but had placed an indefinite reduction on our borrowing availability of \$1,500,000;
- revised the interest payment options to paying an annual rate of interest due on the revolving credit at prime plus 1.75% or LIBOR plus 2.75% and the term loan at prime (3.75% at December 31, 2016) plus 2.25% or LIBOR plus 3.25%; and
- revised our annual capital spending maximum limit from \$6,000,000 to \$3,000,000.

In connection with the March 24, 2016 amendment, the Company paid PNC total closing fees of approximately \$72,000. As a result of the March 24, 2016 amendment, the Company recorded approximately \$68,000 in loss on extinguishment of debt in accordance with ASC 470-50, “Debt – Modifications and Extinguishments,” which was included in interest expense in the accompanying Consolidated Statements of Operations.

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

The Company's credit facility with PNC contains certain financial covenants, along with customary representations and warranties. A breach of any of these financial covenants, unless waived by PNC, could result in a default under our credit facility allowing our lender to immediately require the repayment of all outstanding debt under our credit facility and terminate all commitments to extend further credit. The Company failed to meet its minimum quarterly fixed charge coverage ratio ("FCCR") requirement of 1.15:1 in the first quarter of 2016. On May 23, 2016, the Company's lender waived this non-compliance. In connection with this waiver, the Company paid PNC a fee of \$5,000 which was included in selling, general and administrative expenses. The Company met its financial covenant requirements in the second quarter of 2016 except for its quarterly FCCR requirement. On August 22, 2016, the Company entered into an amendment to its Revised Loan Agreement with its lender which waived the Company's non-compliance with its minimum quarterly FCCR for the second quarter of 2016. In addition, the amendment revised the methodology to be used in calculating the FCCR in the third quarter of 2016, the fourth quarter of 2016 and the first quarter of 2017. This amendment also revised the Company's minimum Tangible Adjusted Net Worth requirement (as defined in the Revised Loan Agreement) from \$30,000,000 to \$26,000,000. In connection with the amendment, the Company paid PNC a fee of \$25,000, which is being amortized over the remaining term of the loan as interest expense – financing fees. The Company failed to meet its FCCR in the third quarter of 2016. On November 17, 2016, the Company entered into another amendment to its Revised Loan Agreement with its lender. This amendment included the following:

- waived the Company's non-compliance with its minimum quarterly FCCR for the third quarter of 2016;
- further revised the methodology to be used in calculating the FCCR as follows (with continued requirement to maintain a minimum 1:15:1 ratio in each of the quarters): FCCR for the fourth quarter of 2016 is to be calculated using the financial results for the three month period ending December 31, 2016; FCCR for first quarter of 2017 is to be calculated using financial results for the six month period ending March 31, 2017; FCCR for second quarter of 2017 is to be calculated using the financial results for the nine month period ending June 30, 2017; and FCCR for the third quarter of 2017 and each fiscal quarter thereafter is to be calculated using the financial results for a trailing twelve month period basis;
- placed an immediate additional restriction on the Company's borrowing availability of \$750,000, in addition to the restriction on our borrowing availability of \$500,000 which had been previously placed by our lender; and
- revised the interest payment options to paying an annual rate of interest due on the revolving credit at prime plus 2% or LIBOR plus 3% and the term loan at Prime plus 2.5% or LIBOR plus 3.5%. Such interest payment option will automatically revert back to interest payment options as revised on the March 24, 2016 amendment (see the March 24, 2016 amendment the Company entered into with PNC above) if the Company is able to attain minimally a FCCR of 1:15:1, as calculated using a trailing twelve month period, subsequent to any quarters after the third quarter of 2016.

As of December 31, 2016, the availability under our revolving credit was \$1,748,000, based on our eligible receivables and includes the remaining indefinite reduction of borrowing availability of \$1,250,000 as discussed above.

Pursuant to the amendment dated November 17, 2016 as discussed above, the Company's lender also established a "Condition Subsequent" which requires the Company to receive restricted cash from a finite risk sinking fund in connection with our PFNWR closure policy. Immediately upon the receipt of funds, the Company's lender is to immediately place another \$750,000 restriction on the Company's borrowing availability resulting in a total of \$2,000,000 restriction on the Company's borrowing availability (see "Note 14 – Commitments and Contingencies" – "Insurance" for further information of the PFNWR closure policy and the pending receipt of the related sinking fund).

All other terms of the Revised Loan Agreement remain principally unchanged. In connection with this amendment, the Company paid its lender a fee of \$25,000, which is being amortized over the remaining term of the loan as interest expense-financing fees.

Promissory Note

The Company entered into a \$3,000,000 loan dated August 2, 2013 with Messrs. Robert Ferguson and William Lampson (each known as the "Lender"). As consideration for the Company receiving the loan, the Company issued to each Lender a Warrant to purchase up to 35,000 shares of the Company's Common Stock at an exercise price of \$2.23 per share. On August 2, 2016, each Lender exercised his Warrant for the purchase of 35,000 shares of our Common Stock, resulting in total proceeds paid to the Company of approximately \$156,000. As further consideration for the loan, the Company had also issued to each Lender 45,000 shares of the Company's Common Stock. The fair value of the Warrants and Common Stock and the related closing fees incurred from this transaction were recorded as a debt discount, which has been fully amortized using the effective interest method over the term of the loan as interest expense – financing fees. The loan was repaid in full by the Company in August 2016.

The following table details the amount of the maturities of long-term debt maturing in future years as of December 31, 2016 of our continuing operations (excludes debt issuance costs).

Year ending December 31:
(In thousands)

2017	\$	1,219
2018		1,219
2019		1,219
2020		1,219
2021		4,108
Total	\$	<u>8,984</u>

NOTE 11

ACCRUED EXPENSES

Accrued expenses at December 31, include the following (in thousands):

	2016	2015
Salaries and employee benefits	\$ 2,695	\$ 2,822
Accrued sales, property and other tax	265	202
Interest payable	6	9
Insurance payable	675	833
Other	453	475
Total accrued expenses	\$ <u>4,094</u>	\$ <u>4,341</u>

The Company had an individual Management Incentive Plan (“MIP”) for each of our Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and Chief Operating Officer (“COO”) (who retired from the position of COO effective September 30, 2016 and remained a part-time employee through December 31, 2016, at which time the COO retired from the Company), which awarded cash compensation based on achievement of certain performance targets for fiscal year 2015. A total of approximately \$214,000 (included in “salaries and employee benefits”) was accrued under the three MIPs for 2015 and was paid by the end of the third quarter of 2016. No performance incentive payments were earned and accrued under any of the MIPs for 2016.

NOTE 12

ACCRUED CLOSURE COSTS AND ARO

Accrued closure costs represent our estimated environmental liability to clean up our fixed-based regulated facilities as required by our permits, in the event of closure. Changes to reported closure liabilities for the years ended December 31, 2016 and 2015, were as follows:

Amounts in thousands	
Balance as of December 31, 2014	\$ 5,508
Accretion expense	299
Payments	(331)
Adjustment to closure liability	(175)
Balance as of December 31, 2015	<u>5,301</u>
Accretion expense	374
Payments	(693)
Adjustment to closure liability	2,333
Balance as of December 31, 2016	\$ <u>7,315</u>

As a result of the Company's decision to close the M&EC subsidiary by January 2018, the Company recorded an additional \$1,626,000 in closure liabilities during the second quarter of 2016 due to a change in estimated closure costs (see "Note 3 – M&EC Facility" for further information of this additional closure liability). The Company also increased the closure liabilities for its PFNWR facility in the amount of approximately \$707,000 resulting from a change in estimated closure costs. In 2016, the Company had spendings of approximately \$283,000 and \$410,000 in closure related activities for the M&EC and PFNWR subsidiaries, respectively. The spendings at PFNWR facility were made in connection with the closure of certain processing unit/equipment.

As of December 31, 2016, total accrued closure liabilities for our M&EC subsidiary totaled approximately \$3,058,000 of which \$2,177,000 are recorded as current liabilities.

The decreases in closure liabilities in 2015 included approximately \$331,000 of costs incurred in connection with the closure of processing unit/equipment at our PFNWR facility and a reduction of approximately \$175,000 in closure liabilities at our PFNWR facility resulting from a change in estimated closure costs.

The reported closure asset or ARO, is reported as a component of "Net Property and equipment" in the Consolidated Balance Sheet for the years ended December 31, 2016 and 2015 as follows:

Amounts in thousands	
Balance as of December 31, 2014	\$ 2,870
Amortization of closure and post-closure asset	(152)
Adjustment to closure and post-closure asset	(143)
Balance as of December 31, 2015	2,575
Amortization of closure and post-closure asset	(760)
Adjustment to closure and post-closure asset	2,333
Balance as of December 31, 2016	\$ 4,148

The adjustment to the ARO for 2016 was due to the adjustment made to our closure liability as discussed above.

NOTE 13
INCOME TAXES

The components of current and deferred federal and state income tax (benefit) expense for continuing operations for the years ended December 31, consisted of the following (in thousands):

	2016	2015
Federal income tax expense - current	\$ 9	\$ 116
Federal income tax (benefit) expense - deferred	(2,657)	142
State income tax expense - current	59	9
State income tax (benefit) expense - deferred	(405)	276
Total income tax (benefit) expense	\$ (2,994)	\$ 543

We had temporary differences and net operating loss carry forwards from both our continuing and discontinued operations, which gave rise to deferred tax assets and liabilities at December 31, 2016 and 2015 as follows (in thousands):

	2016	2015
Deferred tax assets:		
Net operating losses	\$ 7,288	\$ 4,566
Environmental and closure reserves	3,189	2,497
Other	2,285	2,800
Deferred tax liabilities:		
Depreciation and amortization	(162)	(1,130)
Goodwill and indefinite lived intangible assets	(2,362)	(5,443)
Prepaid expenses	(72)	(122)
	10,166	3,168
Valuation allowance	(12,528)	(8,592)
Net deferred income tax liabilities	(2,362)	(5,424)

An overall reconciliation between the expected tax (benefit) expense using the federal statutory rate of 34% and the (benefit) expense for income taxes from continuing operations as reported in the accompanying Consolidated Statement of Operations is provided below (in thousands).

	2016	2015
Tax (benefit) expense at statutory rate	\$ (5,527)	\$ 166
State tax benefit, net of federal benefit	(785)	(93)
Change in deferred tax rates	(82)	208
Permanent items	119	84
Difference in foreign rate	98	40
Change in deferred tax liabilities	(260)	206
Other	(241)	(124)
Increase in valuation allowance	3,684	56
Income tax (benefit) expense	\$ (2,994)	\$ 543

The provision for income taxes is determined in accordance with ASC 740, "Income Taxes." Deferred income tax assets and liabilities are recognized for future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company regularly assesses the likelihood that the deferred tax asset will be recovered from future taxable income. The Company considers projected future taxable income and ongoing tax planning strategies, then records a valuation allowance to reduce the carrying value of the net deferred income taxes to an amount that is more likely than not to be realized. In 2016 and 2015, we determined that it was more likely than not that approximately \$12,528,000 and \$8,592,000, respectively, of deferred income tax assets would not be realized, and as such, a full valuation allowance was applied against those deferred income tax assets. Our valuation allowance increased by \$3,684,000 and \$56,000 for the years ended December 31, 2016 and 2015, respectively.

We have estimated net operating loss carryforwards ("NOLs") for federal and state income tax purposes of approximately \$10,372,000 and \$65,658,000, respectively, as of December 31, 2016. The estimated consolidated federal and state NOLs include approximately \$3,259,000 and \$4,179,000, respectively, of our majority-owned subsidiary, PF Medical, which is not part of our consolidated group for tax purposes. These net operating losses can be carried forward and applied against future taxable income, if any, and expire in various amounts starting in 2021. However, as a result of various stock offerings and certain acquisitions, which in the aggregate constitute a change in control, the use of these NOLs will be limited under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended. Additionally, NOLs may be further limited under the provisions of Treasury Regulation 1.1502-21 regarding Separate Return Limitation Years.

The tax years 2013 through 2015 remain open to examination by taxing authorities in the jurisdictions in which the Company operates.

No uncertain tax positions were identified by the Company for the years currently open under statute of limitations, including 2015 and 2016.

As of December 31, 2016 and 2015, the Company had approximately \$0 and \$32,000 of federal income tax payable, respectively.

NOTE 14**COMMITMENTS AND CONTINGENCIES****Hazardous Waste**

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

Legal Matters

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

Insurance

The Company has a 25-year finite risk insurance policy entered into in June 2003 with American International Group, Inc. ("AIG"), which provides financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure. The policy, as amended, provides for a maximum allowable coverage of \$39,000,000 and has available capacity to allow for annual inflation and other performance and surety bond requirements. All of the required payments for this finite risk insurance policy, as amended, were made by 2012. During the fourth quarter of 2016, the Company's DSSI subsidiary recalculated the state mandated closure obligation requirement resulting in a reduction in the financial requirement of approximately \$9,711,000. As of December 31, 2016, our financial assurance coverage amount under this policy totaled approximately \$29,163,000. The Company has recorded \$15,546,000 and \$15,460,000 in sinking fund related to this policy in other long term assets on the accompanying Consolidated Balance Sheets as of December 31, 2016 and 2015, respectively, which includes interest earned of \$1,075,000 and \$989,000 on the sinking fund as of December 31, 2016 and 2015, respectively. Interest income for the twelve months ended December 31, 2016 and 2015 was approximately \$86,000 and \$31,000, respectively. If the Company so elects, AIG is obligated to pay the Company an amount equal to 100% of the sinking fund account balance in return for complete release of liability from both us and any applicable regulatory agency using this policy as an instrument to comply with financial assurance requirements.

In August 2007, the Company entered into a second finite risk insurance policy for our PFNWR ("PFNWR policy") facility with AIG. The policy provided an initial \$7,800,000 of financial assurance coverage with an annual growth rate of 1.5%, which at the end of the four year term policy, provides maximum coverage of \$8,200,000. The Company has made all of the required payments on this policy. As of December 31, 2016, our financial assurance coverage amount under this policy totaled approximately \$7,973,000. The Company has recorded \$5,941,000 and \$5,920,000 in our sinking fund related to this policy in other long term assets on the accompanying Consolidated Balance Sheets as of December 31, 2016 and 2015, respectively, which includes interest earned of \$241,000 and \$220,000 on the sinking fund as of December 31, 2016 and 2015, respectively. Interest income for the twelve months ended December 31, 2016 and 2015 was approximately \$21,000 and \$15,000, respectively. This policy is renewed annually at the end of the four year term with a nominal fee for the variance between the coverage requirement and the sinking fund balance. The Company has renewed this policy annually from 2011 to 2016 (with fees ranging from \$41,000 to \$46,000 annually). All other terms of the policy remain substantially unchanged.

During the latter part of 2016, the Company initiated a plan to secure other options in providing financial assurance coverage for our PFNWR facility, including acquiring a separate bonding mechanism, which would enable the Company to cancel the PFNWR policy, thereby allowing for the release of the sinking fund securing the PFNWR policy as discussed above. The Company is currently waiting for final approval on the release of the PFNWR policy from Washington state regulators. Once the Company obtains this release, the Company will cancel the PFNWR policy with AIG which would result in the release of the \$5,941,000 in sinking fund securing the PFNWR back to the Company. The new bonding mechanism in the amount of approximately \$7,000,000 (“new bond”) which is to provide financial assurance for the PFNWR facility will require approximately \$2,500,000 in collateral and will be provided for by the \$5,941,000 in sinking fund to be released by AIG. The Company expects this transaction to be completed by the end of the second quarter of 2017. After the release of the \$5,941,000 in finite sinking fund by AIG and payment of the required collateral for the new bond, the Company expects to receive the approximately remaining \$3,441,000 in finite sinking funds which will be used to pay down our revolving credit.

Letter of Credits and Bonding Requirements

From time to time, we are required to post standby letters of credit and various bonds to support contractual obligations to customers and other obligations, including facility closures. As of December 31, 2016, the total amount of these bonds and letters of credit outstanding was approximately \$1,514,000, of which the majority of the amount relates to various bonding requirements.

Operating Leases

The Company leases certain facilities and equipment under operating leases. The following table lists future minimum rental payments as of December 31, 2016 under these leases for our continuing operations (in thousands):

Year ending December 31:	
2017	700
2018	178
beyond 2018	—
Total	<u>\$ 878</u>

Total rent expense was \$1,027,000 and \$976,000 for the years ended 2016 and 2015, respectively, for our continuing operations. These amounts included payments on non-cancelable operating leases of approximately \$735,000 and \$659,000 for the years ended 2016 and 2015, respectively. The remaining rent expense was for non-contractual monthly and daily rentals of specific use vehicles, machinery and equipment.

NOTE 15

PROFIT SHARING PLAN

The Company adopted a 401(k) Plan in 1992, which is intended to comply with Section 401 of the Internal Revenue Code and the provisions of the Employee Retirement Income Security Act of 1974. All full-time employees who have attained the age of 18 are eligible to participate in the 401(k) Plan. Eligibility is immediate upon employment but enrollment is only allowed during four quarterly open periods of January 1, April 1, July 1, and October 1. Participating employees may make annual pretax contributions to their accounts up to 100% of their compensation, up to a maximum amount as limited by law. The Company, at its discretion, may make matching contributions of 25% based on the employee’s elective contributions. Company contributions vest over a period of five years. In 2016 and 2015, the Company contributed approximately \$307,000 and \$303,000 in 401(k) matching funds, respectively.

NOTE 16**RELATED PARTY TRANSACTIONS****Related Party Transactions***Mr. David Centofanti*

Mr. David Centofanti serves as our Vice President of Information Systems. For such position, he received annual compensation of \$168,000 for each of the years 2016 and 2015. Mr. David Centofanti is the son of our CEO, President and a Board member, Dr. Louis F. Centofanti.

Mr. Robert L. Ferguson

Mr. Robert L. Ferguson serves as an advisor to the Company's Board and is also a member of the Supervisory Board of PF Medical, a majority-owned Polish subsidiary of the Company. Mr. Ferguson previously served as a Board member of the Company from June 2007 to February 2010 and again from August 2011 to September 2012. As an advisor to the Company's Board, Mr. Ferguson is paid \$4,000 monthly plus reasonable expenses. For such services, Mr. Ferguson received compensation of approximately \$59,000 and \$58,000 for the years ended December 31, 2016 and 2015, respectively. On August 2, 2013, the Company completed a lending transaction with Messrs. Robert Ferguson and William Lampson ("collectively, the "Lenders"), whereby the Company borrowed from the Lenders the sum of \$3,000,000 (which was paid off by the Company in August 2016) pursuant to the terms of a Loan and Security Purchase Agreement and promissory note (the "Loan") (see further details and terms of this Loan in "Note 10 – Long Term Debt – Promissory Note").

Mr. John Climaco

On June 2, 2015, Mr. Climaco, a current member of the Company's Board, was elected as the EVP of PF Medical. As EVP of PF Medical, Mr. Climaco receives an annual salary of \$150,000 and is not eligible to receive compensation for serving on the Company's Board.

Mr. Climaco previously had a consulting agreement with the Company effective September 2014 (approved by the Board with Mr. Climaco abstaining) to perform certain consulting functions for the Company as determined by the Board, including review of operating and accounting functions, strategic opportunity and other initiatives, and the development of the Company's medical isotope production technology. The consulting agreement was terminated effective June 2, 2015 upon Mr. Climaco's election as EVP of PF Medical. Mr. Climaco was paid \$22,000 per month under the consulting agreement and received approximately \$117,000 in 2015 for his services under the consulting agreement.

Mr. Climaco is also a Director of Digirad Corporation. On July 24, 2015, PF Medical and Digirad entered into a multi-year Tc-99m Supplier Agreement and a Subscription Agreement (see further details of these agreements in "Note 4 – PF Medical").

Employment Agreements

The Company has employment agreements (each dated July 10, 2014 and effective for three years) with each of Dr. Centofanti (our President and CEO) and Ben Naccarato (our CFO). Each employment agreement provides for annual base salaries, bonuses (including MIPs as approved by our Board and Compensation Committee), and other benefits commonly found in such agreements. In addition, each employment agreement provides that in the event of termination of such officer without cause or termination by the officer for good reason (as such terms are defined in the employment agreement), the terminated officer shall receive payments of an amount equal to benefits that have accrued as of the termination but had not yet been paid, plus an amount equal to one year's base salary at the time of termination. In addition, each of the employment agreements provide that in the event of a change in control (as defined in the employment agreements), all outstanding stock options to purchase the Company's Common Stock granted to, and held by, the officer covered by the employment agreement to be immediately vested and exercisable. Mr. John Lash, our previous COO who retired from the position effective September 30, 2016 and who remained as a part-time employee of the Company through December 31, 2016, also had an employment agreement dated July 10, 2014 with substantially the same provisions as described above. Upon Mr. Lash's resignation as COO effective September 30, 2016, his employment agreement also terminated. No amount was payable under Mr. Lash's employment agreement upon his resignation as COO. (See "Note 18 – Subsequent Events – Employment Agreement and MIPs" for a discussion of the Employment Agreement with the Company's EVP/COO and the Company's MIPs with its CEO, EVP/COO, and CFO).

NOTE 17
SEGMENT REPORTING

In accordance with ASC 280, "Segment Reporting", we define an operating segment as a business activity:

- from which we may earn revenue and incur expenses;
- whose operating results are regularly reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

We currently have three reporting segments, which include Treatment and Services Segments, which are based on a service offering approach; and Medical, whose primary purpose at this time is the R&D of a new medical isotope production technology. The Medical Segment has not generated any revenues and all costs incurred are reflected within R&D in the accompanying Consolidated Statements of Operations. Our reporting segments exclude our corporate headquarter and our discontinued operations (see "Note 9 – Discontinued Operations") which do not generate revenues.

The table below shows certain financial information of our reporting segments for 2016 and 2015 (in thousands).

Segment Reporting as of and for the year ended December 31, 2016

	Treatment	Services	Medical	Segments Total	Corporate (2)	Consolidated Total
Revenue from external customers	\$ 32,253	\$ 18,966	—	\$ 51,219 (3)	\$ —	\$ 51,219
Intercompany revenues	40	28	—	68	—	—
Gross profit	4,015	3,069	—	7,084	—	7,084
Research and development	504	38	1,489	2,031	15	2,046
Interest income	3	—	—	3	107	110
Interest expense	(29)	(2)	—	(31)	(458)	(489)
Interest expense-financing fees	—	—	—	—	(108)	(108)
Depreciation and amortization	3,451	632	—	4,083	82	4,165
Segment (loss) income before income taxes	(10,119) (6)	744	(1,489)	(10,864)	(5,393)	(16,257)
Income tax (benefit) expense	(3,013) (6)	—	—	(3,013)	19	(2,994)
Segment (loss) income	(7,106)	744	(1,489)	(7,851)	(5,412)	(13,263)
Segment assets(1)	32,482	8,105	382	40,969	24,366 (4)	65,335
Expenditures for segment assets	418	17	1	436	—	436
Total debt	—	—	—	—	8,833 (5)	8,833

Segment Reporting as of and for the year ended December 31, 2015

	Treatment	Services	Medical	Segments Total	Corporate (2)	Consolidated Total
Revenue from external customers	\$ 41,318	\$ 21,065	—	\$ 62,383 (3)	\$ —	\$ 62,383
Intercompany revenues	113	25	—	138	—	—
Gross profit	10,910	3,441	—	14,351	—	14,351
Research and development	179	—	2,114	2,293	9	2,302
Interest income	6	—	—	6	47	53
Interest expense	(38)	—	—	(38)	(451)	(489)
Interest expense-financing fees	(2)	—	—	(2)	(226)	(228)
Depreciation and amortization	2,949	725	—	3,674	43	3,717
Segment income (loss) before income taxes	7,101	1,178	(2,114)	6,165	(5,685)	480
Income tax expense	538	—	—	538	5	543
Segment income (loss)	6,563	1,178	(2,114)	5,627	(5,690)	(63)
Segment assets(1)	46,307	9,481	1,793	57,581	25,332 (4)	82,913
Expenditures for segment assets	579	33	—	612	11	623
Total debt	23	—	—	23	9,813 (5)	9,836

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

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

(3) The Company performed services relating to waste generated by the federal government, either directly as a prime contractor or indirectly for others as a subcontractor to the federal government, representing approximately \$27,354,000 or 53.4% of total revenue from continuing operations during 2016 and \$36,105,000 or 57.9% of total revenue from continuing operations during 2015. The following reflects such revenue generated by our two segments:

	2016	2015
Treatment	\$ 21,434,000	\$ 30,130,000
Services	5,920,000	5,975,000
Total	\$ 27,354,000	\$ 36,105,000

(4) Amount includes assets from our discontinued operations of \$434,000 and \$565,000, as of December 31, 2016 and 2015, respectively.

(5) Net of debt discount of (\$0) and (\$50,000) for 2016 and 2015, respectively, and net of debt issuance costs of (\$151,000) and

(\$152,000) for 2016 and 2015, respectively (see “Note 10 – “Long-Term Debt” for additional information).

- (6) Amounts include tangible and intangible asset impairment losses of \$1,816,000 and \$8,288,000, respectively for the Company’s M&EC subsidiary recorded in the second quarter of 2016 (see “Note 3 – M&EC Facility”). Also includes a tax benefit of approximately \$3,203,000 recorded resulting from the intangible impairment loss recorded for our M&EC subsidiary.

NOTE 18**SUBSEQUENT EVENTS***Employment Agreement and MIPs*

On January 19, 2017, the Company entered into an employment agreement (the “EVP/COO Employment Agreement”) with Mr. Mark Duff, EVP/COO. Upon Mr. Lash’s retirement as COO effective September 30, 2016, Mr. Duff assumed the additional position of COO and continues his position as EVP of the Company. The EVP/COO Employment Agreement is effective June 11, 2016 (Mr. Duff’s effective date of employment as EVP) and has a term of three years. Pursuant to the EVP/COO Employment Agreement, Mr. Duff will continue to serve as the Company’s EVP/COO, with an annual base salary of \$267,000. The EVP/COO Employment Agreement also provides substantially the same provisions as the employment agreements described for the CEO and CFO (see “Note 16 – Related Party Transactions – Employment Agreements” for these provisions).

On January 19, 2017, the Board and Compensation Committee approved individual MIPs for the CEO, EVP/COO, and CFO. The MIPs are effective January 1, 2017. Each MIP provides guidelines for the calculation of annual cash incentive based compensation, subject to Compensation Committee oversight and modification. Each MIP awards cash compensation based on achievement of performance thresholds, with the amount of such compensation established as a percentage of base salary. The potential target performance compensation ranges from 5% to 100% of the 2017 base salary for the CEO (\$13,962 to \$279,248), 5% to 100% of the 2017 base salary for the EVP/COO (\$13,350 to \$267,000), and 5% to 100% of the 2017 base salary for the CFO (\$11,033 to \$220,667).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES**9A.***Evaluation of disclosure controls and procedures.*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission (the “Commission”) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and that such information is accumulated and communicated to our management, including the Chief Executive Officer (“CEO”) (Principal Executive Officer), and Chief Financial Officer (“CFO”) (Principal Financial Officer), as appropriate to allow timely decisions regarding the required disclosure. In designing and assessing our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their stated control objectives and are subject to certain limitations, including the exercise of judgment by individuals, the difficulty in identifying unlikely future events, and the difficulty in eliminating misconduct completely. Our management, with the participation of our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based upon this assessment, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of December 31, 2016.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements or fraudulent acts. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed, can provide only reasonable assurance with respect to financial statement preparation and presentation.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the consolidated financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with appropriate authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Management, with the participation of our CEO and CFO, conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016 based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this assessment, management, with the participation of our CEO and CFO, concluded that the Company’s internal control over financial reporting was effective as of December 31, 2016.

This Form 10-K does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Since the Company is not a large accelerated filer or an accelerated filer, management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to the rules of the Commission that permit the Company to provide only management’s report in this Form 10-K.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the fiscal quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

DIRECTORS

The following table sets forth, as of the date of this Report, information concerning our Board of Directors (“Board”):

<u>NAME</u> ⁽¹⁾	<u>AGE</u>	<u>POSITION</u>
Dr. Louis F. Centofanti	73	Director; President and Chief Executive Officer (“CEO”); Supervisory Board Member, Perma-Fix Medical S.A.
Mr. John M. Climaco	48	Director; Executive Vice President, Perma-Fix Medical S.A.
Mr. Robert Cochran ⁽¹⁾	63	Director
Dr. Gary Kugler	76	Director
Honorable Joe R. Reeder	69	Director
Mr. Larry M. Shelton	63	Chairman of the Board
Mr. Mark A. Zwecker	66	Director

Each director is elected to serve until the next annual meeting of stockholders.

⁽¹⁾ Mr. Robert Cochran was appointed by the Board as a director effective January 13, 2017 to fill the vacancy left by Mr. Jack Lahav, who retired from the Board effective October 27, 2016. Mr. Lahav’s decision to retire was based on personal reasons and was not as a result of any disagreement with the Company or due to any matter relating to the Company’s operations, policies or practices.

Director Information

Our directors and executive officers, their ages, the positions with us held by each of them, the periods during which they have served in such positions and a summary of their recent business experience is set forth below. Each of the biographies of the current directors listed below also contains information regarding such person's service as a director, business experience, director positions with other public companies held currently or at any time during the past five years, and the experience, qualifications, attributes and skills that our Board of Directors considered in selecting each of them to serve as one of our directors.

Dr. Louis F. Centofanti

Dr. Centofanti is currently the Company's President and CEO, positions he has held since March 1996 and also from February 1991 to September 1995. Dr. Centofanti served as Chairman of our Board from the Company's inception in February 1991 until December 16, 2014, at which time Mr. Larry M. Shelton, an independent member of our Board, was appointed Chairman. Dr. Centofanti continues to serve as a member of our Board. In January 2015, Dr. Centofanti was appointed by the U.S. Secretary of Commerce Penny Prizker to serve on the U.S. Department of Commerce's Civil Nuclear Trade Advisory Committee ("CINTAC"). The CINTAC is composed of industry representatives from the civil nuclear industry and meets periodically throughout the year to discuss the critical trade issues facing the U.S. civil nuclear sector. Effective June 2, 2015, Dr. Centofanti was elected to the Supervisory Board of PF Medical, a majority-owned Polish subsidiary of the Company involved in the research and development ("R&D") of a new medical isotope production technology. From 1985 until joining the Company, Dr. Centofanti served as Senior Vice President ("SVP") of USPCI, Inc., a large, publicly-held hazardous waste management company, where he was responsible for managing the treatment, reclamation and technical groups within USPCI. In 1981, he founded PPM, Inc. (later sold to USPCI), a hazardous waste management company specializing in treating PCB contaminated oil. From 1978 to 1981, Dr. Centofanti served as Regional Administrator of the U.S. Department of Energy for the southeastern region of the United States. Dr. Centofanti has a Ph.D. and a M.S. in Chemistry from the University of Michigan, and a B.S. in Chemistry from Youngstown State University.

As founder of Perma-Fix and PPM, Inc., and as a senior executive at USPCI, Dr. Centofanti combines extensive business experience in the waste management industry with a drive for innovative technology which is critical for a waste management company. In addition, his service in the government sector provides a solid foundation for the continuing growth of the Company, particularly within the Company's Nuclear business. Dr. Centofanti's comprehensive understanding of the Company's operations and his extensive knowledge of its history, coupled with his drive for innovation and excellence, positions Dr. Centofanti to optimize our role in this competitive, evolving market, and led the Board to conclude that he should serve as a director.

John M. Climaco

Mr. Climaco has been a director of the Company since October 2013. Effective June 2, 2015, Mr. Climaco was named the Executive Vice President (“EVP”) of PF Medical. From 2012 through 2015, Mr. Climaco served as an independent consultant to a variety of healthcare and medical technology companies. Since June 2015, Mr. Climaco has served as a board member for Essex Rental Corporation, a Nasdaq-listed heavy-lifting-equipment rental and leasing company that provides various types of cranes, other lifting equipment, and product support used in a wide array of construction projects and whose securities are traded over-the-counter. Mr. Climaco has also served as a board member since 2012 for Digirad Corporation, a NASDAQ-listed company that manufactures cameras for nuclear imaging applications and provides for in-office nuclear cardiology imaging (see “Certain Relationships and Related Transactions, and Director Independence” for a discussion of Mr. Climaco’s employment with PF Medical and a transaction between PF Medical and Digirad Corporation). Mr. Climaco has previously served as a board member for PDI, Inc., a Nasdaq-listed provider of outsourced commercial services to pharmaceutical, biotechnology, and healthcare companies. He has also served as a board member for InfuSystem Holdings, Inc., a NASDAQ-listed company that is a leading supplier of infusion services to oncologists and other out-patient treatment settings. From 2003 to 2012, Mr. Climaco served as president and chief executive officer, as well as a director, of Axial Biotech, Inc., a privately-held, venture-backed molecular diagnostics company specializing in spine disorders, which he cofounded in 2003. From 2001 to 2007, he practiced law for the firm of Fabian and Clendenin, specializing in corporate and tax legal strategies for diverse clients across the U.S. and Europe, as well as joint venture, corporate and securities transactions. Mr. Climaco earned his B.A. in Philosophy from Middlebury College and holds a J.D. from the University of California Hasting College of the Law.

Mr. Climaco’s extensive legal and operational experience, including strategic planning and business development, provides valuable insight to the Company’s immediate and future growth in our industry, and led the Board to conclude that he should serve as a director.

Robert Cochran

Since November 2015, Mr. Cochran has been President and CEO of CTG, LLC, a company that provides strategic business development support, as well as acquisitions and business/management restructuring activity support. Since April 2012, Mr. Cochran has been a director of Longenecker & Associates, Inc., a privately held consulting firm that provides highly specialized, fast-response technical-management support to nuclear and environmental industries. From March 2012 to November 2015, Mr. Cochran served as President and Officer Director of CB&I Federal Services, LLC (a subsidiary of Chicago Bridge & Iron Company, NYSE: CBI), which provides mission-critical services primarily to the U.S. federal government. From 2006 to 2011, Mr. Cochran served as President of B&W Technical Service Group, Inc., an operating group of The Babcock & Wilcox Company (NYSE: BW), which provides support to government and commercial clients, including management and operation of complex high-consequence nuclear facilities, nuclear material processing and manufacturing, classified component manufacturing, engineering, procurement and construction of major capital projects, nuclear safeguards and security, environmental cleanup and remediation, and nuclear-facility deactivation. From 2007 to 2011, Mr. Cochran served as Chairman of the Board of Pantex LLC and B&W Y-12, where he had direct responsibility for the performance and operations associated with nuclear weapons production enterprise. Before joining The Babcock & Wilcox Company, Mr. Cochran worked for more than 20 years in operations and development within the engineering, construction, facilities management and operations, environmental technology, and remediation industries. This experience includes serving as President and CEO of MAGma LLC, a privately-held company that provided management and operational restructuring, strategic development, and acquisition/divestiture services to the public utility, engineering and construction, and Department of Energy business sectors. Additionally, as its SVP, Mr. Cochran led Tyco Infrastructure’s development and delivery of services, opening new markets and service areas valued at more than \$1 billion. Mr. Cochran received an executive M.B.A. from the University of Richmond’s Robins School of Business and a B.S. from James Madison University.

Mr. Cochran has extensive career in solving and overseeing solutions to complex issues involving both domestic and international concerns. In addition, his government related services provide solid experience for the continuing growth of the Company’s Treatment and Services Segments. His extensive knowledge and problem-solving experience enhances the Board’s ability to address significant challenges in the nuclear market, and led the Board to conclude that he should serve as a director.

Dr. Gary G. Kugler

Dr. Gary Kugler, a director since September 2013, served as the Chairman of the Board of the Nuclear Waste Management Organization (“NWMO”) from 2006 to June 2014, where he led its oversight through the work of four committees, including an Audit-Finance-Risk Committee. NWMO was established under the Canadian Nuclear Fuel Waste Act (2002) to investigate and implement approaches for managing Canada’s used nuclear fuel. Dr. Kugler also served on the Board of Ontario Power Generation, Inc. (“OPG”) from 2004 to March 2014 where he served as a member on four different committees, including the Audit, Finance, and Risk Committee from 2004 to 2008. OPG is one of Canada’s largest electricity generation companies, owning 18 nuclear, 65 hydro, and two biomass power plants. Dr. Kugler served as a member of the Supervisory Board of PF Medical from June 2015 to December 2016. Dr. Kugler has had an extensive career in the nuclear industry, both nationally and internationally. He retired from Atomic Energy of Canada Limited (“AECL”) as SVP, Nuclear Products & Services, in 2004, where he was responsible for all of AECL’s commercial operations, including nuclear power plant sales and services world-wide. During his 34 years with AECL, he held various technical, project management, business development, and executive positions. Prior to joining AECL, Dr. Kugler served as a pilot in the Canadian air force. He holds a Ph.D. in nuclear physics from McMaster University and is a graduate of the Directors Education Program of the Institute of Corporate Directors.

Dr. Kugler’s extensive career in the nuclear industry, both nationally and internationally, brings valuable insight and knowledge to the Company as it expands its business internationally, and led the Board to conclude that he should serve as a director.

Honorable Joe R. Reeder

Mr. Reeder, a director since April 2003, served as the Shareholder-in-Charge of the Mid-Atlantic Region (1999-2008) for Greenberg Traurig LLP, one of the nation’s largest law firms, with 38 offices and approximately 2,000 attorneys worldwide. Currently, a principal shareholder in the law firm, Mr. Reeder’s clientele includes sovereign nations, international corporations, and law firms throughout the U.S. As the 14th Undersecretary of the U.S. Army (1993-97), Mr. Reeder also served for three years as Chairman of the Panama Canal Commission’s Board where he oversaw a multibillion-dollar infrastructure program, and, for the past fourteen years he has served on the International Advisory Board of the Panama Canal. He has served on the boards of the National Defense Industry Association (NDIA) (and chaired NDIA’s Ethics Committee), the Armed Services YMCA, and many other private companies and charitable organizations. Following successive appointments by Virginia governors Mark Warner and Tim Kaine, Mr. Reeder served seven years as Chairman of two Commonwealth of Virginia military boards and served ten years on the National USO Board. Mr. Reeder was appointed by Governor Terry McCaulliffe to the Virginia Military Institute’s Board of Visitors (2014). Mr. Reeder is also a television commentator on legal and national security issues. Among other corporate positions, he has been a director since September 2005 for ELBIT Systems of America, LLC, a wholly-owned subsidiary of Elbit Systems Ltd. (NASDAQ: ESLT), that provides product and system solutions focusing on defense, homeland security, and commercial aviation. Mr. Reeder also serves as a Board member for Washington First Bank (since April 2004), and of its parent bank holding company, Washington First Bankshares, Inc. (since 2009). A graduate of West Point who served in the 82nd Airborne Division following Ranger School, Mr. Reeder earned his J.D. from the University of Texas and his L.L.M. from Georgetown University.

Mr. Reeder has a distinguished career in solving and overseeing solutions to complex issues involving both domestic and international concerns. His extensive knowledge and problem-solving experience has enhanced the Board’s ability to address significant challenges in the nuclear market, and led the Board to conclude that he should serve as a director.

Mr. Larry M. Shelton

Mr. Shelton, a director since July 2006, was appointed to the position of Chairman of the Board of the Company on December 16, 2014, replacing Dr. Louis Centofanti, who had held that position since February 1991. Mr. Shelton currently is the Chief Financial Officer (“CFO”) (since 1999) of S K Hart Management, LLC, a private investment management company. In January 2013, Mr. Shelton was elected President of Pony Express Land Development, Inc. (an affiliate of SK Hart Management, LLC), a privately-held land development company, for which he has served on the Board since December 2005. In March 2012, he was appointed Director and CFO of S K Hart Ranches (PTY) Ltd, a private South African Company involved in agriculture. Mr. Shelton served as a member of the Supervisory Board of PF Medical from April 2014 to December 2016. Mr. Shelton has over 18 years of experience as an executive financial officer for several waste management companies, including as CFO of Envirocare of Utah, Inc. (now Energy Solutions (1995–1999)), and CFO of USPCI, Inc. (1982–1987), a NYSE- listed company. Since July 1989, Mr. Shelton has served on the Board of Subsurface Technologies, Inc., a privately-held company specializing in providing environmentally sound innovative solutions for water well rehabilitation and development. Mr. Shelton has a B.A. in accounting from the University of Oklahoma.

With his years of accounting experience as CFO for various companies, including a number of waste management companies, Mr. Shelton combines extensive knowledge and understanding of accounting principles, financial reporting requirements, evaluating and overseeing financial reporting processes and business matters. These factors led the Board to conclude that he should serve as a director.

Mr. Mark A. Zwecker

Mark Zwecker, a director since the Company's inception in January 1991, currently serves as the CFO and a Board member for JCI US Inc., a telecommunications company and wholly-owned subsidiary of Japan Communications, Inc. (Tokyo Stock Exchange (Securities Code: 9424)), which provides cellular service for M2M (machine to machine) applications. From 2006 to 2013, Mr. Zwecker served as Director of Finance for Communications Security and Compliance Technologies, Inc., a wholly-owned subsidiary of JCI US Inc. that develops security software products for the mobile workforce. From 1997 to 2006, Mr. Zwecker served as President of ACI Technology, LLC, an IT services provider, and from 1986 to 1998, he served as Vice President of Finance and Administration for American Combustion, Inc., a combustion technology solutions provider. In 1983, with Dr. Centofanti, Mr. Zwecker co-founded a start-up, PPM, Inc., a hazardous waste management company. He remained with PPM, Inc. until its acquisition in 1985 by USPCI. Mr. Zwecker has a B.S. in Industrial and Systems Engineering from the Georgia Institute of Technology and an M.B.A. from Harvard University.

As a director since our inception, Mr. Zwecker's understanding of our business provides valuable insight to the Board. With years of experience in operations and finance for various companies, including a number of waste management companies, Mr. Zwecker combines extensive knowledge of accounting principles, financial reporting rules and regulations, the ability to evaluate financial results, and understanding of financial reporting processes. He has an extensive background in operating complex organizations. Mr. Zwecker's experience and background position him well to serve as a member of our Board. These factors led the Board to conclude that he should serve as a director.

BOARD LEADERSHIP STRUCTURE

We currently separate the roles of Chairman of the Board and CEO. The Board believes that its current leadership structure, with Dr. Centofanti serving as President and CEO and Mr. Shelton serving as our independent non-executive Chairman of the Board, is appropriate for the Company at this time, as this structure promotes balance between the Board's independent authority to oversee our business, and the CEO and his management team, who manage the business on a day-to-day basis.

The Company does not have a written policy with respect to the separation of the positions of Chairman of the Board and CEO. The Company believes it is important to retain its flexibility to allocate the responsibilities of the offices of the Chairman and CEO in any way that is in the best interests of the Company at a given point in time; therefore, the Company's leadership structure may change in the future as circumstances may dictate.

Mr. Mark Zwecker, a current member of our Board, continues to serve as the Independent Lead Director, a position he has held since February 2010. The Lead Director's role includes:

- convening and chairing meetings of the non-employee directors as necessary from time to time and Board meetings in the absence of the Chairman of the Board;
- acting as liaison between directors, committee chairs and management;
- serving as information sources for directors and management; and
- carrying out responsibilities as the Board may delegate from time to time.

AUDIT COMMITTEE

We have a separately designated standing Audit Committee of our Board established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Mark A. Zwecker (Chairperson), Larry M. Shelton, and Dr. Gary G. Kugler, who replaced Mr. Jack Lahav upon Mr. Lahav's retirement from the Board effective October 27, 2016.

Our Board has determined that each of our Audit Committee members is and was independent within the meaning of the rules of NASDAQ and is an "audit committee financial expert" as defined by Item 407(d)(5)(ii) of Regulation S-K of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Audit Committee has also discussed with Grant Thornton, LLP, the Company's independent registered accounting firm, the matters required to be discussed by Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 16 (Communications with Audit Committee).

BOARD INDEPENDENCE

The Board has determined that each director, other than Dr. Centofanti and Mr. John Climaco, is "independent" within the meaning of the applicable NASDAQ rules. Dr. Centofanti is not deemed to be an "independent director" because of his employment as a senior executive of the Company. The Board determined that Mr. Climaco does not currently qualify as an "independent director" because of his employment as EVP of PF Medical, a majority-owned Polish subsidiary of the Company and because he is also a director of Digirad Corporation, with which PF Medical entered into a supplier agreement and a subscription agreement (together, the "Digirad Agreement") on July 24, 2015 (see "John Climaco" under "Certain Relationships and Related Transactions, and Director Independence" for further discussion of his position with PF Medical and a description of the Digirad Agreement).

COMPENSATION AND STOCK OPTION COMMITTEE

The Compensation and Stock Option Committee ("Compensation Committee") reviews and recommends to the Board the compensation and benefits of all of the Company's officers and reviews general policy matters relating to compensation and benefits of the Company's employees. The Compensation Committee also administers the Company's stock option plans. The Compensation Committee has the sole authority to retain and terminate a compensation consultant, as well as to approve the consultant's fees and other terms of engagement. It also has the authority to obtain advice and assistance from internal or external legal, accounting or other advisors. No compensation consultant was employed during 2016. Members of the Compensation Committee are Dr. Gary G. Kugler (Chairperson), Larry M. Shelton, and Joe R. Reeder. Mark A. Zwecker was a member of the Compensation Committee until October 27, 2016. None of the members of the Compensation Committee has been an officer or employee of the Company or has had any relationship with the Company requiring disclosure under applicable Securities and Exchange Commission regulations.

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

We have a separately-designated standing Corporate Governance and Nominating Committee (the "Nominating Committee"). Members of the Nominating Committee are Joe R. Reeder (Chairperson), Dr. Gary G. Kugler and Mark A. Zwecker, who replaced Mr. Jack Lahav upon Mr. Lahav's retirement from the Board effective October 27, 2016. All members of the Nominating Committee are and were "independent" as that term is defined by current NASDAQ listing standards.

The Nominating Committee recommends to the Board candidates to fill vacancies on the Board and the nominees for election as the directors at each annual meeting of stockholders. In making such recommendation, the Nominating Committee takes into account information provided to them from the candidate, as well as the Nominating Committee's own knowledge and information obtained through inquiries to third parties to the extent the Nominating Committee deems appropriate. The Company's Amended and Restated Bylaws, as amended (the "Bylaws"), sets forth certain minimum director qualifications to qualify for nomination for elections as a Director. To qualify for nomination or election as a director, an individual must:

- be an individual at least 21 years of age who is not under legal disability;

- have the ability to be present, in person, at all regular and special meetings of the Board;
- not serve on the boards of more than three other publicly held companies;
- satisfy the director qualification requirements of all environmental and nuclear commissions, boards or similar regulatory or law enforcement authorities to which the Corporation is subject so as not to cause the Corporation to fail to satisfy any of the licensing requirements imposed by any such authority;
- not be affiliated with, employed by or a representative of, or have or acquire a material personal involvement with, or material financial interest in, any “Business Competitor” (as defined);
- not have been convicted of a felony or of any misdemeanor involving moral turpitude; and
- have been nominated for election to the Board in accordance with the terms of the Bylaws.

In addition to the minimum director qualifications as mentioned above, each candidate’s qualifications are also reviewed to include:

- standards of integrity, personal ethics and value, commitment, and independence of thought and judgment;
- ability to represent the interests of the Company’s stockholders;
- ability to dedicate sufficient time, energy and attention to fulfill the requirements of the position; and
- diversity of skills and experience with respect to accounting and finance, management and leadership, business acumen, vision and strategy, charitable causes, business operations, and industry knowledge.

The Nominating Committee does not assign specific weight to any particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Nominating Committee does not have a formal policy for the consideration of diversity in identifying nominees for directors; however, the Company believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge, and abilities that will allow the Board to fulfill its responsibilities.

Stockholder Nominees

There have been no changes to the stockholder nomination process since the Company’s last proxy statement. The procedure for stockholder nominees to the Board is set out below.

The Nominating Committee will consider properly submitted stockholder nominations for candidates for membership on the Board from stockholders who meet each of the requirements set forth in the Bylaws, including, but not limited to, the requirements that any such stockholder own at least 1% of the Company’s shares of the Common Stock entitled to vote at the meeting on such election, has held such shares continuously for at least one full year, and continuously holds such shares through and including the time of the annual or special meeting. Nominations of persons for election to the Board may be made at any Annual Meeting of Stockholders, or at any Special Meeting of Stockholders called for the purpose of electing directors. Any stockholder nomination (“Proposed Nominee”) must comply with the requirements of the Bylaws and the Proposed Nominee must meet the minimum qualification requirements as discussed above. For a nomination to be made by a stockholder, such stockholder must provide advance written notice to the Nominating Committee, delivered to the Company’s principal executive office address (i) in the case of an Annual Meeting of Stockholders, no later than the 90th day nor earlier than the 120th day prior to the anniversary date of the immediately preceding Annual Meeting of Stockholders; and (ii) in the case of a Special Meeting of Stockholders called for the purpose of electing directors, not later than the 10th day following the day on which public disclosure of the date of the Special Meeting of Stockholders was made.

The Nominating Committee will evaluate the qualification of the Proposed Nominee and the Proposed Nominee’s disclosure and compliance requirements in accordance with the Company’s Bylaws. If the Board, upon the recommendation of the Nominating Committee, determines that a nomination was not made in accordance with the Bylaws, the Chairman of the Meeting shall declare the nomination defective and it will be disregarded.

RESEARCH AND DEVELOPMENT COMMITTEE

We have a separately-designated standing Research and Development Committee (the “R&D Committee”). Members of the R&D Committee include Dr. Gary G. Kugler and Dr. Louis Centofanti.

The R&D Committee outlines the structures and functions of the Company’s research and development strategies, the acquisition and protection of the Company’s intellectual property rights and assets, and provides its perspective on such matter to the Board. The R&D Committee does not have a charter.

STRATEGIC ADVISORY COMMITTEE

We have a separately-designated Strategic Advisory Committee (the “Strategic Committee”). The primary functions of the Strategic Committee are to investigate and evaluate strategic alternatives available to the Company and to work with management on long-range strategic planning and identifying potential new business opportunities. The members of the Strategic Advisory Committee are John M. Climaco (Chairperson), Joe R. Reeder, Mark A. Zwecker, and Larry M. Shelton. The Strategic Advisory Committee does not have a charter.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>
Dr. Louis Centofanti	73	President and CEO
Mr. Ben Naccarato	54	CFO, Vice President, and Secretary
Mr. Mark Duff	54	EVP and Chief Operating Officer (“COO”)

Dr. Louis Centofanti

See “Director – Dr. Louis F. Centofanti” in this section for information on Dr. Centofanti.

Mr. Ben Naccarato

Mr. Naccarato has served as the CFO since February 26, 2009. Mr. Naccarato joined the Company in September 2004 and served as Vice President, Finance of the Company’s Industrial Segment until May 2006, when he was named Vice President, Corporate Controller/Treasurer. From December 2002 to September 2004, Mr. Naccarato was the CFO of Culp Petroleum Company, Inc., a privately held company in the fuel distribution and used waste oil industry. In July 2015, Mr. Naccarato was named the CFO of PF Medical, the Company’s majority-owned Polish subsidiary involved in the research and development of a new medical isotope technology. Effective December 22, 2015, Mr. Naccarato was appointed to the Management Board of PF Medical. Mr. Naccarato is a graduate of University of Toronto having received a Bachelor of Commerce and Finance Degree and is a Chartered Professional Accountant, Certified Management Accountant.

Mr. Mark Duff

On May 15, 2016, the Board appointed Mr. Mark Duff to the position of EVP, effective June 11, 2016. Mr. Duff brings additional experience and leadership to the Company to support and help accelerate anticipated revenue growth and profitability. Upon Mr. John Lash’s retirement as COO of the Company effective September 30, 2016, Mr. Duff assumed the additional position of the Company’s COO, and continues his position as EVP of the Company. Mr. Duff has 30 years of management and technical experience in the U.S. Department of Energy (“DOE”) and U.S. Department of Defense (“DOD”) environmental and construction markets as a corporate officer, senior project manager, co-founder of a consulting firm, and federal employee. For the past five years, Mr. Duff has been responsible for the successful completion of over 70 performance-based projects at the Paducah Gaseous Diffusion Plant (“PGDP”) in Paducah, KY. At the PGDP, he served as the Project Manager for the Paducah Remediation Contract, which was a five-year project with a total value of \$458 million. Prior to the PGDP project, Mr. Duff was a senior manager supporting Babcock and Wilcox (“B&W”), leading several programs that included building teams to solve complex technical problems. These programs included implementation of the American Recovery and Reinvestment Act (“ARRA”) at the DOE Y-12 facility with a \$245 million budget for new cleanup projects completed over a two year period. During this period, Mr. Duff served as project manager leading a team of senior experts in support of Toshiba Corporation in Tokyo, Japan to integrate United States technology in the recovery of the Fukushima Daiichi Nuclear Reactor disaster. This project included arriving in Japan within three weeks after the earthquake to coordinate technologies associated with water treatment, radiation protection and shielding. Prior to joining B&W, Mr. Duff served as the president of Safety and Ecology Corporation (“SEC”). As President of SEC, he helped grow the company from \$50 million to \$80 million in annual revenues with significant growth in infrastructure, marketing, and client diversification. Mr. Duff has an MBA from the University of Phoenix and received his B.S. from the University of Alabama.

Resignation of Executive Officer

On September 12, 2016, the Company accepted the retirement of Mr. John Lash as Vice President and COO of the Company, which became effective September 30, 2016. Mr. Lash remained a part-time employee of the Company assisting with Company business matters from October 1, 2016, through December 31, 2016, at which time Mr. Lash retired from the Company. Mr. Lash's retirement as COO of the Company was not due to a disagreement with the Company.

Certain Relationships

There are no family relationships between any of the directors or executive officers.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, and the regulations promulgated thereunder require our executive officers and directors and beneficial owners of more than 10% of our Common Stock to file reports of ownership and changes of ownership of our Common Stock with the Securities and Exchange Commission, and to furnish us with copies of all such reports. Based solely on a review of the copies of such reports furnished to us and written information provided to us, we believe that during 2016 none of our executive officers, directors, or beneficial owners of more than 10% of our Common Stock failed to timely file reports under Section 16(a).

Capital Bank–Grawe Gruppe AG (“Capital Bank”) has advised us that it is a banking institution regulated by the banking regulations of Austria, which holds shares of our Common Stock as agent on behalf of numerous investors. Capital Bank has represented that all of its investors are accredited investors under Rule 501 of Regulation D promulgated under the Act. In addition, Capital Bank has advised us that none of its investors, individually or as a group, beneficially own more than 4.9% of our Common Stock. Capital Bank has further informed us that its clients (and not Capital Bank) maintain full voting and dispositive power over such shares. Consequently, Capital Bank has advised us that it believes it is not the beneficial owner, as such term is defined in Rule 13d-3 of the Exchange Act, of the shares of our Common Stock registered in the name of Capital Bank because it has neither voting nor investment power, as such terms are defined in Rule 13d-3, over such shares. Capital Bank has informed us that it does not believe that it is required (a) to file, and has not filed, reports under Section 16(a) of the Exchange Act or (b) to file either Schedule 13D or Schedule 13G in connection with the shares of our Common Stock registered in the name of Capital Bank.

If the representations of, or information provided by Capital Bank are incorrect or Capital Bank was historically acting on behalf of its investors as a group, rather than on behalf of each investor independent of other investors, then Capital Bank and/or the investor group would have become a beneficial owner of more than 10% of our Common Stock on February 9, 1996, as a result of the acquisition of 1,100 shares of our Preferred Stock that were convertible into a maximum of 256,560 shares of our Common Stock. If either Capital Bank or a group of Capital Bank's investors became a beneficial owner of more than 10% of our Common Stock on February 9, 1996, or at any time thereafter, and thereby required to file reports under Section 16(a) of the Exchange Act, then Capital Bank has failed to file a Form 3 or any Forms 4 or 5 since February 9, 1996. (See “Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matter – Security Ownership of Certain Beneficial Owners” for a discussion of Capital Bank's current record ownership of our securities).

Code of Ethics

Our Code of Ethics applies to all our executive officers, including our CEO, CFO, COO/EVP, and is available on our website at www.perma-fix.com. If any amendments are made to the Code of Ethics or any grants of waivers are made to any provision of the Code of Ethics to any of our executive officers, we will promptly disclose the amendment or waiver and nature of such amendment or waiver on our website at the same web address.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation

The following table summarizes the total compensation paid or earned by each of the named executive officers (“NEOs”) for the fiscal years ended December 31, 2016 and 2015.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$) ⁽²⁾	Non-Equity Incentive Plan Compensation (\$) ⁽³⁾	All other Compensation (\$) ⁽⁴⁾	Total Compensation (\$)
Dr. Louis Centofanti	2016	279,248	—	—	—	31,763	311,011
President and CEO	2015	271,115	—	—	82,691	31,446	385,252
Ben Naccarato	2016	220,667	—	—	—	37,537	258,204
Vice President and CFO	2015	214,240	—	—	65,343	37,710	317,293
Mark Duff ⁽¹⁾	2016	136,581	—	100,094	—	40,800	277,475
EVP/COO	2015	—	—	—	—	—	—
John Lash ⁽¹⁾	2016	215,000	—	—	—	26,925	241,925
Vice President and COO	2015	215,000	—	—	65,575	26,863	307,438

(1) Mr. Duff was appointed as EVP by the Company on May 15, 2016 (effective June 11, 2016). Upon Mr. Lash’s retirement from the position of COO, effective September 30, 2016, Mr. Duff also assumed the additional position of COO. Mr. Lash remained a part time employee of the Company from October 1, 2016 to December 31, 2016, at which time Mr. Lash retired from the Company. As EVP/COO, Mr. Duff was provided the following compensation:

- Annual base salary of \$267,000;
- Incentive stock options for purchase up to 50,000 shares of the Company’s Common Stock (see footnote 2 below);
- Eligibility to participate in the Company’s performance incentive compensation bonus program (see footnote 3 below);
- Up to \$40,000 relocation expenses, of which Mr. Duff incurred \$26,695 in relocation expenses (see footnote 4 below); and
- Car allowance of \$750 per month.

Amount noted in chart above for 2016 reflect amount earned by Mr. Duff from his date of employment in June 2016.

- (2) Reflects the aggregate grant date fair value of awards computed in accordance with ASC 718, “Compensation – Stock Compensation.” Assumptions used in the calculation of this amount are included in Note 6 – “Capital Stock, Stock Plans, Warrants and Stock Based Compensation” to “Notes to Consolidated Financial Statement.” No options were granted to any other NEOs in 2016 other than Mr. Duff. No options were granted to NEOs in 2015.
- (3) Represents performance compensation earned under the Company’s Management Incentive Plan (“MIP”) with respect to each NEO. The MIP for each NEO is described under the heading “2016 Management Incentive Plans (“MIP”).” No compensation was earned by any named executive officer under his respective MIP for 2016. Mr. Duff did not have a MIP for 2016.
- (4) The amount shown includes a monthly automobile allowance (\$500 or \$750), insurance premiums (health, disability and life) paid by the Company on behalf of the executive, and 401(k) matching contribution. For Mr. Duff, amount included relocation expense paid by the Company.

Name	Insurance Premium	Auto Allowance	401(k) match	Relocation	Total
Dr. Louis Centofanti	\$ 17,028	\$ 9,000	\$ 5,735	—	\$ 31,763
Ben Naccarato	\$ 24,039	\$ 9,000	\$ 4,498	—	\$ 37,537
Mark Duff	\$ 8,720	\$ 4,846	\$ 539	26,695	\$ 40,800
John Lash	\$ 17,028	\$ 6,000	\$ 3,897	—	\$ 26,925

Outstanding Equity Awards at Fiscal Year

The following table sets forth unexercised options held by the NEOs as of the fiscal year-end.

Outstanding Equity Awards at December 31, 2016

Name	Option Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) (1) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date
Dr. Louis Centofanti	—	—	—	—	—
Ben Naccarato	—	—	—	—	—
Mark Duff	—	50,000	(2)	3.97	5/15/2022
John Lash (3)	30,000	—	—	5.00	3/31/2017

- (1) In the event of a change in control (as defined in the 2010 Stock Option Plan) of the Company, each outstanding option and award shall immediately become exercisable in full notwithstanding the vesting or exercise provisions contained in the stock option agreement.
- (2) Incentive stock option granted on May 15, 2016 under the Company's 2010 Stock Option Plan. The option is for a six year term and vests over a three year period, at one third increments per year.
- (3) Mr. Lash retired from the position of COO effective September 30, 2016 and remained a part-time employee of the Company from October 1, 2016 to December 31, 2016 at which time he retired from the Company. Pursuant to the provisions of the 2010 Stock Option Plan, upon retirement, Mr. Lash has till March 31, 2017 to exercise his vested options.

None of the Company's NEOs exercised options during 2016.

Employment Agreements

Each of our CEO and CFO has an employment agreements dated July 10, 2014 with the Company. The employment agreements dated July 10, 2014 with our CEO and CFO are collectively referred to as the "Employment Agreements" and each as an "Employment Agreement." These Employment Agreements provided that Dr. Centofanti, CEO, was entitled to receive an annual base salary of \$271,115 and Mr. Naccarato, CFO, was entitled to receive an annual base salary of \$214,240. The base salary is subject to adjustment as determined by the Compensation Committee. In addition to base salary, each of these executive officers is entitled to participate in the Company's benefits plans and to any performance compensation payable under an individual MIP for the CEO and CFO. No compensation was earned under each of the MIP for the CEO and CFO in 2016 (see further detail of each MIP below under the heading "2016 Management Incentive Plans ("MIPs)").

Each of the Employment Agreements is effective for three years. Each Employment Agreement may be terminated prior to its expiration by the Company with or without "cause" (as defined in the agreement) or by the executive officer for "good reason" (as defined in the agreement) or any other reason. If the NEO's employment is terminated due to death, disability or for cause, we will pay to the NEO or to his estate a lump sum equal to the sum of any unpaid base salary through the date of termination and any benefits otherwise due at that time under any employee benefit plan, excluding any severance program or policy (the "Accrued Amounts").

If the NEO terminates his employment for “good reason” or is terminated without cause, we will pay the NEO a sum equal to the total Accrued Amounts, plus one year of full base salary. If the NEO terminates his employment for a reason other than for good reason, we will pay to him the amount equal to the Accrued Amounts. If there is a Change in Control (as defined in the agreement), all outstanding stock options to purchase common stock held by the NEO will immediately become vested and exercisable in full. Severance benefits payable with respect to a termination (other than Accrued Amounts) shall not be payable until the termination constitutes a “separation from service” (as defined under Treasury Regulation Section 1.409A-1(h)).

Mr. John Lash, who retired from the position of COO, effective September 30, 2016, also had an employment agreement (“COO Employment Agreement”) dated July 10, 2014 with substantially the same provisions as in the Employment Agreements discussed above, in addition to an individual MIP for 2016. Upon Mr. Lash’s retirement from the position of COO, the COO Employment Agreement terminated. No compensation was earned by the COO under his 2016 MIP (see further detail of the COO’s 2016 MIP below under the heading “2016 Management Incentive Plans (“MIPs”)”).

On January 19, 2017, the Compensation Committee and the Board approved, and the Company entered into, an employment agreement (the “EVP/COO Employment Agreement”) with Mr. Mark Duff, EVP/COO. Upon Mr. Lash’s retirement as COO effective September 30, 2016 as discussed above, Mr. Duff assumed the additional position of COO and continued his position of EVP of the Company. The EVP/COO Employment Agreement is effective June 11, 2016, Mr. Duff’s date of employment as EVP, and has a term of three years. Pursuant to the EVP/COO Employment Agreement, Mr. Duff will serve as the Company’s EVP/COO, with an annual base salary of \$267,000. In addition, Mr. Duff is entitled to participate in the Company’s broad-based benefits plans and to certain performance compensation payable under a separate MIP as approved by the Company’s Compensation Committee and Board. See MIPs approved by the Compensation Committee for each of the EVP/COO, CEO, and CFO for 2017 below. The terms of each 2017 MIP, which are each effective as of January 1, 2017, are described below under the heading “2017 MIPs.”

The EVP/COO Employment Agreements is effective for three years, unless earlier terminated by the Company with or without “cause” (as defined in the agreement) or by the EVP/COO for “good reason” (as defined in the agreement) or any other reason. If the EVP/COO’s employment is terminated due to death, disability or for cause, the Company will pay to the EVP/COO or to his estate a lump sum equal to the sum of any unpaid base salary through the date of termination and any benefits due to the EVP/COO under any employee benefit plan, excluding any severance program or policy (the “Accrued Amounts”).

If the EVP/COO terminates his employment for good reason or is terminated without cause, the Company will pay the EVP/COO a sum equal to the total Accrued Amounts, plus one year of full base salary. If the EVP/COO terminates his employment for a reason other than for good reason, the Company will pay to the EVP/COO the amount equal to the Accrued Amounts. If there is a Change in Control (as defined in the agreement), all outstanding stock options to purchase common stock held by the EVP/COO will immediately become exercisable in full. Severance benefits payable with respect to a termination (other than Accrued Amounts) shall not be payable until the termination constitutes a “separation from service” (as defined under Treasury Regulation Section 1.409A-1(h)).

Potential Payments

The following table sets forth the potential (estimated) payments and benefits to which our NEOs, Dr. Centofanti, Mark Duff, and Mr. Naccarato would be entitled upon termination of employment or following a Change in Control of the Company, as specified under each Employment Agreement with the Company, assuming each circumstance described below occurred on December 31, 2016, the last day of our fiscal year. Mr. John Lash's Employment Agreement terminated effective September 30, 2016, upon his retirement from the position of COO.

Name and Principal Position Potential Payment/Benefit	Disability, Death, or For Cause	By Employee for Good Reason or by Company Without Cause	Change in Control of the Company
Dr. Louis Centofanti President, CEO and Director			
Severance	—	\$279,248	—
Stock Options	— (1)	— (1)	— (1)
Mr. Mark Duff EVP/COO			
Severance	—	\$267,000	—
Stock Options	— (2)	— (2)	— (3)
Ben Naccarato CFO			
Severance	—	\$220,667	—
Stock Options	— (1)	— (1)	— (1)

(1) No stock option outstanding as of December 31, 2016.

(2) Benefit is zero since no options were vested as of December 31, 2016.

(3) Benefit is zero since the number of stock options outstanding that were in-the-money as of December 31, 2016 (as reported on NASDAQ) was zero.

No performance compensation under the NEO's MIP would have been payable at December 31, 2016 under any of the circumstances described in the table above. Pursuant to each MIP, if the participant's employment with the Company is voluntarily or involuntarily terminated prior to the annual payment of the MIP compensation payment period, no MIP payment is payable. The payment is otherwise payable under each MIP on or about 90 days after year-end, or sooner, based on finalization of our financial statements for year-end. See "2016 Management Incentive Plans ("MIPs")" below.

The amounts payable with respect to a termination (other than base salary and amounts otherwise payable under any Company employee benefit plan) are payable only if the termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-1(h)).

2016 Executive Compensation Components

For the fiscal year ended December 31, 2016, the principal components of compensation for executive officers were:

- base salary;
- performance-based incentive compensation;
- long term incentive compensation;
- retirement and other benefits; and
- perquisites.

Based on the amounts set forth in the Summary Compensation table, during 2016, salary accounted for approximately 78.2% of the total compensation of our NEOs, while equity option awards, bonus, MIP compensation, and other compensation accounted for approximately 21.8% of the total compensation of the NEOs.

Base Salary

The NEOs, other officers, and other employees of the Company receive a base salary during the fiscal year. Base salary ranges for executive officers are determined for each executive based on his or her position and responsibility by using market data and comparisons to the Peer Group.

During its review of base salaries for executives, the Compensation Committee primarily considers:

- market data and Peer Group comparisons;
- internal review of the executive's compensation, both individually and relative to other officers; and
- individual performance of the executive.

Salary levels are typically considered annually as part of the performance review process as well as upon a promotion or other change in job responsibility. Merit based salary increases for executives are based on the Compensation Committee's assessment of the individual's performance. The base salary and potential annual base salary adjustments for the CEO, CFO, and EVP/COO are set forth in their respective Employment Agreements.

Performance-Based Incentive Compensation

The Compensation Committee has the latitude to design cash and equity-based incentive compensation programs to promote high performance and achievement of our corporate objectives by directors and the NEOs, encourage the growth of stockholder value and enable employees to participate in our long-term growth and profitability. The Compensation Committee may grant stock options and/or performance bonuses. In granting these awards, the Compensation Committee may establish any conditions or restrictions it deems appropriate. In addition, the CEO has discretionary authority to grant stock options to certain high-performing executives or officers, subject to the approval of the Compensation Committee. The exercise price for each stock options granted is at or above the market price of our Common Stock on the date of grant. Stock options may be awarded to newly hired or promoted executives at the discretion of the Compensation Committee. Grants of stock options to eligible newly hired executive officers are generally made at the next regularly scheduled Compensation Committee meeting following the hire date.

2016 Management Incentive Plans ("MIPs")

On February 4, 2016, the Board and the Compensation Committee approved individual MIPs for our CEO, previous COO (who retired from the position of COO effective September 30, 2016), and CFO. The MIPs were effective as of January 1, 2016. Each MIP provided guidelines for the calculation of annual cash incentive based compensation, subject to Compensation Committee oversight and modification. Each MIP awarded cash compensation based on achievement of performance thresholds (as discussed below), with the amount of such compensation established as a percentage of base salary. The potential target performance compensation ranged from 5% to 100% of the 2016 base salary for the CEO (\$13,962 to \$279,248), 5% to 100% of the 2016 base salary for our previous COO (\$10,750 to \$215,000) , and 5% to 100% of the 2016 base salary for the CFO (\$11,033 to \$220,667) .

Performance compensation under the Company's MIPs is to be paid on or about 90 days after year-end, or sooner, based on finalization of our audited financial statements for 2016. If the MIP participant's employment with the Company is voluntarily or involuntarily terminated prior to a regularly scheduled MIP compensation payment date, no MIP payment will be payable for and after such period.

The Compensation Committee retains the right to modify, change or terminate each MIP and may adjust the various target amounts described below, at any time and for any reason.

The total performance compensation paid to the CEO, our previous COO, and CFO as a group was not to exceed 50% of the Company's pre-tax net income (exclusive of PF Medical, the Company's majority-owned Polish subsidiary) prior to the calculation of performance compensation.

No performance incentive compensation was earned under each of the MIPs for the CEO, previous COO, and CFO for 2016 as described below.

The following describes the principal terms of each MIP:

CEO MIP:

2016 CEO performance compensation was based upon meeting corporate revenue, earnings before interest, taxes, depreciation and amortization (“EBITDA”), health and safety, and environmental compliance (permit and license violations) objectives during fiscal year 2016 from our continuing operations (excluding PF Medical). The Compensation Committee believes performance compensation payable under each of the 2016 MIPs as discussed herein and below should be based on achievement of an EBITDA target as this target, which excludes certain non-cash items, provides a better indicator of operating performance. However, EBITDA has certain limitations as it does not reflect all items of income or cash flows that affect the Company’s financial performance under GAAP. At achievement of 70% to 119% of the revenue and EBITDA targets, the potential performance compensation was payable at 5% to 50% of the CEO’s 2016 base salary. For this compensation, 60% was based on EBITDA goal, 10% on revenue goal, 15% on the number of health and safety claim incidents that occurred during fiscal year 2016, and the remaining 15% on the number of notices alleging environmental, health or safety violations under our permits or licenses that occurred during the fiscal year 2016. At achievement of 120% to 160%+ of the revenue and EBITDA targets, the potential performance compensation was payable at 65% to 100% of the CEO’s 2016 base salary. For this compensation, the amount payable was based on the four objectives noted above, with the payment of such performance compensation being weighted more heavily toward the EBITDA objective. Each of the revenue and EBITDA components was based on our Board-approved revenue target and EBITDA target. The 2016 target performance incentive compensation for our CEO was as follows:

Annualized Base Pay:	\$ 279,248
Performance Incentive Compensation Target (at 100% of MIP):	\$ 139,624
Total Annual Target Compensation (at 100% of MIP):	\$ 418,872

	TARGET							
Revenue Target	<\$56,000,000	\$56,000,000	\$68,000,000	\$80,000,000	\$96,000,000	\$112,000,000	\$128,000,000	
EBITDA Target	<\$6,370,000	\$ 6,370,000	\$ 7,735,000	\$ 9,100,000	\$10,920,000	\$ 12,740,000	\$ 14,560,000	
% of Performance Incentive Target	0%	10%	50%	100%	130%	170%	200%	
% of Target Achieved	<70%	70%-84%	85%-99%	100%-119%	120%-139%	140%-159%	160%+	
Revenue	\$ -	\$ 1,397	\$ 6,981	\$ 13,962	\$ 19,945	\$ 27,924	\$ 33,908	
EBITDA	-	8,377	41,887	83,774	119,678	167,549	203,452	
Health and Safety	-	2,094	10,472	20,944	20,944	20,944	20,944	
Permit & License Violations	-	2,094	10,472	20,944	20,944	20,944	20,944	
	\$ -	\$ 13,962	\$ 69,812	\$ 139,624	\$ 181,511	\$ 237,361	\$ 279,248	

- 1) Revenue was defined as the total consolidated third party top line revenue from continuing operations (excluding PF Medical) as publicly reported in the Company’s financial statements. The percentage achieved was determined by comparing the actual consolidated revenue from continuing operations to the Board-approved revenue target from continuing operations, which was \$80,000,000. The Board reserved the right to modify or change the revenue targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- 2) EBITDA was defined as earnings before interest, taxes, depreciation, and amortization from continuing operations (excluding PF Medical). The percentage achieved was determined by comparing the actual EBITDA to the Board approved EBITDA target, which was \$9,100,000. The Board reserved the right to modify or change the EBITDA targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.

- 3) The health and safety incentive target was based upon the actual number of Worker’s Compensation Lost Time Accidents, as provided by the Company’s Worker’s Compensation carrier. The Corporate Controller submitted a report on a quarterly basis documenting and confirming the number of Worker’s Compensation Lost Time Accidents, supported by the Worker’s Compensation Loss Report provided by the Company’s carrier or broker. Such claims were identified on the loss report as “indemnity claims.” The following number of Worker’s Compensation Lost Time Accidents and corresponding Performance Target Thresholds were established for the annual incentive compensation plan calculation for 2016.

Claim Number	Target
6	70%-84%
5	85%-99%
4	100%-119%
3	120%-139%
2	140%-159%
1	160% +

- 4) Permits or license violations incentive was earned/determined according to the scale set forth below: An “official notice of non-compliance” was defined as an official communication from a local, state, or federal regulatory authority alleging one or more violations of an otherwise applicable Environmental, Health or Safety requirement or permit provision, which resulted in a facility’s implementation of corrective action(s).

Permit and License Violations	Performance Target
6	70%-84%
5	85%-99%
4	100%-119%
3	120%-139%
2	140%-159%
1	160% +

- 5) No performance incentive compensation was payable for achieving the health and safety, permit and license violation, and revenue targets unless a minimum of 70% of the EBITDA target was achieved.

COO MIP:

2016 COO performance compensation was based upon meeting corporate revenue, EBITDA, health and safety, and environmental compliance (permit and license violations) objectives during fiscal year 2016 from our continuing operations (excluding PF Medical). At achievement of 70% to 119% of the revenue and EBITDA targets, the potential performance compensation was payable at 5% to 50% of the COO’s 2016 base salary. For this compensation, 60% was based on EBITDA goal, 10% on revenue goal, 15% on the number of health and safety claim incidents that occurred during fiscal year 2016, and the remaining 15% on the number of notices alleging environmental, health or safety violations under our permits or licenses that occurred during the fiscal year 2016. At achievement of 120% to 160%+ of the revenue and EBITDA targets, the potential performance compensation was payable at 65% to 100% of the COO’s 2016 base salary. For this compensation, the amount payable was based on the four objectives noted above, with the payment of such performance compensation being weighted more heavily toward the EBITDA objective. Each of the revenue and EBITDA components was based on our Board approved revenue target and EBITDA target. The 2016 target performance incentive compensation for our COO was as follows:

Annualized Base Pay:	\$	215,000
Performance Incentive Compensation Target (at 100% of MIP):	\$	107,500
Total Annual Target Compensation (at 100% of MIP):	\$	322,500

				TARGET			
Revenue Target	<\$56,000,000	\$56,000,000	\$68,000,000	\$80,000,000	\$96,000,000	\$112,000,000	\$128,000,000
EBITDA Target	<\$6,370,000	\$ 6,370,000	\$ 7,735,000	\$ 9,100,000	\$10,920,000	\$ 12,740,000	\$ 14,560,000
% of Performance							
Incentive Target	0%	10%	50%	100%	130%	170%	200%
% of Target Achieved							
	<70 %	70%-84%	85%-99%	100%-119%	120%-139%	140%-159%	160%⁺
Revenue	\$ -	\$ 1,074	\$ 5,374	\$ 10,750	\$ 15,357	\$ 21,500	\$ 26,107
EBITDA	-	6,450	32,250	64,500	92,143	129,000	156,643
Health and Safety	-	1,613	8,063	16,125	16,125	16,125	16,125
Permit & License							
Violations	-	1,613	8,063	16,125	16,125	16,125	16,125
	\$ -	\$ 10,750	\$ 53,750	\$ 107,500	\$ 139,750	\$ 182,750	\$ 215,000

- 1) Revenue was defined as the total consolidated third party top line revenue from continuing operations (excluding PF Medical) as publicly reported in the Company's financial statements. The percentage achieved was determined by comparing the actual consolidated revenue from continuing operations to the Board-approved revenue target from continuing operations, which was \$80,000,000. The Board reserved the right to modify or change the revenue targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- 2) EBITDA was defined as earnings before interest, taxes, depreciation, and amortization from continuing operations (excluding PF Medical). The percentage achieved was determined by comparing the actual EBITDA to the Board approved EBITDA target, which was \$9,100,000. The Board reserved the right to modify or change the EBITDA targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- 3) The health and safety incentive target was based upon the actual number of Worker's Compensation Lost Time Accidents, as provided by the Company's Worker's Compensation carrier. The Corporate Controller submitted a report on a quarterly basis documenting and confirming the number of Worker's Compensation Lost Time Accidents, supported by the Worker's Compensation Loss Report provided by the Company's carrier or broker. Such claims were identified on the loss report as "indemnity claims." The following number of Worker's Compensation Lost Time Accidents and corresponding Performance Target Thresholds were established for the annual incentive compensation plan calculation for 2016.

Claim Number	Target
6	70%-84%
5	85%-99%
4	100%-119%
3	120%-139%
2	140%-159%
1	160% +

- 4) Permits or license violations incentive was earned/determined according to the scale set forth below: An "official notice of non-compliance" was defined as an official communication from a local, state, or federal regulatory authority alleging one or more violations of an otherwise applicable Environmental, Health or Safety requirement or permit provision, which resulted in a facility's implementation of corrective action(s).

License Violations	Performance Target
6	70%-84%
5	85%-99%
4	100%-119%
3	120%-139%
2	140%-159%
1	160% +

- 5) No performance incentive compensation was payable for achieving the health and safety, permit and license violation, and revenue targets unless a minimum of 70% of the EBITDA target was achieved.

CFO MIP:

2016 CFO performance compensation was based upon meeting corporate revenue, EBITDA, health and safety, and environmental compliance (permit and license violations) objectives during fiscal year 2016 from our continuing operations (excluding PF Medical). At achievement of 70% to 119% of the revenue and EBITDA targets, the potential performance compensation was payable at 5% to 50% of the CFO's 2016 base salary. For this compensation, 60% was based on EBITDA goal, 10% on revenue goal, 15% on the number of health and safety claim incidents that occurred during fiscal year 2016, and the remaining 15% on the number of notices alleging environmental, health or safety violations under our permits or licenses that occurred during the fiscal year 2016. At achievement of 120% to 160%+ of the revenue and EBITDA targets, the potential performance compensation was payable at 65% to 100% of the CFO's 2016 base salary. For this compensation, the amount payable was based on the four objectives noted above, with the payment of such performance compensation being weighted more heavily toward the EBITDA objective. Each of the revenue and EBITDA components was based on our Board approved revenue target and EBITDA target. The 2016 target performance incentive compensation for our CFO was as follows:

Annualized Base Pay:	\$ 220,667
Performance Incentive Compensation Target (at 100% of Plan):	\$ 110,334
Total Annual Target Compensation (at 100% of Plan):	\$ 331,001

	TARGET							
Revenue Target	<\$56,000,000	\$56,000,000	\$68,000,000	\$80,000,000	\$96,000,000	\$112,000,000	\$128,000,000	
EBITDA Target	<\$6,370,000	\$ 6,370,000	\$ 7,735,000	\$ 9,100,000	\$10,920,000	\$ 12,740,000	\$ 14,560,000	
% of Performance Incentive Target	0%	10%	50%	100%	130%	170%	200%	
% of Target Achieved	<70 %	70%-84%	85%-99%	100%-119%	120%-139%	140%-159%	160%⁺	
Revenue	\$ -	\$ 1,103	\$ 5,517	\$ 11,034	\$ 15,762	\$ 22,067	\$ 26,795	
EBITDA	-	6,620	33,100	66,200	94,572	132,400	160,772	
Health and Safety	-	1,655	8,275	16,550	16,550	16,550	16,550	
Permit & License Violations	-	1,655	8,275	16,550	16,550	16,550	16,550	
	\$ -	\$ 11,033	\$ 55,167	\$ 110,334	\$ 143,434	\$ 187,567	\$ 220,667	

- 1) Revenue was defined as the total consolidated third party top line revenue from continuing operations (excluding PF Medical) as publicly reported in the Company's financial statements. The percentage achieved was determined by comparing the actual consolidated revenue from continuing operations to the Board-approved revenue target from continuing operations, which was \$80,000,000. The Board reserved the right to modify or change the revenue targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- 2) EBITDA was defined as earnings before interest, taxes, depreciation, and amortization from continuing operation (excluding PF Medical). The percentage achieved was determined by comparing the actual EBITDA to the Board approved EBITDA target, which was \$9,100,000. The Board reserved the right to modify or change the EBITDA targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.

- 3) The health and safety incentive target was based upon the actual number of Worker’s Compensation Lost Time Accidents, as provided by the Company’s Worker’s Compensation carrier. The Corporate Controller submitted a report on a quarterly basis documenting and confirming the number of Worker’s Compensation Lost Time Accidents, supported by the Worker’s Compensation Loss Report provided by the Company’s carrier or broker. Such claims were identified on the loss report as “indemnity claims.” The following number of Worker’s Compensation Lost Time Accidents and corresponding Performance Target Thresholds were established for the annual incentive compensation plan calculation for 2016.

Claim Number	Target
6	70%-84%
5	85%-99%
4	100%-119%
3	120%-139%
2	140%-159%
1	160% +

- 4) Permits or license violations incentive was earned/determined according to the scale set forth below: An “official notice of non-compliance” was defined as an official communication from a local, state, or federal regulatory authority alleging one or more violations of an otherwise applicable Environmental, Health or Safety requirement or permit provision, which resulted in a facility’s implementation of corrective action(s).

Permit and License Violations	Performance Target
6	70%-84%
5	85%-99%
4	100%-119%
3	120%-139%
2	140%-159%
1	160% +

- 5) No performance incentive compensation was payable for achieving the health and safety, permit and license violation, and revenue targets unless a minimum of 70% of the EBITDA target was achieved.

2016 MIP Targets

As discussed above, 2016 MIPs approved for the CEO, COO, and CFO by the Board and the Compensation Committee provided for the award of cash compensation based on achievement of performance targets which included revenue and EBITDA targets as approved by our Board. The 2016 MIP revenue target of \$80,000,000 and EBITDA target of \$9,100,000 were set by the Compensation Committee taking into account the Board-approved budget for 2016 as well as the committee’s expectations for performance that in its estimation would warrant payment of incentive cash compensation. In formulating the revenue target of \$80,000,000, the Board considered 2015 results, current economic conditions, and forecasts for 2016 government (DOE) spending. The Compensation Committee believed the performance targets were likely to be achieved, but not assured. No cash incentive based compensation under the 2016 MIPs was paid to the CEO, COO or CFO.

2017 MIPs

On January 19, 2017, the Board and the Compensation Committee approved individual MIPs for our CEO, EVP/COO, and CFO. The MIPs are effective January 1, 2017. Each MIP provides guidelines for the calculation of annual cash incentive based compensation, subject to Compensation Committee oversight and modification. Each MIP awards cash compensation based on achievement of performance thresholds, with the amount of such compensation established as a percentage of base salary. The potential target performance compensation ranges from 5% to 100% of the 2017 base salary for the CEO (\$13,962 to \$279,248), 5% to 100% of the 2017 base salary for the EVP/COO (\$13,350 to \$267,000), and 5% to 100% of the 2017 base salary for the CFO (\$11,033 to \$220,667).

Performance compensation is paid on or about 90 days after year-end, or sooner, based on finalization of our audited financial statements for 2017. If the MIP participant’s employment with the Company is voluntarily or involuntarily terminated prior to a regularly scheduled MIP compensation payment date, no MIP payment will be payable for and after such period.

The Compensation Committee retains the right to modify, change or terminate each MIP and may adjust the various target amounts described below, at any time and for any reason.

The total performance compensation paid to the CEO, EVP/COO, and CFO as a group is not to exceed 50% of the Company's pre-tax net income (exclusive of PF Medical) prior to the calculation of performance compensation.

The following describes the principal terms of each MIP:

CEO MIP:

2017 CEO performance compensation is based upon meeting corporate revenue, EBITDA, health and safety, and environmental compliance (permit and license violations) objectives during fiscal year 2017 from our continuing operations (excluding PF Medical). The Compensation Committee believes performance compensation payable under each of the 2017 MIPs as discussed herein and below should be based on achievement of an EBITDA target, which excludes certain non-cash items, as this target provides a better indicator of operating performance. However, EBITDA has certain limitations as it does not reflect all items of income or cash flows that affect the Company's financial performance under GAAP. At achievement of 70% to 119% of the revenue and EBITDA targets, the potential performance compensation is payable at 5% to 50% of the CEO's 2017 base salary. For this compensation, 60% is based on the EBITDA goal, 10% on the revenue goal, 15% on the number of health and safety claim incidents that occur during fiscal year 2017, and the remaining 15% on the number of notices alleging environmental, health, or safety violations under our permits or licenses that occur during the fiscal year 2017. At achievement of 120% to 160%+ of the revenue and EBITDA targets, the potential performance compensation is payable at 65% to 100% of the CEO's 2017 base salary. For this compensation, the amount payable is based on the four objectives noted above, with the payment of such performance compensation being weighted more heavily toward the EBITDA objective. Each of the revenue and EBITDA components is based on our Board approved revenue target and EBITDA target. The 2017 target performance incentive compensation for our CEO is as follows:

Annualized Base Pay:	\$ 279,248
Performance Incentive Compensation Target (at 100% of MIP):	\$ 139,624
Total Annual Target Compensation (at 100% of MIP):	\$ 418,872

**CEO MIP Matrix
2017**

Performance Target Column	(a)	(b)	(c)	(d)	(e)	(f)
	TARGET					
Revenue Target	< \$ 56,000,000	\$56,000,000	\$68,000,000	\$80,000,000	\$96,000,000	\$112,000,000 \$128,000,000
EBITDA Target	< \$ 6,510,000	\$ 6,510,000	\$ 7,905,000	\$ 9,300,000	\$11,160,000	\$ 13,020,000 \$ 14,880,000
% of Performance Incentive Target	0%	10%	50%	100%	130%	170% 200%
% of Target Achieved	<70%	70%-84%	85%-99%	100%-119%	120%-139%	140%-159% 160%+
Revenue	\$ -	\$ 1,397	\$ 6,981	\$ 13,962	\$ 19,945	\$ 27,924 \$ 33,908
EBITDA	-	8,377	41,887	83,774	119,678	167,549 203,452
Health and Safety	-	2,094	10,472	20,944	20,944	20,944 20,944
Permit & License Violations	-	2,094	10,472	20,944	20,944	20,944 20,944
	\$ -	\$ 13,962	\$ 69,812	\$ 139,624	\$ 181,511	\$ 237,361 \$ 279,248

1) Revenue is defined as the total consolidated third party top line revenue from continuing operations (excluding PF Medical) as publicly reported in the Company's 2017 financial statements. The percentage achieved is determined by comparing the actual consolidated revenue from continuing operations to the Board-approved revenue target from continuing operations, which is \$80,000,000. The Board reserves the right to modify or change the revenue targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.

- 2) EBITDA is defined as earnings before interest, taxes, depreciation, and amortization from continuing operations (excluding PF Medical). The percentage achieved is determined by comparing the actual EBITDA to the Board approved EBITDA target for 2017, which is \$9,300,000. The Board reserves the right to modify or change the EBITDA targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- 3) The health and safety incentive target is based upon the actual number of Worker's Compensation Lost Time Accidents, as provided by the Company's Worker's Compensation carrier. The Corporate Controller will submit a report on a quarterly basis documenting and confirming the number of Worker's Compensation Lost Time Accidents, supported by the Worker's Compensation Loss Report provided by the company's carrier or broker. Such claims will be identified on the loss report as "indemnity claims." The following number of Worker's Compensation Lost Time Accidents and corresponding Performance Target Thresholds has been established for the annual incentive compensation plan calculation for 2017.

Work Comp. Claim Number	Performance Target Payable Under Column
6	(a)
5	(b)
4	(c)
3	(d)
2	(e)
1	(f)

- 4) Permits or license violations incentive is earned/determined according to the scale set forth below: An "official notice of non-compliance" is defined as an official communication during 2017 from a local, state, or federal regulatory authority alleging one or more violations of an otherwise applicable Environmental, Health or Safety requirement or permit provision, which results in a facility's implementation of corrective action(s).

Permit and License Violations	Performance Target Payable Under Column
6	(a)
5	(b)
4	(c)
3	(d)
2	(e)
1	(f)

- 5) No performance incentive compensation will be payable for achieving the health and safety, permit and license violation, and revenue targets unless a minimum of 70% of the EBITDA target is achieved.

EVP/COO MIP:

2017 EVP/COO performance compensation is based upon meeting corporate revenue, EBITDA, health and safety, and environmental compliance (permit and license violations) objectives during fiscal year 2017 from our continuing operations (excluding PF Medical). At achievement of 70% to 119% of the revenue target and 60% to 119% of the EBITDA target, the potential performance compensation is payable at 5% to 50% of the 2017 base salary. For this compensation, 60% is based on EBITDA goal, 10% on revenue goal, 15% on the number of health and safety claim incidents that occur during fiscal year 2017, and the remaining 15% on the number of notices alleging environmental, health or safety violations under our permits or licenses that occur during the fiscal year 2017. Upon achievement of 120% to 160%+ of the revenue and EBITDA targets, the potential performance compensation is payable at 65% to 100% of the EVP/COO's 2017 base salary. For this compensation, the amount payable is based on the four objectives noted above, with the payment of such performance compensation being weighted more heavily toward the EBITDA objective. Each of the revenue and EBITDA components is based on our Board approved revenue target and EBITDA target. The 2017 target performance incentive compensation for our EVP/COO is as follows:

Annualized Base Pay:	\$ 267,000
Performance Incentive Compensation Target (at 100% of Plan):	\$ 133,500
Total Annual Target Compensation (at 100% of Plan):	\$ 400,500

EVP/COO MIP MATRIX
2017

Performance Target Column:	(a)	(b)	(c)	TARGET	(d)	(e)	(f)
Revenue Target	< \$56,000,000	\$56,000,000	\$63,586,000	\$80,000,000	\$96,000,000	\$112,000,000	\$128,000,000
EBITDA Target	< \$ 5,600,000	\$ 5,600,000	\$ 6,358,600	\$ 9,300,000	\$11,160,000	\$ 13,020,000	\$ 14,880,000
% of Performance Incentive Target	0%	10%	50%	100%	130%	170%	200%
% of Revenue Target Achieved	<70%	70%-78%	79%-99%	100%-119%	120%-139%	140%-159%	160%⁺
% of EBITDA Target Achieved	<60%	60%-67%	68%-99%	100%-119%	120%-139%	140%-159%	160%⁺
Revenue	\$ -	\$ 1,334	\$ 6,674	\$ 13,350	\$ 19,071	\$ 26,700	\$ 32,421
EBITDA	-	8,010	40,050	80,100	114,429	160,200	194,529
Health and Safety	-	2,003	10,013	20,025	20,025	20,025	20,025
Permit & License Violations	-	2,003	10,013	20,025	20,025	20,025	20,025
	\$ -	\$ 13,350	\$ 66,750	\$ 133,500	\$ 173,550	\$ 226,950	\$ 267,000

- Revenue is defined as the total consolidated third party top line revenue from continuing operations (excluding Medical) as publicly reported in the Company's 2017 financial statements. The percentage achieved is determined by comparing the actual consolidated revenue from continuing operations to the Board-approved revenue target from continuing operations, which is \$80,000,000. The Board reserves the right to modify or change the revenue targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- EBITDA is defined as earnings before interest, taxes, depreciation, and amortization from continuing operations, excluding PF Medical. The percentage achieved is determined by comparing the actual EBITDA to the Board approved EBITDA target for 2017, which is \$9,300,000. The Board reserves the right to modify or change the EBITDA targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- The health and safety incentive target is based upon the actual number of Worker's Compensation Lost Time Accidents, as provided by the Company's Worker's Compensation carrier. The Corporate Controller will submit a report on a quarterly basis documenting and confirming the number of Worker's Compensation Lost Time Accidents, supported by the Worker's Compensation Loss Report provided by the company's carrier or broker. Such claims will be identified on the loss report as "indemnity claims." The following number of Worker's Compensation Lost Time Accidents and corresponding Performance Target Thresholds has been established for the annual incentive compensation plan calculation for 2017.

Work Comp. Claim Number	Performance Target Payable Under Column
6	(a)
5	(b)
4	(c)
3	(d)
2	(e)
1	(f)

- 4) Permits or license violations incentive is earned/determined according to the scale set forth below: An “official notice of non-compliance” is defined as an official communication during 2017 from a local, state, or federal regulatory authority alleging one or more violations of an otherwise applicable Environmental, Health or Safety requirement or permit provision, which results in a facility’s implementation of corrective action(s).

Permit and License Violations	Performance Target Payable Under Column
6	(a)
5	(b)
4	(c)
3	(d)
2	(e)
1	(f)

- 5) No performance incentive compensation will be payable for achieving the health and safety, permit and license violation, and revenue targets unless a minimum of 60% of the EBITDA target is achieved.

CFO MIP:

2017 CFO performance compensation is based upon meeting corporate revenue, EBITDA, health and safety, and environmental compliance (permit and license violations) objectives during fiscal year 2017 from our continuing operations (excluding PF Medical). At achievement of 70% to 119% of the revenue and EBITDA targets, the potential performance compensation is payable at 5% to 50% of the 2017 base salary. For this compensation, 60% is based on EBITDA goal, 10% on revenue goal, 15% on the number of health and safety claim incidents that occur during fiscal year 2017, and the remaining 15% on the number of notices alleging environmental, health or safety violations under our permits or licenses that occur during the fiscal year 2017. Upon achievement of 120% to 160%+ of the revenue and EBITDA targets, the CFO’s potential performance compensation is payable at 65% to 100% of the CFO’s 2017 base salary. For this compensation, the amount payable is based on the four objectives noted above, with the payment of such performance compensation being weighted more heavily toward the EBITDA objective. Each of the revenue and EBITDA components is based on our board approved revenue target and EBITDA target. The 2017 target performance incentive compensation for our CFO is as follows:

Annualized Base Pay:	\$ 220,667
Performance Incentive Compensation Target (at 100% of Plan):	\$ 110,334
Total Annual Target Compensation (at 100% of Plan):	\$ 331,001

**CFO MIP Matrix
2017**

Performance Target Column	(a)	(b)	(c)	(d)	(e)	(f)
				TARGET		
Revenue Target	< \$ 56,000,000	\$56,000,000	\$68,000,000	\$80,000,000	\$96,000,000	\$112,000,000 \$128,000,000
EBITDA Target	< \$ 6,510,000	\$ 6,510,000	\$ 7,905,000	\$ 9,300,000	\$11,160,000	\$ 13,020,000 \$ 14,880,000
% of Performance Incentive Target	0%	10%	50%	100%	130%	170% 200%
% of Target Achieved	<70%	70%-84%	85%-99%	100%-119%	120%-139%	140%-159% 160 %+
Revenue	\$ -	\$ 1,103	\$ 5,517	\$ 11,034	\$ 15,762	\$ 22,067 \$ 26,795
EBITDA	-	6,620	33,100	66,200	94,572	132,400 160,772
Health and Safety	-	1,655	8,275	16,550	16,550	16,550 16,550
Permit & License Violations	-	1,655	8,275	16,550	16,550	16,550 16,550
	\$ -	\$ 11,033	\$ 55,167	\$ 110,334	\$ 143,434	\$ 187,567 \$ 220,667

- Revenue is defined as the total consolidated third party top line revenue from continuing operations (excluding PF Medical) as publicly reported in the Company's 2017 financial statements. The percentage achieved is determined by comparing the actual consolidated revenue from continuing operations to the Board-approved revenue target from continuing operations, which is \$80,000,000. The Board reserves the right to modify or change the revenue targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- EBITDA is defined as earnings before interest, taxes, depreciation, and amortization from continuing operations (excluding PF Medical). The percentage achieved is determined by comparing the actual EBITDA to the Board approved EBITDA target for 2017, which is \$9,300,000. The Board reserves the right to modify or change the EBITDA targets as defined herein in the event of the sale or disposition of any of the assets of the Company or in the event of an acquisition.
- The health and safety incentive target is based upon the actual number of Worker's Compensation Lost Time Accidents, as provided by the Company's Worker's Compensation carrier. The Corporate Controller will submit a report on a quarterly basis documenting and confirming the number of Worker's Compensation Lost Time Accidents, supported by the Worker's Compensation Loss Report provided by the company's carrier or broker. Such claims will be identified on the loss report as "indemnity claims." The following number of Worker's Compensation Lost Time Accidents and corresponding Performance Target Thresholds has been established for the annual incentive compensation plan calculation for 2017.

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- 4) Permits or license violations incentive is earned/determined according to the scale set forth below: An “official notice of non-compliance” is defined as an official communication during 2017 from a local, state, or federal regulatory authority alleging one or more violations of an otherwise applicable Environmental, Health or Safety requirement or permit provision, which results in a facility’s implementation of corrective action(s).

Permit and License Violations	Performance Target Payable Under Column
6	(a)
5	(b)
4	(c)
3	(d)
2	(e)
1	(f)

- 5) No performance incentive compensation will be payable for achieving the health and safety, permit and license violation, and revenue targets unless a minimum of 70% of the EBITDA target is achieved.

2017 MIP Targets

As discussed above, 2017 MIPs approved for the CEO, EVP/COO, and CFO by Board and the Compensation Committee provide for the award of cash compensation based on achievement of performance targets which included Revenue and EBITDA targets as approved by our Board. The 2017 MIP revenue target of \$80,000,000 and EBITDA target of \$9,300,000 were set by the Compensation Committee taking into account the Board-approved budget for 2017 as well as the committee’s expectations for performance that in its estimation would warrant payment of incentive cash compensation. In formulating the revenue target of \$80,000,000, the Board considered 2016 results, current economic conditions, and forecasts for 2017 government (U.S DOE) spending. The Compensation Committee believes the performance targets are likely to be achieved, but not assured.

Long-Term Incentive Compensation

Employee Stock Option Plans

The 2010 Stock Option Plan (the “2010 Option Plan”) encourages participants to focus on long-term performance and provides an opportunity for executive officers and certain designated key employees to increase their stake in the Company. Stock options succeed by delivering value to the executive only when the value of our stock increases. The 2010 Option Plan authorizes the grant of Non-Qualified Stock Options (“NQSOs”) and Incentive Stock Options (“ISOs”) for the purchase of our Common Stock.

The 2010 Option Plan assists the Company to:

- enhance the link between the creation of stockholder value and long-term executive incentive compensation;
- provide an opportunity for increased equity ownership by executives; and
- maintain competitive levels of total compensation.

Stock option award levels are determined based on market data, vary among participants based on their positions with us and are granted generally at the Compensation Committee’s regularly scheduled August or September meeting. Newly hired or promoted executive officers who are eligible to receive options are generally awarded such options at the next regularly scheduled Compensation Committee meeting following their hire or promotion date.

Options are awarded with an exercise price equal to or not less than the closing price of the Company’s Common Stock on the date of the grant as reported on the NASDAQ. In certain limited circumstances, the Compensation Committee may grant options to an executive at an exercise price in excess of the closing price of the Company’s Common Stock on the grant date.

On May 15, 2016, the Company granted 50,000 ISOs from the Company's 2010 Stock Option Plan to our newly named EVP/COO. The ISOs granted were for a contractual term of six years with one-third vesting annually over a three year period. The exercise price of the ISOs was \$3.97 per share, which was equal to the fair market value of the Company's Common Stock on the date of grant.

Pursuant to the 2010 Stock Option plan, vesting of option awards ceases upon termination of employment and exercise right of the vested option amount ceases upon three months from termination of employment except in the case of death or retirement (subject to a six month limitation), or disability (subject to a one year limitation). Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option.

In the event of a "change of control" (as defined in the 2010 Stock Option Plan) of the Company, each outstanding option and award granted under the plans shall immediately become exercisable in full notwithstanding the vesting or exercise provisions contained in the stock option agreement.

Accounting for Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation." ASC 718 establishes accounting standards for entity exchanges of equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards which requires subjective assumptions. Assumptions used to estimate the fair value of stock options granted include the exercise price of the award, the expected term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the expected annual dividend yield. We recognize stock-based compensation expense using a straight-line amortization method over the requisite period, which is the vesting period of the stock option grant.

Retirement and Other Benefits

401(k) Plan

We adopted the Perma-Fix Environmental Services, Inc. 401(k) Plan (the "401(k) Plan") in 1992, which is intended to comply with Section 401 of the Internal Revenue Code and the provisions of the Employee Retirement Income Security Act of 1974. All full-time employees who have attained the age of 18 are eligible to participate in the 401(k) Plan. Eligibility is immediate upon employment but enrollment is only allowed during four quarterly open periods of January 1, April 1, July 1, and October 1. Participating employees may make annual pretax contributions to their accounts up to 100% of their compensation, up to a maximum amount as limited by law. We, at our discretion, may make matching contributions based on the employee's elective contributions. Company contributions vest over a period of five years. In 2016, the Company contributed approximately \$307,000 in 401(k) matching funds, of which approximately \$15,000 was for our NEOs (see the Summary Compensation table in this section for 401(k) matching fund contributions made for the NEOs for 2016). In 2015, the Company contributed approximately \$303,000 in 401(k) matching funds, of which approximately \$14,000 was for our NEOs

Perquisites and Other Personal Benefits

The Company provides executive officers with limited perquisites and other personal benefits (health/disability/life insurance) that the Company and the Compensation Committee believe are reasonable and consistent with its overall compensation program to better enable the Company to attract and retain superior employees for key positions. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to executive officers. The executive officers are provided an auto allowance.

Consideration of Stockholder Say-On-Pay Advisory Vote.

At our Annual Meeting of Stockholders held on July 28, 2016, our stockholders voted, on a non-binding, advisory basis, on the compensation of our NEOs for 2015. A substantial majority (approximately 80%) of the total votes cast on our say-on-pay proposal at that meeting approved the compensation of our NEOs for 2015 on a non-binding, advisory basis. The Compensation Committee and the Board believes that this affirms our stockholders' support of our approach to executive compensation. The Compensation Committee expects to continue to consider the results of future stockholder say-on-pay advisory votes when making future compensation decisions for our NEOs. We will hold an advisory vote on the compensation of our NEOs at our 2017 annual meeting of stockholders.

Compensation of Directors

Directors who are employees receive no additional compensation for serving on the Board or its committees. In 2016, we provided the following annual compensation to directors who are not employees:

- options to purchase 2,400 shares of our Common Stock with each option having a 10 year term and being fully vested after six months from grant date;
- a quarterly director fee of \$8,000;
- an additional quarterly fee of \$5,500 and \$7,500 to the Chairman of our Audit Committee and Chairman of the Board (non-employee), respectively; and
- a fee of \$1,000 for each board meeting attendance and a \$500 fee for meeting attendance via conference call.

Each director may elect to have either 65% or 100% of such fees payable in Common Stock under the 2003 Outside Director Plan, with the balance payable in cash.

Both Mr. John Climaco and Dr. Louis Centofanti, current members of the Board, are not eligible to receive compensation for their services as directors of the Company as they are employees of the Company or one of its subsidiaries. Mr. Climaco is EVP of PF Medical, the Company's majority-owned Polish subsidiary and Dr. Centofanti is the President and CEO of the Company. As EVP of PF Medical, Mr. Climaco is provided an annual salary of \$150,000 from PF Medical. See "Summary Compensation" table in this section for Dr. Centofanti's annual salary as an employee of the Company.

The table below summarizes the director compensation expenses recognized by the Company for the director options and stock awards (resulting from fees earned) for the year ended December 31, 2016. The terms of the 2003 Outside Directors Plan are further described below under "2003 Outside Directors Plan."

Director Compensation

Name	Fees Earned or Paid In Cash (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾	Option Awards (\$) ⁽³⁾	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Dr. Gary G. Kugler	13,125	32,502	7,200	—	—	—	52,827
Jack Lahav ⁽⁴⁾	—	41,801	7,200	—	—	—	49,001
Joe R. Reeder	—	48,672	7,200	—	—	—	55,872
Larry M. Shelton	23,625	58,502	7,200	—	—	—	89,327
Mark A. Zwecker	20,825	51,567	7,200	—	—	—	79,592

⁽¹⁾ Under the 2003 Outside Directors Plan, each director elects to receive 65% or 100% of the director's fees in shares of our Common Stock. The amounts set forth above represent the portion of the director's fees paid in cash and exclude the value of the directors' fee elected to be paid in Common Stock under the 2003 Outside Director Plan, which values are included under "Stock Awards."

- (2) The number of shares of Common Stock comprising stock awards granted under the 2003 Outside Directors Plan is calculated based on 75% of the closing market value of the Common Stock as reported on the NASDAQ on the business day immediately preceding the date that the quarterly fee is due. Such shares are fully vested on the date of grant. The value of the stock award is based on the market value of our Common Stock at each quarter end times the number of shares issuable under the award. The amount shown is the fair value of the Common Stock on the date of the award.
- (3) Options granted under the Company's 2003 Outside Directors Plan resulting from re-election to the Board of Directors on July 28, 2016. Options are for a 10 year period with an exercise price of \$4.60 per share and are fully vested in six months from grant date. The value of the option award for each outside director is calculated based on the fair value of the option per share (\$3.00) on the date of grant times the number of options granted, which was 2,400 for each director, pursuant to ASC 718, "Compensation – Stock Compensation." Mr. Climaco was not eligible to receive options under the 2003 Outside Directors Plan upon re-election to the Company's Board as he became an employee of the Company upon being named the EVP of PF Medical, a majority-owned Polish subsidiary of the Company, effective June 2, 2015. The following is the aggregate number of outstanding non-qualified stock options held by the Company's directors at December 31, 2016. Dr. Centofanti, the President, CEO and a Board member of the Company, had no option as of December 31, 2016:

Name	Options Outstanding as of December 31, 2016
John M. Climaco	8,400
Dr. Gary G. Kugler	7,200
Joe R. Reeder	24,000
Larry M. Shelton	24,000
Mark A. Zwecker	24,000
Total	87,600

- (4) Mr. Lahav retired from the Board effective October 27, 2016. Mr. Lahav's decision to retire was based on personal reasons and was not as a result of any disagreement with the Company or due to any matter relating to the Company's operations, policies or practices.

See "John Climaco" under "Certain Relationships and Related Transactions, and Director Independence" for further information on Mr. Climaco.

2003 Outside Directors Plan

We believe that it is important for our directors to have a personal interest in our success and growth and for their interests to be aligned with those of our stockholders; therefore, under our 2003 Outside Directors Stock Plan, as amended ("2003 Directors Plan"), each outside director is granted a 10-year option to purchase up to 6,000 shares of Common Stock on the date such director is initially elected to the Board, and receives on each re-election date an option to purchase up to another 2,400 shares of our Common Stock, with the exercise price being the fair market value of the Common Stock preceding the option grant date. No option granted under the 2003 Directors Plan is exercisable until after the expiration of six months from the date the option is granted and no option shall be exercisable after the expiration of ten years from the date the option is granted. As of December 31, 2016, options to purchase 157,200 shares of Common Stock were outstanding under the 2003 Directors Plan, of which 145,200 were vested as of December 31, 2016.

As a member of the Board, each director may elect to receive either 65% or 100% of the director's fee in shares of our Common Stock. The number of shares received by each director is calculated based on 75% of the fair market value of the Common Stock determined on the business day immediately preceding the date that the quarterly fee is due. The balance of each director's fee, if any, is payable in cash. In 2016, the fees earned by our outside directors totaled approximately \$291,000. Reimbursements of expenses for attending meetings of the Board are paid in cash at the time of the applicable Board meeting. As a management director, Dr. Centofanti is not eligible to participate in the 2003 Directors Plan. As EVP of PF Medical, Mr. Climaco is not eligible to participate in the 2003 Director plan.

As of December 31, 2016, we have issued 486,387 shares of our Common Stock in payment of director fees since the inception of the 2003 Directors Plan.

In the event of a "change of control" (as defined in the 2003 Directors Plan), each outstanding stock option and stock award shall immediately become exercisable in full notwithstanding the vesting or exercise provisions contained in the stock option agreement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners

The table below sets forth information as to the shares of Common Stock beneficially owned as of December 31, 2016, by each person known by us to be the beneficial owners of more than 5% of any class of our voting securities.

Name of Beneficial Owner	Title Of Class	Amount and Nature of Ownership	Percent Of Class (1)
Heartland Advisors, Inc. (2)	Common	1,691,984	14.5%

(1) The number of shares and the percentage of outstanding Common Stock shown as beneficially owned by a person are based upon 11,681,349 shares of Common Stock outstanding on February 22, 2017, and the number of shares of Common Stock which such person has the right to acquire beneficial ownership of within 60 days. Beneficial ownership by our stockholders has been determined in accordance with the rules promulgated under Section 13(d) of the Exchange Act.

(2) This information is based on the Schedule 13F of Heartland Advisors, Inc, an investment advisor, filed with the Securities and Exchange Commission on January 31, 2017, disclosing that as of December 31, 2016, Heartland Advisors, Inc. had dispositive power over all of these shares but shared voting power over 1,530,377 of such shares and no voting power over 161,607 of the shares. The address of Heartland Advisors, Inc. is 789 North Water Street, Milwaukee, WI 53202.

As of February 16, 2017, Capital Bank–Grawe Gruppe AG (“Capital Bank”), a banking institution regulated by the banking regulations of Austria, holds of record as a nominee for, and as an agent of, certain accredited investors, 1,304,606 shares of our Common Stock. None of Capital Bank's investors beneficially own more than 4.9% of our Common Stock and to its best knowledge, as far as stocks held in accounts with Capital Bank, none of Capital Bank’s investors act together as a group or otherwise act in concert for the purpose of voting on matters subject to the vote of our stockholders or for purpose of disposition or investment of such stock. Additionally, Capital Bank's investors maintain full voting and dispositive power over the Common Stock beneficially owned by such investors, and Capital Bank has neither voting nor investment power over such shares. Accordingly, Capital Bank believes that (i) it is not the beneficial owner, as such term is defined in Rule 13d-3 of the Exchange Act, of the shares of Common Stock registered in Capital Bank’s name because (a) Capital Bank holds the Common Stock as a nominee only, (b) Capital Bank has neither voting nor investment power over such shares, and (c) Capital Bank has not nominated or sought to nominate, and does not intend to nominate in the future, any person to serve as a member of our Board; and (ii) it is not required to file reports under Section 16(a) of the Exchange Act or to file either Schedule 13D or Schedule 13G in connection with the shares of our Common Stock registered in the name of Capital Bank.

Notwithstanding the previous paragraph, if Capital Bank's representations to us described above are incorrect or if Capital Bank's investors are acting as a group, then Capital Bank or a group of Capital Bank's investors could be a beneficial owner of more than 5% of our voting securities. If Capital Bank was deemed the beneficial owner of such shares, the following table sets forth information as to the shares of voting securities that Capital Bank may be considered to beneficially own on February 16, 2017.

Name of Record Owner	Title Of Class	Amount and Nature of Ownership	Percent Of Class (*)
Capital Bank Grawe Gruppe	Common	1,304,606(+)	11.2%

(*) This calculation is based upon 11,681,349 shares of Common Stock outstanding on February 22, 2017, plus the number of shares of Common Stock which Capital Bank, as agent for certain accredited investors has the right to acquire within 60 days, which is none.

(+) This amount is the number of shares that Capital Bank has represented to us that it holds of record as nominee for, and as an agent of, certain of its accredited investors. As of the date of this report, Capital Bank has no warrants or options to acquire, as agent for certain investors, additional shares of our Common Stocks. Although Capital Bank is the record holder of the shares of Common Stock described in this note, Capital Bank has advised us that it does not believe it is a beneficial owner of the Common Stock or that it is required to file reports under Section 16(a) or Section 13(d) of the Exchange Act. Because Capital Bank (a) has advised us that it holds the Common Stock as a nominee only and that it does not exercise voting or investment power over the Common Stock held in its name and that no one investor of Capital Bank for which it holds our Common Stock holds more than 4.9% of our issued and outstanding Common Stock and (b) has not nominated, and has not sought to nominate, and does not intend to nominate in the future, any person to serve as a member of our Board, we do not believe that Capital Bank is our affiliate. Capital Bank's address is Burgring 16, A-8010 Graz, Austria.

Security Ownership of Management

The following table sets forth information as to the shares of voting securities beneficially owned as of February 22, 2017, by each of our directors and NEOs and by all of our directors and NEOs as a group. Beneficial ownership has been determined in accordance with the rules promulgated under Section 13(d) of the Exchange Act. A person is deemed to be a beneficial owner of any voting securities for which that person has the right to acquire beneficial ownership within 60 days.

Name of Beneficial Owner ⁽²⁾	Amount and Nature of Beneficial Owner ⁽¹⁾	Percent of Class ⁽¹⁾
Dr. Louis F. Centofanti ⁽³⁾	215,525 ⁽³⁾	1.85%
John M. Climaco ⁽⁴⁾	22,763 ⁽⁴⁾	*
Robert Cochran ⁽⁵⁾	- ⁽⁵⁾	*
Dr. Gary Kugler ⁽⁶⁾	40,010 ⁽⁶⁾	*
Joe R. Reeder ⁽⁷⁾	146,624 ⁽⁷⁾	1.25%
Larry M. Shelton ⁽⁸⁾	95,564 ⁽⁸⁾	*
Mark A. Zwecker ⁽⁹⁾	165,419 ⁽⁹⁾	1.41%
Ben Naccarato ⁽¹⁰⁾	1,000 ⁽¹⁰⁾	*
Mark Duff ⁽¹¹⁾	- ⁽¹¹⁾	*
Directors and Executive Officers as a Group (9 persons)	686,905 ⁽¹²⁾	5.84%

*Indicates beneficial ownership of less than one percent (1%).

(1) See footnote (1) of the table under "Security Ownership of Certain Beneficial Owners."

(2) The business address of each person, for the purposes hereof, is c/o Perma-Fix Environmental Services, Inc., 8302 Dunwoody Place, Suite 250, Atlanta, Georgia 30350.

(3) These shares include (i) 152,725 shares held of record by Dr. Centofanti, and (iii) 62,800 shares held by Dr. Centofanti's wife. Dr. Centofanti has sole voting and investment power of these shares, except for the shares held by Dr. Centofanti's wife, over which Dr. Centofanti shares voting and investment power. Dr. Centofanti also owns 700 shares of PF Medical's Common Stock.

(4) Mr. Climaco has sole voting and investment power over these shares which include: (i) 14,363 shares of Common Stock held of record by Mr. Climaco, and (ii) options to purchase 8,400 shares, which are immediately exercisable.

(5) Mr. Cochran does not beneficially own any of the Company's shares.

(6) Dr. Kugler has sole voting and investment power over these shares which include: (i) 32,810 shares of Common Stock held of record by Dr. Kugler, and (ii) options to purchase 7,200 shares, which are immediately exercisable.

(7) Mr. Reeder has sole voting and investment power over these shares which include: (i) 122,624 shares of Common Stock held of record by Mr. Reeder, and (ii) options to purchase 24,000 shares, which are immediately exercisable.

(8) Mr. Shelton has sole voting and investment power over these shares which include: (i) 71,564 shares of Common Stock held of record by Mr. Shelton, and (ii) options to purchase 24,000 shares, which are immediately exercisable. Mr. Shelton also owns 750 shares of PF Medical's Common Stock.

(9) Mr. Zwecker has sole voting and investment power over these shares which include: (i) 141,419 shares of Common Stock held of record by Mr. Zwecker, and (ii) options to purchase 24,000 shares, which are immediately exercisable.

(10) Mr. Naccarato has sole voting and investment power over these shares which include: 1,000 shares held of record by Mr. Naccarato. Mr. Naccarato also owns 100 shares of PF Medical's Common Stock.

(11) Mr. Duff does not beneficially own any of the Company's shares.

(12) Amount includes 87,600 options, which are immediately exercisable to purchase 87,600 shares of Common Stock.

Equity Compensation Plans

The following table sets forth information as of December 31, 2016, with respect to our equity compensation plans.

Plan Category	Equity Compensation Plan		
	Number of securities to be issued upon exercise of outstanding options warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans			
Approved by stockholders	247,200	\$ 6.69	260,413
Equity compensation plans not			
Approved by stockholders	—	—	—
Total	247,200	\$ 6.69	260,413

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We describe below transactions to which we were a party during our last two fiscal years or to which we currently propose to be a party in the future, and in which:

- the amounts involved exceeded or will exceed the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years; and
- any of our directors, executive officers or beneficial owners of more than 5% of any class of our voting securities, or any member of the immediate family of the foregoing persons, had or will have a direct or indirect material interest.

Audit Committee Review

Our Audit Committee Charter provides for the review by the Audit Committee of any related party transactions, other than transactions involving an employment relationship with the Company, which are reviewed by the Compensation Committee. Although we do not have written policies for the review of related party transactions, the Audit Committee reviews transactions between the Company and its directors, executive officers, and their respective immediate family members. In reviewing a proposed transaction, the Audit Committee takes into account, among other factors it deems appropriate:

- (1) the extent of the related person's interest in the transaction;
- (2) whether the transaction is on terms generally available to an unaffiliated third-party under the same or similar circumstances;
- (3) the cost and benefit to the Company;
- (4) the impact or potential impact on a director's independence in the event the related party is a director, an immediate family member of a director or an entity in which a director is a partner, stockholder or executive officer;
- (5) the availability of other sources for comparable products or services;
- (6) the terms of the transaction; and
- (7) the risks to the Company.

Related party transactions are reviewed by the Audit Committee prior to the consummation of the transaction. With respect to a related party transaction arising between Audit Committee meetings, the CFO may present it to the Audit Committee Chairperson, who will review and may approve the related party transaction subject to ratification by the Audit Committee at the next scheduled meeting. Our Audit Committee shall approve only those transactions that, in light of known circumstances are not inconsistent with the Company's best interests.

Related Party Transactions

Mr. David Centofanti

Mr. David Centofanti serves as our Vice President of Information Systems. For such position, he received annual compensation of \$168,000 for each of the years 2016 and 2015. Mr. David Centofanti is the son of our CEO, President and a Board member, Dr. Louis F. Centofanti.

Mr. Robert L. Ferguson

Mr. Robert L. Ferguson serves as an advisor to the Company's Board and is also a member of the Supervisory Board of PF Medical, a majority-owned Polish subsidiary of the Company. Mr. Ferguson previously served as a Board member of the Company from June 2007 to February 2010 and again from August 2011 to September 2012. As an advisor to the Company's Board, Mr. Ferguson is paid \$4,000 monthly plus reasonable expenses. For such services, Mr. Ferguson received compensation of approximately \$59,000 and \$58,000 for the years ended December 31, 2016 and 2015, respectively. On August 2, 2013, the Company completed a lending transaction with Messrs. Robert Ferguson and William Lampson ("collectively, the "Lenders"), whereby the Company borrowed from the Lenders the sum of \$3,000,000 (which was paid off by the Company in August 2016) pursuant to the terms of a Loan and Security Purchase Agreement and promissory note (the "Loan"). As consideration for the Company receiving the Loan, each Lender received 45,000 shares of the Company's Common Stock. Additionally, each Lender received a Warrant to purchase up to 35,000 shares of the Company's Common Stock at an exercise price of \$2.23 per share. On August 2, 2016, each Lender exercised his Warrant for the purchase of 35,000 shares of our Common Stock, resulting in total proceeds paid to the Company of approximately \$156,000.

Mr. John Climaco

On June 2, 2015, Mr. Climaco, a current member of the Company's Board, was elected as EVP of PF Medical. As EVP of PF Medical, Mr. Climaco receives an annual salary of \$150,000 and is not eligible to receive compensation for serving on the Company's Board.

Mr. Climaco previously had a consulting agreement with the Company effective September 2014 (approved by the Board with Mr. Climaco abstaining) to perform certain consulting functions for the Company as determined by the Board, including review of operating and accounting functions, strategic opportunity and other initiatives, and the development of the Company's medical isotope production technology. The consulting agreement was terminated effective June 2, 2015 upon Mr. Climaco's election as EVP of PF Medical. Mr. Climaco was paid \$22,000 per month under the consulting agreement and received approximately \$117,000 in 2015 for his services under the consulting agreement.

Mr. Climaco is also a Director of Digirad Corporation, a publicly held company the common stock of which is listed on the Nasdaq ("Digirad"). On July 24, 2015, PF Medical and Digirad entered into a multi-year Tc-99m Supplier Agreement (the "Supplier Agreement") and a Series F Stock Subscription Agreement (the "Subscription Agreement" and, together with the Supplier Agreement, the "Digirad Agreements"). The Supplier Agreement became effective upon the completion of the Subscription Agreement. Pursuant to the terms of the Digirad Agreements, Digirad purchased, in a private placement, 71,429 shares of PF Medical's restricted Series F Stock for an aggregate purchase price of \$1,000,000. The 71,429 share investment made by Digirad constituted approximately 5.4% of the outstanding common shares of PF Medical. The Supplier Agreement provides, among other things, that upon PF Medical's commercialization of certain Tc99m generators, Digirad will purchase agreed upon quantities of Tc-99m for its nuclear imaging operations either directly or in conjunction with its preferred nuclear pharmacy supplier and PF Medical will supply Digirad, or its preferred nuclear pharmacy supplier, with Tc-99m at a preferred pricing, subject to certain conditions. To date, PF Medical is still in the R&D stage of its commercialization efforts, and no amounts of Tc99m have been sold to Digirad under the Supplier Agreement.

Board Independence

Our common stock is listed on the Nasdaq Capital Market. Rule 5605 of the Nasdaq Marketplace Rules requires a majority of a listed company's board of directors to be comprised of independent directors. In addition, the Nasdaq Marketplace Rules require that, subject to specified exceptions, each member of a listed company's audit, compensation and nominating and corporate governance committees be independent under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Audit committee members must also satisfy independence criteria set forth in Rule 10A-3 under the Exchange Act, and compensation committee members must also satisfy the independence criteria set forth in Rule 10C-1 under the Exchange Act. Under Rule 5605(a)(2), a director will only qualify as an "independent director" if, in the opinion of our board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In order to be considered independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee, accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries or otherwise be an affiliated person of the listed company or any of its subsidiaries. In order to be considered independent for purposes of Rule 10C-1, the board must consider, for each member of a compensation committee of a listed company, all factors specifically relevant to determining whether a director has a relationship to such company which is material to that director's ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to: the source of compensation of the director, including any consulting advisory or other compensatory fee paid by such company to the director; and whether the director is affiliated with the company or any of its subsidiaries or affiliates.

Our Board annually undertakes a review of the composition of our board of directors and its committees and the independence of each director. Based upon information requested from and provided by each director concerning his or her background, employment and affiliations, including family relationships, our board of directors has determined that each of Messrs. Robert Cochran, Larry M. Shelton and Mark A. Zwecker, the Honorable Joe R. Reeder and Dr. Gary Kugler is an "independent director" as defined under the Nasdaq Marketplace Rules. Our board of directors has also determined that Mr. Mark A. Zwecker (Chairperson), Mr. Larry M. Shelton, and Dr. Gary G. Kugler (together with Mr. Jack Lahav, who was a member of the Audit Committee until October 27, 2016), who comprise our Audit Committee, and Dr. Gary G. Kugler (Chairperson), Mr. Larry M. Shelton, and the Honorable Joe R. Reeder (together with Mr. Mark A. Zwecker, who was a member of the Compensation Committee until October 27, 2016), satisfy the independence standards for such committees established by the SEC and the Nasdaq Marketplace Rules, as applicable. In making such determination, our board of directors considered the relationships that each such non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining independence, including the beneficial ownership of our capital stock by each non-employee director.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table reflects the aggregate fees for the audit and other services provided by Grant Thornton LLP, the Company's independent registered public accounting firm, for fiscal years 2016 and 2015:

Fee Type	2016	2015
Audit Fees(1)	\$ 350,000	366,000
Tax Fees (2)	173,000	136,000
Total	\$ 523,000	502,000

(1) Audit fees consist of audit work performed in connection with the annual financial statements, the reviews of unaudited quarterly financial statements, and work generally only the independent registered accounting firm can reasonably provide, such as consents and review of regulatory documents filed with the Securities and Exchange Commissions.

(2) Fees for income tax planning, filing, and consulting.

The Audit Committee of the Company's Board has considered whether Grant Thornton's provision of the services described above for the fiscal years 2016 and 2015 was compatible with maintaining its independence.

Engagement of the Independent Auditor

The Audit Committee approves in advance all engagements with the Company's independent accounting firm to perform audit or non-audit services for us. All services under the headings Audit Fees and Tax Fees were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X of the Exchange Act. The Audit Committee's pre-approval policy provides as follows:

- The Audit Committee will review and pre-approve on an annual basis all audits, audit-related, tax and other services, along with acceptable cost levels, to be performed by the independent accounting firm and any member of the independent accounting firm's alliance network of firms, and may revise the pre-approved services during the period based on later determinations. Pre-approved services typically include: audits, quarterly reviews, regulatory filing requirements, consultation on new accounting and disclosure standards, employee benefit plan audits, reviews and reporting on management's internal controls and specified tax matters.
- Any proposed service that is not pre-approved on the annual basis requires a specific pre-approval by the Audit Committee, including cost level approval.
- The Audit Committee may delegate pre-approval authority to one or more of the Audit Committee members. The delegated member must report to the Audit Committee, at the next Audit Committee meeting, any pre-approval decisions made.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

The following documents are filed as a part of this report:

(a)(1) Consolidated Financial Statements

See Item 8 for the Index to Consolidated Financial Statements.

(a)(2) Financial Statement Schedule

Schedules are not required, are not applicable or the information is set forth in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

The Exhibits listed in the Exhibit Index are filed or incorporated by reference as a part of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Perma-Fix Environmental Services, Inc.

By /s/ Dr. Louis F. Centofanti Date March 24, 2017
Dr. Louis F. Centofanti
Chief Executive Officer, President and
Principal Executive Officer

By /s/ Ben Naccarato Date March 24, 2017
Ben Naccarato
Chief Financial Officer and
Principal Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

By /s/ Dr. Louis F. Centofanti Date March 24, 2017
Dr. Louis F. Centofanti, Director

By /s/ John M. Climaco Date March 24, 2017
John M. Climaco, Director

By /s/ Robert Cochran Date March 24, 2017
Robert Cochran, Director

By /s/ Dr. Gary Kugler Date March 24, 2017
Dr. Gary Kugler, Director

By /s/ Joe R. Reeder Date March 24, 2017
Joe R. Reeder, Director

By /s/ Larry M. Shelton Date March 24, 2017
Larry M. Shelton, Chairman of the Board

By /s/ Mark A. Zwecker Date March 24, 2017
Mark A. Zwecker, Director

EXHIBIT INDEX

Exhibit No.	Description
3(i)	Restated Certificate of Incorporation, as amended, of Perma-Fix Environmental Services, Inc., as incorporated by reference from Exhibit 3(i) to the Company's 2014 Form 10-K filed on March 31, 2015.
3(ii)	Amended and Restated Bylaws, as amended effective July 28, 2016, of Perma-Fix Environmental Services, Inc., as incorporated by reference from Exhibit 3(ii) to the Company's 8-K filed on August 1, 2016.
4.1	Specimen Common Stock Certificate as incorporated by reference from Exhibit 4.3 to the Company's Registration Statement, No. 33-51874.
4.2	Rights Agreement dated as of May 2, 2008 between the Company and Continental Stock Transfer & Trust Company, as Rights Agent, as incorporated by reference from Exhibit 4.2 to the Company's 2014 Form 10-K filed on March 31, 2015.
4.3	Letter Agreement dated September 29, 2008, between the Company and Continental Stock Transfer & Trust Company to correct certain subparagraph numbering on the Rights Agreement dated as of May 2, 2008 between the Company and Continental Stock Transfer & Trust Company, as Rights Agent, as incorporated by reference from Exhibit 4.3 to the Company's 2014 Form 10-K filed on March 31, 2015.
4.4	Loan and Securities Purchase Agreement, dated August 2, 2013 between William N. Lampson, Robert L. Ferguson, and Perma-Fix Environmental Services, Inc. as incorporated by reference from Exhibit 4.4 to the Company Form 10-Q for quarter ended June 30, 2013, filed on August 8, 2013.
4.5	Promissory Note dated August 2, 2013, between William N. Lampson, Robert L. Ferguson, and Perma-Fix Environmental Services, Inc. as incorporated by reference from Exhibit 4.5 to the Company Form 10-Q for quarter ended June 30, 2013, filed on August 8, 2013.
4.6	Common Stock Purchase Warrant, dated August 2, 2013, for William N. Lampson, as incorporated by reference from Exhibit 4.6 to the Company Form 10-Q for quarter ended June 30, 2013, filed on August 8, 2013.
4.7	Common Stock Purchase Warrant, dated August 2, 2013, for Robert L. Ferguson, as incorporated by reference from Exhibit 4.7 to the Company Form 10-Q for quarter ended June 30, 2013, filed on August 8, 2013.
4.8	Amended and Restated Revolving Credit, Term Loan and Security Agreement between Perma-Fix Environmental Services, Inc. and PNC Bank, National Association (as Lender and as Agent), dated October 31, 2011.
4.9	First Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated November 7, 2012, between the Company and PNC Bank, National Association, as incorporated by reference from exhibit 4.1 to the Company's Form 10-Q for the quarter ended September 30, 2012, filed on November 8, 2012.
4.10	Second Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement and Waiver, dated May 9, 2013, between the Company and PNC Bank, National Association, as incorporated by reference from Exhibit 4.1 to the Company's Form 10-Q for the quarter ended March 31, 2013, filed on May 10, 2013.
4.11	Third Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated August 2, 2013, as incorporated by reference from Exhibit 4.1 to the Company's Form 10-Q for the quarter ended June 30, 2013, filed on August 8, 2013.
4.12	Third Amended, Restated and Substituted Revolving Credit Note between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated August 2, 2013, as incorporated by reference from Exhibit 4.2 to the Company's Form 10-Q for the quarter ended June 30, 2013, filed on August 8, 2013.
4.13	Fourth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement and Waiver between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated April 14, 2014, as incorporated by reference from Exhibit 4.17 to the Company's 2013 Form 10-K.

- 4.14 Fifth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated July 25, 2014, as incorporated by reference from Exhibit 4.1 to the Company's 8-K filed on July 31, 2014.
- 4.15 Sixth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated July 28, 2014, as incorporated by reference from Exhibit 4.2 to the Company's 8-K filed on July 31, 2014.
- 4.16 Subordination Agreement dated August 2, 2013 by and among William Lampson and Robert Ferguson and PNC Bank, National Association, as incorporated by reference from Exhibit 4.3 to the Company's Form 10-Q for the quarter ended June 30, 2013, filed on August 8, 2013.
- 4.17 Seventh Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated March 24, 2016, as incorporated by reference from Exhibit 4.17 to the Company's 2015 Form 10-K filed on March 24, 2016.
- 4.18 Waiver Letter from PNC dated March 23, 2016 for non-compliance of financial covenant, as incorporated by reference from Exhibit 4.8 to the Company's Form 10-Q for the quarter ended March 31, 2016, filed on May 23, 2016.
- 4.19 Eighth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated August 22, 2016, as incorporated by reference from Exhibit 4.9 to the Company's Form 10-Q for the quarter ended June 30, 2016 filed on August 22, 2016.
- 4.20 Ninth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement between PNC Bank, National Association and Perma-Fix Environmental Services, Inc., dated November 17, 2016, as incorporated by reference from Exhibit 4.10 to the Company's Form 10-Q for the quarter ended September 30, 2016 filed on November 18, 2016.
- 10.1 401(K) Profit Sharing Plan and Trust of the Company as incorporated by reference from Exhibit 10.5 to the Company's Registration Statement, No. 33-51874.
- 10.2 2003 Outside Directors' Stock Plan of the Company, as incorporated by reference from Exhibit 10.2 to the Company's 2014 Form 10-K filed on March 31, 2015.
- 10.3 First Amendment to 2003 Outside Directors Stock Plan, as incorporated by reference from Exhibit 10.3 to the Company's 2014 Form 10-K filed on March 31, 2015.
- 10.4 Second Amendment to 2003 Outside Directors Stock Plan, as incorporated by reference from Appendix "A" to the Company's 2012 Proxy Statement dated August 6, 2012.
- 10.5 Third Amendment to 2003 Outside Directors Stock Plan, as incorporated by reference from Exhibit "B" to the Company's 2014 Proxy Statement dated August 11, 2014.
- 10.6 Consent Decree, dated December 12, 2007, between United States of America and Perma-Fix of Dayton, Inc., as incorporated by reference from Exhibit 10.7 to the Company's 2014 Form 10-K filed on March 31, 2015.
- 10.7 2010 Stock Option Plan of the Company, as incorporated by reference from Exhibit 10.7 to the Company's 2015 Form 10-K filed on March 24, 2016.
- 10.8 Employment Agreement dated July 10, 2014 between Louis Centofanti, Chief Executive Officer, and Perma-Fix Environmental Services, Inc., which is incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed on July 15, 2014.
- 10.9 Employment Agreement dated July 10, 2014 between John Lash, Chief Operating Officer, and Perma-Fix Environmental Services, Inc., which is incorporated by reference from Exhibit 10.2 to the Company's Form 8-K filed on July 15, 2014.
- 10.10 Employment Agreement dated July 10, 2014 between Ben Naccarato, Chief Financial Officer, and Perma-Fix Environmental Services, Inc., which is incorporated by reference from Exhibit 10.3 to the Company's Form 8-K filed on July 15, 2014.
- 10.11 Employment Agreement approved January 19, 2017, but effective June 11, 2016 between Mark Duff, Executive Vice President/Chief Operating Officer, and Perma-Fix Environmental Services, Inc., which is incorporated by reference from Exhibit 99.1 to the Company's Form 8-K filed on January 25, 2017.

- 10.12 Incentive Stock Option Agreement between Perma-Fix Environmental Services, Inc. and Mr. John Lash, as incorporated by reference from Exhibit 10.7 to the Company's 8-K filed on July 15, 2014.
- 10.13 2015 Incentive Compensation Plan for Chief Executive Officer, effective January 1, 2015, as incorporated by reference from Exhibit 99.1 to the Company's Form 8-K filed on April 23, 2015.
- 10.14 2015 Incentive Compensation Plan for Chief Operating Officer, effective January 1, 2015, as incorporated by reference from Exhibit 99.2 to the Company's Form 8-K filed on April 23, 2015.
- 10.15 2015 Incentive Compensation Plan for Chief Financial Officer, effective January 1, 2015, as incorporated by reference from Exhibit 99.3 to the Company's Form 8-K filed on April 23, 2015.
- 10.16 2016 Incentive Compensation Plan for Chief Executive Officer, effective January 1, 2016, as incorporated by reference from Exhibit 99.1 to the Company's Form 8-K filed on February 10, 2016.
- 10.17 2016 Incentive Compensation Plan for Chief Operating Officer, effective January 1, 2016, as incorporated by reference from Exhibit 99.2 to the Company's Form 8-K filed on February 10, 2016.
- 10.18 2016 Incentive Compensation Plan for Chief Financial Officer, effective January 1, 2016, as incorporated by reference from Exhibit 99.3 to the Company's Form 8-K filed on February 10, 2016.
- 10.19 2017 Incentive Compensation Plan for Chief Executive Officer, effective January 1, 2017, as incorporated by reference from Exhibit 99.2 to the Company's Form 8-K filed on January 25, 2017.
- 10.20 2017 Incentive Compensation Plan for Executive Vice President/Chief Operating Officer, effective January 1, 2017, as incorporated by reference from Exhibit 99.3 to the Company's Form 8-K filed on January 25, 2017.
- 10.21 2017 Incentive Compensation Plan for Chief Financial Officer, effective January 1, 2017, as incorporated by reference from Exhibit 99.4 to the Company's Form 8-K filed on January 25, 2017.
- 21.1 List of Subsidiaries
- 23.1 Consent of Grant Thornton, LLP
- 31.1 Certification by Dr. Louis F. Centofanti, Chief Executive Officer of the Company pursuant to Rule 13a-14(a) or 15d-14(a).
- 31.2 Certification by Ben Naccarato, Chief Financial Officer and Chief Accounting Officer of the Company pursuant to Rule 13a-14(a) or 15d-14(a).
- 32.1 Certification by Dr. Louis F. Centofanti, Chief Executive Officer of the Company furnished pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification by Ben Naccarato, Chief Financial Officer and Chief Accounting Officer of the Company furnished pursuant to 18 U.S.C. Section 1350.
- 101.INS XBRL Instance Document*
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document*
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document*

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

AMENDED AND RESTATED
REVOLVING CREDIT, TERM LOAN
AND
SECURITY AGREEMENT

PNC BANK, NATIONAL ASSOCIATION
(AS LENDER AND AS AGENT)

WITH

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
(BORROWER)

OCTOBER 31, 2011

TABLE OF CONTENTS

ARTICLE I DEFINITIONS	1
1.1. Accounting Terms.	1
1.2. General Terms.	2
1.3. Uniform Commercial Code Terms.	27
1.4. Certain Matters of Construction.	28
ARTICLE II ADVANCES, PAYMENTS	28
2.1. Revolving Advances.	28
2.2. Procedure for Revolving Advances Borrowing.	29
2.3. Disbursement of Advance Proceeds.	31
2.4. Loans.	32
2.5. Maximum Advances.	33
2.6. Repayment of Advances.	33
2.7. Repayment of Excess Advances.	34
2.8. Statement of Account.	34
2.9. Letters of Credit.	34
2.10. Issuance of Letters of Credit.	35
2.11. Requirements For Issuance of Letters of Credit.	35
2.12. Disbursements, Reimbursement.	36
2.13. Repayment of Participation Advances.	37
2.14. Documentation.	37
2.15. Determination to Honor Drawing Request.	38
2.16. Nature of Participation and Reimbursement Obligations.	38
2.17. Indemnity.	40
2.18. Liability for Acts and Omissions.	40
2.19. Additional Payments.	41
2.20. Manner of Borrowing and Payment.	41
2.21. Mandatory Prepayments.	43
2.22. Use of Proceeds.	43
2.23. Defaulting Lender.	44
ARTICLE III INTEREST AND FEES	45
3.1. Interest.	45
3.2. Letter of Credit Fees.	45
3.3. Closing Fee and Facility Fee.	46
3.4. Collateral Fees.	46
3.5. Computation of Interest and Fees.	47
3.6. Maximum Charges.	47
3.7. Increased Costs.	47
3.8. Basis For Determining Interest Rate Inadequate or Unfair.	48
3.9. Capital Adequacy.	49
3.10. Gross Up for Taxes.	50
3.11. Withholding Tax Exemption.	50

ARTICLE IV COLLATERAL: GENERAL TERMS	51
4.1. Security Interest in the Collateral.	51
4.2. Perfection of Security Interest.	52
4.3. Disposition of Collateral.	52
4.4. Preservation of Collateral.	52
4.5. Ownership of Collateral.	53
4.6. Defense of Agent's and Lenders' Interests.	53
4.7. Books and Records.	54
4.8. Financial Disclosure.	54
4.9. Compliance with Laws.	55
4.10. Inspection of Premises; Appraisals.	55
4.11. Insurance.	56
4.12. Failure to Pay Insurance.	57
4.13. Payment of Taxes.	57
4.14. Payment of Leasehold Obligations.	57
4.15. Receivables.	57
4.16. Inventory.	60
4.17. Maintenance of Equipment.	60
4.18. Exculpation of Liability.	61
4.19. Environmental Matters.	61
4.20. Financing Statements.	63
4.21. Voting Rights in Respect of Subsidiary Stock Pledged to Agent	63
4.22. Dividend and Distribution Rights in Respect of Subsidiary Shares Pledged to Agent	64
ARTICLE V REPRESENTATIONS AND WARRANTIES	64
5.1. Authority.	64
5.2. Formation and Qualification.	65
5.3. Survival of Representations and Warranties.	65
5.4. Tax Returns.	66
5.5. Financial Statements.	66
5.6. Entity Name and Locations.	67
5.7. O.S.H.A. and Environmental Compliance.	67
5.8. Solvency; No Litigation, Violation, Indebtedness or Default.	68
5.9. Patents, Trademarks, Copyrights and Licenses.	69
5.10. Licenses and Permits.	69
5.11. Default of Indebtedness.	70
5.12. No Default.	70
5.13. No Burdensome Restrictions.	70
5.14. No Labor Disputes.	70
5.15. Margin Regulations.	70
5.16. Investment Company Act.	70
5.17. Disclosure.	71
5.18. Delivery of Acquisition Agreement.	71
5.19. Swaps.	71
5.20. Conflicting Agreements.	71
5.21. Application of Certain Laws and Regulations.	71
5.22. Business and Property of Borrower.	71
5.23. Section 20 Subsidiaries.	72
5.24. Anti-Terrorism Laws.	72

5.25.	Trading with the Enemy.	73
5.26.	Commercial Tort Claims.	73
5.27.	Partnership and Limited Liability Company Interests.	73
5.28.	Material Contracts.	73
5.29.	Future Subsidiaries.	73
ARTICLE VI AFFIRMATIVE COVENANTS		74
6.1.	Payment of Fees.	74
6.2.	Conduct of Business and Maintenance of Existence and Assets.	74
6.3.	Violations.	74
6.4.	Government Receivables.	74
6.5.	Financial Covenants.	75
6.6.	Execution of Supplemental Instruments.	75
6.7.	Payment of Indebtedness.	75
6.8.	Standards of Financial Statements.	75
6.9.	Exercise of Rights.	76
6.10.	Real Property.	76
6.11.	Inactive Subsidiaries.	76
ARTICLE VII NEGATIVE COVENANTS		76
7.1	Merger, Consolidation, Acquisition and Sale of Assets.	76
7.2.	Creation of Liens.	77
7.3.	Guarantees.	77
7.4	Investments.	77
7.5.	Loans.	78
7.6.	Capital Expenditures.	78
7.7.	Dividends.	78
7.8.	Indebtedness.	78
7.9.	Nature of Business.	79
7.10.	Transactions with Affiliates.	79
7.11.	Leases.	79
7.12.	Subsidiaries.	79
7.13.	Fiscal Year and Accounting Changes.	80
7.14.	Pledge of Credit.	80
7.15.	Amendment of Organizational Documents.	80
7.16.	Compliance with ERISA.	80
7.17.	Prepayment of Indebtedness.	81
7.18.	Anti-Terrorism Laws.	81
7.19.	Trading with the Enemy Act.	81
7.20.	Other Agreements.	81
7.21.	Additional Negative Pledges.	81
7.22.	Additional Bank Accounts.	82
ARTICLE VIII CONDITIONS PRECEDENT		82
8.1.	Conditions to Initial Advances.	82
8.2.	Conditions to Each Advance.	87
8.3.	Conditions to Each Equipment Loan.	88

ARTICLE IX INFORMATION AS TO BORROWER	88
9.1. Disclosure of Material Matters.	88
9.2. Schedules.	88
9.3. Environmental Reports.	89
9.4. Litigation.	89
9.5. Material Occurrences.	89
9.6. Public Filings.	90
9.7. Annual Financial Statements.	90
9.8. Quarterly Financial Statements.	90
9.9. Monthly Financial Statements.	90
9.10. Other Reports.	91
9.11. Additional Information.	91
9.12. Projected Operating Budget.	91
9.13. Variances From Operating Budget.	91
9.14. Notice of Suits, Adverse Events.	92
9.15. ERISA Notices and Requests.	92
9.16. Additional Documents.	92
9.17. Government Receivables.	93
ARTICLE X EVENTS OF DEFAULT	93
10.1. Nonpayment.	93
10.2. Breach of Representation.	93
10.3. Financial Information.	93
10.4. Judicial Actions.	93
10.5. Noncompliance.	93
10.6. Judgments.	94
10.7. Bankruptcy.	94
10.8. Inability to Pay.	94
10.9. Material Adverse Effect.	94
10.10. Lien Priority.	95
10.11. Cross Default.	95
10.12. Breach of Guaranty.	95
10.13. Change of Control.	95
10.14. Invalidity.	95
10.15. Licenses.	95
10.16. Seizures.	96
10.17. Pension Plans.	96
ARTICLE XI LENDERS' RIGHTS AND REMEDIES AFTER DEFAULT	97
11.1. Rights and Remedies.	97
11.2. Agent's Discretion.	98
11.3. Setoff.	98
11.4. Rights and Remedies not Exclusive.	98
11.5. Allocation of Payments After Event of Default.	98
ARTICLE XII WAIVERS AND JUDICIAL PROCEEDINGS	99
12.1. Waiver of Notice.	99

12.2.	Delay.	
12.3.	Jury Waiver.	100
ARTICLE XIII EFFECTIVE DATE AND TERMINATION.		100
13.1.	Term.	100
13.2.	Termination.	101
ARTICLE XIV REGARDING AGENT		101
14.1.	Appointment.	101
14.2.	Nature of Duties.	102
14.3.	Lack of Reliance on Agent and Resignation.	102
14.4.	Certain Rights of Agent.	103
14.5.	Reliance.	103
14.6.	Notice of Default.	103
14.7.	Indemnification.	104
14.8.	Agent in its Individual Capacity.	104
14.9.	Delivery of Documents.	104
14.10.	Borrower's Undertaking to Agent.	104
14.11.	No Reliance on Agent's Customer Identification Program.	105
14.12.	Other Agreements.	105
ARTICLE XV MISCELLANEOUS		105
15.1.	Governing Law.	105
15.2.	Entire Understanding.	106
15.3.	Successors and Assigns; Participations; New Lenders.	108
15.4.	Application of Payments.	110
15.5.	Indemnity.	111
15.6.	Notice.	111
15.7.	Survival.	113
15.8.	Severability.	113
15.9.	Expenses.	113
15.10.	Injunctive Relief.	114
15.11.	Consequential Damages.	114
15.12.	Captions.	114
15.13.	Counterparts; Facsimile Signatures.	114
15.14.	Construction.	114
15.15.	Confidentiality; Sharing Information	115
15.16.	Publicity.	115
15.17.	Certifications From Banks and Participants; USA PATRIOT Act.	115

List of Exhibits and Schedules

Exhibits

Exhibit 1.2	Borrowing Base Certificate
Exhibit 1.2(a)	Compliance Certificate
Exhibit 2.1(a)	Revolving Credit Note
Exhibit 2.4(a)	Term Note
Exhibit 2.4(b)	Equipment Note
Exhibit 5.5(b)	Financial Projections
Exhibit 8.1(i)	Financial Condition Certificate
Exhibit 15.3	Commitment Transfer Supplement

Schedules

Schedule 1.2(a)	Commercial Brokers
Schedule 1.2(b)	Permitted Encumbrances
Schedule 4.5	Equipment and Inventory Locations; Place of Business; Chief Executive Office; Locations of Real Property
Schedule 4.15(h)	Deposit and Investment Accounts
Schedule 5.1	Consents
Schedule 5.2(a)	States of Formation, Qualification and Good Standing
Schedule 5.2(b)	Subsidiaries; Ownership
Schedule 5.4	Federal Tax Identification Number; Unpaid Taxes, Fees
Schedule 5.6	Other Names; Mergers, Acquisitions, Etc.
Schedule 5.7	Environmental
Schedule 5.8(b)	Litigation
Schedule 5.8(c)	Violations
Schedule 5.8(d)	Plans
Schedule 5.9	Intellectual Property; Source Code Escrow Agreements; Challenges to Use
Schedule 5.10	Licenses and Permits
Schedule 5.12	Defaults
Schedule 5.14	Labor Disputes
Schedule 5.28	Material Contracts
Schedule 7.3	Guarantees
Schedule 7.4	Investments
Schedule 7.5	Loans
Schedule 7.7	Stock
Schedule 7.8	Indebtedness
Schedule 7.10	Transactions with Affiliates
Schedule 7.12(a)	Domestic Subsidiaries
Schedule 7.12(b)	Partnership and Joint Ventures

AMENDED AND RESTATED
REVOLVING CREDIT, TERM LOAN
AND
SECURITY AGREEMENT

Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of October 31, 2011 among PERMA-FIX ENVIRONMENTAL SERVICES, INC., a corporation organized under the laws of the State of Delaware (“Borrower”), the financial institutions which are now or which hereafter become a party hereto (collectively, the “Lenders” and individually a “Lender”) and PNC BANK, NATIONAL ASSOCIATION (“PNC”), as agent for Lenders (PNC, in such capacity, the “Agent”)(as amended, restated, supplemented or otherwise modified from time to time, the “Agreement”), which Agreement amends and restates that certain Revolving Credit, Term Loan and Security Agreement dated as of December 22, 2000, as amended, among the Borrower, the Lenders and the Agent.

IN CONSIDERATION of the mutual covenants and undertakings herein contained, Borrower, Lenders and Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1. Accounting Terms.

All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with GAAP, applied on a consistent basis, as in effect from time to time, except as otherwise specifically prescribed herein. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in this Agreement or any Other Document, and Borrower or the Required Lenders shall so request, Agent, Lenders and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrower shall provide to Agent and the Lenders financial statements and other documents required under this Agreement or any Other Document or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.2. General Terms.

For purposes of this Agreement the following terms shall have the following meanings:

“Acceptable Government Agency Receivable” shall mean any Receivable as to which the account debtor is the United States of America, or any state thereof, or any department, agency or instrumentality of any of them or is a subcontractor of any of the foregoing which has, if required by Agent, assigned its right to payment of such Receivable to Agent pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. Sub-Section 3727 et seq. and 41 U.S.C. Sub-Section 15 et seq.) or has otherwise complied with other applicable statutes or ordinances, to the extent such Receivable would otherwise be an Eligible Receivable.

“Acceptable Unbilled Amounts” shall mean amounts representing services actually rendered and would be an Eligible Receivable but for the fact that required documentation for billing such amounts has not yet been received.

“Accountants” shall have the meaning set forth in Section 9.7 hereof.

“Acquisition Agreement” shall mean the Stock Purchase Agreement including all exhibits and schedules thereto dated as of July 15, 2011 between Seller and Borrower, as buyer.

“Advance Rates” shall have the meaning set forth in 2.1(a)(y)(ii) hereof.

“Advances” shall mean and include the Revolving Advances, Letters of Credit, as well as the Term Loan and the Equipment Loans.

“Affiliate” of any Person shall mean (a) any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with such Person, or (b) any Person who is a director, managing member, general partner or executive officer (i) of such Person, (ii) of any Subsidiary of such Person, if such Person is not a Credit Party or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (x) to vote twenty-five percent (25%) or more of the Equity Interests having ordinary voting power for the election of directors of such Person or other Persons performing similar functions for any such Person, excluding Guarantors, or (y) to direct or cause the direction of the management and policies of such Person whether by ownership of Equity Interests, contract or otherwise.

“Agent” shall have the meaning set forth in the preamble to this Agreement and shall include its successors and assigns.

“Agreement” shall mean this Amended and Restated Revolving Credit, Term Loan and Security Agreement, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Alternate Base Rate” shall mean, for any day, a rate per annum equal to the highest of (i) the Base Rate in effect on such day, (ii) the Federal Funds Open Rate in effect on such day plus 1/2 of 1% and (iii) the Daily LIBOR Rate plus 1%.

“Alternate Source” shall have the meaning set forth therefor in the definition of Federal Funds Open Rate.

“Alternative Source” shall have the meaning set forth therefor in the definition of Eurodollar Rate.

“Anti-Terrorism Laws” shall mean any Applicable Laws relating to terrorism or money laundering, including Executive Order No.13224, the USA PATRIOT Act, the Applicable Laws comprising or implementing the Bank Secrecy Act, and the Applicable Laws administered by the United States Treasury Department’s Office of Foreign Asset Control (as any of the foregoing Applicable Laws may from time to time be amended, renewed, extended, or replaced).

“Applicable Law” shall mean all laws, rules and regulations applicable to the Person, conduct, transaction, covenant, Other Document or contract in question, including all applicable common law and equitable principles; all provisions of all applicable state, federal and foreign constitutions, statutes, rules, regulations, treaties, directives and orders of any Governmental Body, and all orders, judgments and decrees of all courts and arbitrators.

“Applicable Margin” for (i) Revolving Advances that are Eurodollar Rate Loans, 3.00%, (ii) Revolving Advances that are Domestic Rate Loans, 2.00%, (iii) Equipment Loans and Term Loans that are Eurodollar Rate Loans, 3.50%, and (iv) Equipment Loans and Term Loans that are Domestic Rate Loans, 2.50%.

“Authority” shall have the meaning set forth in Section 4.19(d).

“Base Rate” shall mean the base commercial lending rate of PNC as publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by PNC as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by PNC to any particular class or category of customers of PNC.

“Blocked Accounts” shall have the meaning set forth in Section 4.15(h).

“Blocked Account Bank” shall have the meaning set forth in Section 4.15(h).

“Blocked Person” shall have the meaning set forth in Section 5.24(b) hereof.

“Borrower” shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Person.

“Borrower’s Account” shall have the meaning set forth in Section 2.8.

“Borrowing Base Certificate” shall mean a certificate in substantially the form of Exhibit 1.2 duly executed by the chief executive officer, chief financial officer, secretary or assistant secretary of Borrower and delivered to Agent, appropriately completed, by which such officer shall certify to Agent the Formula Amount and calculation thereof as of the date of such certificate.

“Business Day” shall mean any day other than Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in East Brunswick, New Jersey and, if the applicable Business Day relates to any Eurodollar Rate Loans, such day must also be a day on which dealings are carried on in the London interbank market.

“Capital Expenditures” shall mean expenditures made or liabilities incurred for the acquisition of any fixed assets or improvements, replacements, substitutions or additions thereto which have a useful life of more than three years, including the total principal portion of Capitalized Lease Obligations, which, in accordance with GAAP, would be classified as capital expenditures.

“Capital Stock” shall mean (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests and (v) any other equity interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

“Capitalized Lease Obligation” shall mean any Indebtedness of Borrower represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

“Cash Management Products” shall mean any one or more of the following types of services or facilities extended to Borrower by Agent, any Lender or any Affiliate of Agent or a Lender in reliance on Agent’s or such Lender’s agreement to indemnify such Affiliate: (i) Automated Clearing House (ACH) transactions and other similar money transfer services; (ii) cash management, including controlled disbursement and lockbox services; (iii) establishing and maintaining deposit accounts; and (iv) credit cards or stored value cards.

“CERCLA” shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §§9601 et seq., as amended from time to time.

“Change of Control” shall mean the occurrence of any event (whether in one or more transactions) that results in (a) Louis F. Centofanti ceasing to serve as a senior executive officer of Borrower in substantially the same capacity in which such Person served as of the Closing Date or (b) Persons who are members of Borrower’s board of directors on the Closing Date ceasing to constitute at least fifty percent (50%) of Borrower’s board of directors, provided, however, that in any event no such director shall include Louis F. Centofanti, provided further, however, (i) that a 50% change in Persons who are members of Borrower’s board of directors may be permitted on a one-time only basis concurrent with a new subordinated debt or equity capital infusion to Borrower, and (ii) any individual who becomes a member of Borrower’s board of directors after the Closing Date whose election or nomination for election by holders of Borrower’s voting stock was approved by vote of at least a majority of the individuals constituting Borrower’s board of directors on the Closing Date shall be considered as member of the board of directors of Borrower as of the Closing Date.

“Charges” shall mean all taxes, charges, fees, imposts, levies or other assessments, including, without limitation, all net income, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation and property taxes, custom duties, fees, assessments, liens, claims and charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts, imposed by any taxing or other authority, domestic or foreign (including, without limitation, the Pension Benefit Guaranty Corporation or any environmental agency or superfund), upon the Collateral, Borrower or any of its Affiliates.

“Closing Date” shall mean October 31, 2011 or such other date as may be agreed to by the parties hereto.

“Code” shall mean the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

“Collateral” shall mean and include all of the following assets, properties, rights and interests of each Credit Party, whether now owned and existing or hereafter arising, acquired or created, and wherever located:

- (a) all Receivables;
- (b) all Equipment;
- (c) all General Intangibles;
- (d) all Inventory;
- (e) all Investment Property;
- (f) all Real Property;
- (g) all Subsidiary Stock (other than the Subsidiary Stock of Safety and Ecology Corporation, Limited and joint ventures and limited liability companies that are not Credit Parties);

(h) all of such Person's right, title and interest in and to, whether now owned or hereafter acquired and wherever located, (i) its respective goods and other property including, but not limited to, all merchandise returned or rejected by Customers, relating to or securing any of the Receivables; (ii) all of such Person's rights as a consignor, a consignee, an unpaid vendor, mechanic, artisan, or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (iii) all additional amounts due to such Person from any Customer relating to the Receivables; (iv) other property, including warranty claims, relating to any goods securing the Obligations; (v) all of such Person's contract rights, rights of payment which have been earned under a contract right, instruments (including promissory notes), documents, chattel paper (including electronic chattel paper), warehouse receipts, deposit accounts, letters of credit and money; (vi) each commercial tort claim in existence as of the date hereof and in which a security interest is hereafter granted to Agent by such Person pursuant to the provision of Section 4.1 or otherwise; (vii) if and when obtained by such Person, all real and personal property of third parties in which such Person has been granted a lien or security interest as security for the payment or enforcement of Receivables, (viii) all letter of credit rights (whether or not the respective letter of credit is evidenced by a writing); (ix) all supporting obligations; and (x) any other goods, personal property or real property now owned or hereafter acquired in which such Person has expressly granted a security interest or may in the future grant a security interest to Agent hereunder, or in any amendment or supplement hereto or thereto, or under any other agreement between Agent and such Person;

(i) all of such Person's ledger sheets, ledger cards, files, correspondence, records, books of account, business papers, computers, computer software (owned by such Person or in which it has an interest), computer programs, tapes, disks and documents relating to (a), (b), (c), (d), (e), (f), (g) or (h) of this Paragraph;

(j) all of such Person's cash and cash equivalents; and

(k) all proceeds and products of (a), (b), (c), (d), (e), (f), (g), (h), (i) and (j) in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments and other instruments for the payment of money, including, without limitation, amounts due from any Person and tax refunds, chattel paper, security agreements, documents, eminent domain proceeds, condemnation proceeds and tort claim proceeds.

"Commercial Broker Receivable" shall mean any Eligible Receivable due from an account debtor listed on Schedule 1.2(a) who is a third party intermediary with whom a Credit Party does business but who is not the Person benefitted by the services of the Credit Party.

"Commercial Receivable" shall mean any Eligible Receivable due from an account debtor that is not a Commercial Broker Receivable, an Acceptable Government Agency Receivable, or an Acceptable Unbilled Receivable.

"Commitment Percentage" shall mean for any Lender party to this Agreement on the Closing Date, the percentage set forth below such Lender's name on the signature page hereof as same may be adjusted upon any assignment by a Lender pursuant to Section 15.3 (c) or (d) hereof, and for any Lender that becomes a party to this Agreement pursuant to a Commitment Transfer Supplement or Modified Commitment Transfer Supplement, the percentage set forth on Schedule 1 to such Commitment Transfer Supplement or Modified Commitment Transfer Supplement, as applicable.

“Commitment Transfer Supplement” shall mean a document in the form of Exhibit 15.3 hereto, properly completed and otherwise in form and substance satisfactory to Agent by which the Purchasing Lender purchases and assumes a portion of the obligation of Lenders to make Advances under this Agreement.

“Compliance Certificate” shall mean a compliance certificate substantially in the form attached hereto as Exhibit 1.2 (a) to be signed by the Chief Executive Officer, President, Chief Financial Officer or Controller of Borrower, which shall state that, based on an examination sufficient to permit such officer to make an informed statement, (i) no Default or Event of Default exists, or if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by Borrower with respect to such default and, such certificate shall have appended thereto calculations which set forth Borrower’s compliance with the requirements or restrictions imposed by Sections 6.5, 7.4, 7.5, 7.6, 7.7, 7.8, 7.10 and 7.11; and (ii) that to the best of such officer’s knowledge, Borrower is in compliance in all material respects with all federal, state and local Environmental Laws that would have a Material Adverse Effect, or if such is not the case, specifying all areas of non-compliance and the proposed action Borrower will implement in order to achieve full compliance.

“Consents” shall mean all filings and all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Bodies and other third parties, domestic or foreign, necessary to carry on Borrower’s business or necessary (including to avoid a conflict or breach under any agreement, instrument, other document, license, permit or other authorization) for the execution, delivery or performance of this Agreement, the Other Documents, including any Consents required under all applicable federal, state or other Applicable Law.

“Consigned Inventory” shall mean Inventory of Borrower that is in the possession of another Person on a consignment, sale or return, or other basis that does not constitute a final sale and acceptance of such Inventory.

“Contract Rate” has the meaning set forth in Section 3.1.

“Controlled Group” shall mean, at any time, Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control and all other entities which, together with Borrower, are treated as a single employer under Section 414 of the Code.

“Credit Parties” shall mean, collectively, Borrower and Guarantors.

“Customer” shall mean and include the account debtor with respect to any Receivable and/or the prospective purchaser of goods, services or both with respect to any contract or contract right, and/or any party who enters into or proposes to enter into any contract or other arrangement with any Credit Party, pursuant to which Borrower is to deliver any personal property or perform any services.

“Customs” shall have the meaning set forth in Section 2.11(b) hereof.

“Daily LIBOR Rate” shall mean, for any day, the rate per annum determined by Agent by dividing (x) the Published Rate by (y) a number equal to 1.00 minus the percentage prescribed by the Federal Reserve for determining the maximum reserve requirements with respect to any eurocurrency funding by banks on such day.

“Default” shall mean an event, circumstance or condition which, with the giving of notice or passage of time or both, would constitute an Event of Default.

“Default Rate” shall have the meaning set forth in Section 3.1 hereof.

“Defaulting Lender” shall have the meaning set forth in Section 2.23(a) hereof.

“Depository Accounts” shall have the meaning set forth in Section 4.15(h) hereof.

“Designated Lender” shall have the meaning set forth in Section 15.2(b) hereof.

“Documents” shall have the meaning set forth in Section 8.1(c) hereof.

“Dollar” and the sign “\$” shall mean lawful money of the United States of America.

“Domestic Rate Loan” shall mean any Advance that bears interest based upon the Alternate Base Rate.

“Domestic Subsidiaries” shall mean, with respect to any Person, any Subsidiary of such Person which is incorporated or organized under the laws of any state of the United States or the District of Columbia.

“Drawing Date” shall have the meaning set forth in Section 2.12(b) hereof.

“Early Termination Date” shall have the meaning set forth in Section 13.1 hereof.

“EBITDA” shall mean for any period, for Borrower, the sum of (i) Net Income for such period, plus (ii) all Interest Expense for such period, plus (iii) all charges against income of Borrower for such period for federal, state and local taxes expenses, plus (iv) depreciation expenses for such period, plus (v) amortization expenses for such period, plus (vi) any extraordinary, unusual or non-recurring non-cash expenses or losses (including non-cash losses on sales of assets outside of the Ordinary Course of Business) during such period, minus (vii) any extraordinary, unusual or non-recurring non-cash income or gains (including gains on the sale of assets outside of the Ordinary Course of Business) during such period, in each case, only to the extent included in the statement of net income for such period.

“Eligible Receivables” shall mean and include with respect to each Credit Party, each Receivable of such Credit Party arising in the Ordinary Course of Business and which Agent, in its reasonable credit judgment, shall deem to be an Eligible Receivable, based on such considerations as Agent may from time to time deem appropriate. A Receivable shall not be deemed eligible unless such Receivable is subject to Agent’s first priority perfected security interest and no other Lien (other than Permitted Encumbrances), and is evidenced by an invoice or other documentary evidence satisfactory to Agent. In addition, no Receivable shall be an Eligible Receivable if:

(a) it arises out of a sale made by any Credit Party to any other Credit Party or to an Affiliate of any Credit Party or to a Person controlled by an Affiliate of a Credit Party, unless it arose in connection with the sale of goods or rendition of services in the ordinary course of business, on an arms’ length basis, and would otherwise constitute a current asset in conformity with GAAP;

(b) with respect to (i) an Acceptable Government Agency Receivable, it is due or unpaid more than sixty (60) days after the original due date or is more than one hundred fifty (150) days from the original invoice date; (ii) an Acceptable Unbilled Receivable, it is unpaid more than sixty (60) days from the date the service was rendered; (iii) a Commercial Broker Receivable, it is due or unpaid more than ninety (90) days after the original due date or is more than one hundred twenty (120) days from the original invoice date; and (iv) Commercial Receivable, it is due or unpaid more than sixty (60) days after the original invoice date or is more than ninety (90) days after the original invoice date;

(c) fifty percent (50%) or more of the Receivables from such Customer are not deemed Eligible Receivables hereunder. Such percentage may, in Agent’s reasonable discretion, be increased or decreased from time to time based on the Customer’s financial condition;

(d) any covenant, representation or warranty contained in this Agreement with respect to such Receivable has been breached;

(e) the Customer shall (i) apply for, suffer, or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property or call a meeting of its creditors, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent under such bankruptcy laws by a court of competent jurisdiction, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, any petition which is filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

(f) other than Foreign Receivables, the sale is to a Customer outside the United States of America or Canada, unless the sale is on letter of credit, guaranty or acceptance terms or a bond has been posted, in each case acceptable to Agent in its reasonable discretion;

(g) the sale to the Customer is on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by chattel paper;

(h) Agent believes, in its reasonable judgment, that collection of such Receivable is insecure or that such Receivable may not be paid by reason of the Customer's financial inability to pay;

(i) other than with respect to an Acceptable Government Agency Receivable, the Customer is the United States of America, any state or any department, agency or instrumentality of any of them, unless Borrower assigns its right to payment of such Receivable to Agent pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. Sub-Section 3727 et seq. and 41 U.S.C. Sub-Section 15 et seq.) or has otherwise complied with other applicable statutes or ordinances;

(j) the goods giving rise to such Receivable have not been delivered to and accepted by the Customer or the services giving rise to such Receivable have not been performed by one of the Credit Parties and accepted by the Customer or the Receivable otherwise does not represent a final sale, other than Acceptable Unbilled Amounts;

(k) the Receivables of the Customer exceed a credit limit determined by Agent, in its reasonable discretion, to the extent such Receivable exceeds such limit and such limit is reasonably determined by Agent based upon Customer's financial condition;

(l) the Receivable is subject to any offset, deduction, defense, dispute, or counterclaim (but only as to that portion of the Receivable subject to such offset, deduction, defense, dispute or counterclaim), the Customer is also a creditor or supplier of a Credit Party (but only as to that portion of the Receivable that does not exceed the amount owed by the applicable Credit Party to such creditor or supplier) or the Receivable is contingent in any respect or for any reason;

(m) any Credit Party has made any agreement with any Customer for any deduction therefrom, except for discounts or allowances made in the Ordinary Course of Business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto;

(n) any return, rejection or repossession of the merchandise has occurred or the rendition of services has been disputed;

(o) such Receivable is not payable to any Credit Party; or

(p) such Receivable is not otherwise satisfactory to Agent as determined in good faith by Agent in the exercise of its discretion in its sole credit judgment exercised in good faith.

“Environmental Complaint” shall have the meaning set forth in Section 4.19(d) hereof.

“Environmental Laws” shall mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto.

“Equipment” shall mean and include all of Borrower’s goods (other than Inventory) whether now owned or hereafter acquired and wherever located including, without limitation, all equipment, machinery, apparatus, motor vehicles, fittings, furniture, furnishings, fixtures, parts, accessories and all replacements and substitutions therefor or accessions thereto.

“Equipment Loans” shall have the meaning set forth in Section 2.4(b) hereof.

“Equipment Note” shall mean, collectively, the promissory notes referred to in Section 2.4(b) hereof.

“Equity Interests” of any Person shall mean any and all shares, rights to purchase, options, warrants, general, limited or limited liability partnership interests, member interests, participation or other equivalents of or interest in (regardless of how designated) equity of such Person, whether voting or nonvoting, including common stock, preferred stock, convertible securities or any other “equity security” (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder.

“Eurodollar Rate” shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto the interest rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by Agent by dividing (i) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by Agent which has been approved by the British Bankers’ Association as an authorized information vendor for the purpose of displaying rates at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market (an “Alternative Source”), at approximately 11:00 a.m., London time two (2) Business Days prior to the first day of such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternative Source, a comparable replacement rate determined by Agent at such time (which determination shall be conclusive absent manifest error)) for an amount comparable to such Eurodollar Rate Loan and having a borrowing date and a maturity comparable to such Interest Period by (ii) a number equal to 1.00 minus the Reserve Percentage.

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Rate Loan that is outstanding on the effective date of any change in the Reserve Percentage as of such effective date. Agent shall give prompt notice to Borrower of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

“Eurodollar Rate Loan” shall mean an Advance at any time that bears interest based on the Eurodollar Rate.

“Event of Default” shall have the meaning set forth in Article X hereof.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Executive Order No. 13224” shall mean the Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“Federal Funds Effective Rate” for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the “Federal Funds Effective Rate” as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the “Federal Funds Effective Rate” for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

“Federal Funds Open Rate” for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed) which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption “OPEN” (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by PNC (an “Alternate Source”) (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Alternate Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Alternate Source, a comparable replacement rate determined by the PNC at such time (which determination shall be conclusive absent manifest error); provided however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the “open” rate on the immediately preceding Business Day. If and when the Federal Funds Open Rate changes, the rate of interest with respect to any advance to which the Federal Funds Open Rate applies will change automatically without notice to Borrower, effective on the date of any such change.

“Fixed Charge Coverage Ratio” shall mean and include, with respect to any fiscal period, the ratio of (a) EBITDA for such period minus Unfinanced Capital Expenditures made during such period minus cash taxes paid by Borrower during such period minus any cash dividends or distributions made by Borrower during such period to (b) all Senior Debt Payments during such period.

“Foreign Receivables” shall mean those Receivables of each Credit Party that would otherwise satisfy all of the applicable criteria for Eligible Receivables but the account debtor of such Receivables is not a resident of the United States of America or Canada.

“Foreign Subsidiary” of any Person, shall mean any Subsidiary of such Person that is not organized or incorporated in the United States or any State or territory thereof.

“Formula Amount” shall have the meaning set forth in Section 2.1(a).

“GAAP” shall mean generally accepted accounting principles in the United States of America in effect from time to time.

“General Intangibles” shall mean and include all of each Credit Party’s general intangibles, whether now owned or hereafter acquired, including, without limitation, all payment intangibles, all choses in action, causes of action, corporate or other business records, inventions, designs, patents, patent applications, equipment formulations, manufacturing procedures, quality control procedures, trademarks, trademark applications, service marks, trade secrets, goodwill, copyrights, design rights, permits, software, computer information, source codes, object codes, records and updates, registrations, licenses, franchises, customer lists, tax refunds, tax refund claims, computer programs, all claims under guaranties, security interests or other security held by or granted to a Credit Party to secure payment of any of the Receivables by a Customer (other than to the extent covered by Receivables), all other intellectual property or proprietary rights, all rights of indemnification and all other intangible property of every kind and nature (other than Receivables).

“Governmental Acts” shall have the meaning set forth in Section 2.17.

“Governmental Body” shall mean any nation or government, any state or other political subdivision thereof or any entity, authority, agency, division or department exercising the legislative, judicial, regulatory or administrative functions of or pertaining to a government.

“Guarantor” shall mean the active Domestic Subsidiaries of Borrower (excluding limited liability companies and joint ventures not wholly owned by Borrower), Perma-Fix Northwest Richland, Inc., a Washington corporation, Safety and Ecology Corporation, a Nevada corporation, SEC Federal Services Corporation, a Nevada corporation, and any other Person who may hereafter guarantee payment or performance of the whole or any part of the Obligations and “Guarantors” means collectively all such Persons.

“Hazardous Discharge” shall have the meaning set forth in Section 4.19(d) hereof.

“Hazardous Substance” shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, Hazardous Wastes, hazardous or Toxic Substances or Hazardous Waste as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), RCRA, or any other applicable Environmental Law and in the regulations adopted pursuant thereto.

“Hazardous Wastes” shall mean all waste materials subject to regulation under CERCLA, RCRA or applicable state law, and any other applicable Federal and state laws now in force or hereafter enacted relating to hazardous waste disposal.

“Hedge Liabilities” shall have the meaning provided in the definition of “Lender-Provided Interest Rate Hedge”.

“Indebtedness” of a Person at a particular date shall mean all obligations of such Person which in accordance with GAAP would be classified upon a balance sheet as liabilities (except capital stock and surplus earned or otherwise) and in any event, without limitation by reason of enumeration, shall include all indebtedness, debt and other similar monetary obligations of such Person whether direct or guaranteed, and all premiums, if any, due at the required prepayment dates of such indebtedness, and all indebtedness secured by a Lien on assets owned by such Person, whether or not such indebtedness actually shall have been created, assumed or incurred by such Person. Any indebtedness of such Person resulting from the acquisition by such Person of any assets subject to any Lien shall be deemed, for the purposes hereof, to be the equivalent of the creation, assumption and incurring of the indebtedness secured thereby, whether or not actually so created, assumed or incurred, except the Credit Parties’ obligations in connection with their Finite Risk Policies shall not be considered Indebtedness for the purpose of this Agreement.

“Ineligible Security” shall mean any security which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. Section 24, Seventh), as amended.

“Intellectual Property” shall mean property constituting under any Applicable Law a patent, patent application, copyright, trademark, service mark, trade name, mask work, trade secret or license or other right to use any of the foregoing.

“Intellectual Property Claim” shall mean the assertion by any Person of a claim (whether asserted in writing, by action, suit or proceeding or otherwise) that Borrower’s ownership, use, marketing, sale or distribution of any Inventory, Equipment, Intellectual Property or other property or asset is violative of any ownership of or right to use any Intellectual Property of such Person.

“Interest Expense” shall mean for any period interest expense, net of cash interest income, of Borrower for such period, as determined in accordance with GAAP.

“Interest Period” shall mean the period provided for any Eurodollar Rate Loan pursuant to Section 2.2(b).

“Interest Rate Hedge” shall mean an interest rate exchange, collar, cap, swap, adjustable strike cap, adjustable strike corridor or similar agreements entered into by Borrower or its Subsidiaries in order to provide protection to, or minimize the impact upon, Borrower, any Guarantor and/or their respective Subsidiaries of increasing floating rates of interest applicable to Indebtedness.

“Intercompany Receivables” shall mean all assets and liabilities, however arising, which are due to any Credit Party from, which are due to any Credit Party to, or which otherwise arise from any transaction by any Credit Party with any Affiliate of any Credit Party.

“Inventory” shall mean and include all of each Credit Party’s now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any consignment arrangement, contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in any Credit Party’s business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

“Investment Account” shall have the meaning provided in Section 7.4.

“Investment Property” shall mean and include all of each Credit Party’s now owned or hereafter acquired securities (whether certificated or uncertificated), securities entitlements, securities accounts, commodities contracts and commodities accounts.

“Issuer” shall mean PNC in its capacity as issuer of Letters of Credit hereunder, or any successor issuer of Letters of Credit hereunder.

“Lender” and “Lenders” shall have the meaning ascribed to such term in the preamble to this Agreement and shall include each Person which becomes a transferee, successor or assign of any Lender.

“Lender-Provided Interest Rate Hedge” shall mean an Interest Rate Hedge which is provided by any Lender and with respect to which Agent confirms meets the following requirements: such Interest Rate Hedge (i) is documented in a standard International Swap Dealer Association Agreement, (ii) provides for the method of calculating the reimbursable amount of the provider’s credit exposure in a reasonable and customary manner, and (iii) is entered into for hedging (rather than speculative) purposes. The liabilities of Borrower to the provider of any Lender-Provided Interest Rate Hedge (the “Hedge Liabilities”) shall be “Obligations” hereunder, guaranteed obligations and secured obligations under the Secured Subsidiaries Guaranty and otherwise treated as Obligations for purposes of each of the Other Documents. The Liens securing the Hedge Liabilities shall be pari passu with the Liens securing all other Obligations under this Agreement and the Other Documents.

“Letter of Credit Borrowing” shall have the meaning set forth in Section 2.12(d).

“Letter of Credit Documents” shall mean, with respect to any Letter of Credit, such Letter of Credit, any amendments thereto, any documents delivered in connection therewith, any application therefor, and any agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (i) the rights and obligations of the parties concerned or at risk or (ii) any collateral security for such obligations.

“Letter of Credit Fees” shall have the meaning set forth in Section 3.2.

“Letter of Credit Sublimit” shall mean \$10,000,000.

“Letters of Credit” shall mean any letter of credit issued hereunder. A Letter of Credit may be a standby and/or a trade letter of credit.

“License Agreement” shall mean any agreement between Borrower and a Licensor pursuant to which Borrower is authorized to use any Intellectual Property in connection with the manufacturing, marketing, sale or other distribution of any Inventory of Borrower or otherwise in connection with Borrower’s business operations.

“Licensor” shall mean any Person from whom Borrower obtains the right to use (whether on an exclusive or non-exclusive basis) any Intellectual Property in connection with Borrower’s manufacture, marketing, sale or other distribution of any Inventory or otherwise in connection with Borrower’s business operations.

“Licensor/Agent Agreement” shall mean an agreement between Agent and a Licensor, in form and content satisfactory to Agent, by which Agent is given the unqualified right, vis-à-vis such Licensor, to enforce Agent’s Liens with respect to and to dispose of Borrower’s Inventory with the benefit of any Intellectual Property applicable thereto, irrespective of Borrower’s default under any License Agreement with such Licensor.

“Lien” shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, security interest, lien (whether statutory or otherwise), Charge, claim or encumbrance, or preference, priority or other security agreement or preferential arrangement held or asserted in respect of any asset of any kind or nature whatsoever including, without limitation, any conditional sale or other title retention agreement, any lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction.

“Lien Waiver Agreement” shall mean an agreement which is executed in favor of Agent by a Person who owns or occupies premises at which any Collateral may be located from time to time and by which such Person shall waive any Lien that such Person may ever have with respect to any of the Collateral and shall authorize Agent from time to time to enter upon the premises to inspect or remove the Collateral from such premises or to use such premises to store or dispose of such Collateral.

“Material Adverse Effect” shall mean a material adverse effect on (a) the condition (financial or otherwise), results of operations, assets, business or properties of Borrower on a consolidated basis, (b) the ability of Credit Parties on a consolidated basis to duly and punctually pay or perform the Obligations in accordance with the terms thereof, (c) the value of the Collateral, or Agent’s Liens on the Collateral or the priority of any such Lien or (d) the practical realization of the benefits of Agent’s and each Lender’s rights and remedies under this Agreement and the Other Documents.

“Material Contract” shall mean any contract, agreement, permit or license, written or oral, of a Borrower the failure to comply with which would have a Material Adverse Effect.

“Maximum Equipment Loan Amount” shall mean \$2,500,000 less repayments of the Equipment Loans.

“Maximum Face Amount” shall mean, with respect to any outstanding Letter of Credit, the face amount of such Letter of Credit including all automatic increases provided for in such Letter of Credit, whether or not any such automatic increase has become effective.

“Maximum Loan Amount” shall mean \$43,500,000 less repayments of the Term Loan and Equipment Loans.

“Maximum Revolving Advance Amount” shall mean \$25,000,000.

“Maximum Undrawn Amount” shall mean with respect to any outstanding Letter of Credit, the amount of such Letter of Credit that is or may become available to be drawn, including all automatic increases provided for in such Letter of Credit, whether or not any such automatic increase has become effective.

“Modified Commitment Transfer Supplement” shall have the meaning set forth in Section 15.3(d).

“Mortgage” shall mean any mortgage or deed of trust on the Real Property together with all extensions, renewals, amendments, supplements, modifications, substitutions and replacements thereto and thereof.

“Multiemployer Plan” shall mean a “multiemployer plan” as defined in Sections 3(37) and 4001(a)(3) of ERISA.

“Multiple Employer Plan” shall mean a Plan which has two or more contributing sponsors (including Borrower or any member of the Controlled Group) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

“Net Cash Proceeds” means, with respect to (a) any sale, lease, transfer or other voluntary or involuntary disposition of any property of Borrower or any of its Subsidiaries (other than sales or other dispositions of Inventory in the ordinary course of business, but including, without limitation, a sale or disposition of any capital stock of any such Subsidiary) or (b) any receipt of fire, property, casualty or similar insurance proceeds or condemnation awards in respect of property of any Credit Party or other insurance proceeds received in respect of a loss incurred by any Credit Party (other than insurance proceeds used or to be used by a Credit Party to repair or replace damaged property as permitted herein), in each case, the aggregate amount of such cash consideration received by any Credit Party in connection with such transaction after deduction of (i) all reasonable fees, costs and expenses directly incurred by any Credit Party in connection therewith, including, without limitation, underwriting discount, brokerage or selling commissions, if any, (ii) federal, state and local income taxes actually paid or payable in cash in connection with such transaction within two (2) years thereafter (iii) in the case of any sale, lease, transfer or disposition of property, the amount of Indebtedness secured by such property required to be repaid in connection with such transaction, and (iv) the reasonable fees and disbursements of counsel paid by any Credit Party in connection therewith and (v) appropriate amounts to be provided by any Credit Party as a reserve, in accordance with GAAP, against any liabilities associated therewith and retained by any Credit Party after such sale, lease, transfer, or disposition, including, without limitation, pension and benefit liabilities, liabilities related to environmental matters or liabilities under any indemnification obligations associated therewith except that such reserves shall become Net Cash Proceeds when released.

“Net Income” shall mean for any period, the net income (or loss) of Borrower, determined in accordance with GAAP; provided, that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary of Borrower or is merged into or consolidated with Borrower, (b) the net income (or deficit) of any Person (other than a Subsidiary of Borrower) in which Borrower has an ownership interest, except to the extent that any such income is actually received by Borrower in the form of dividends or similar distributions and (c) the undistributed earnings of Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is at the time prohibited by the terms of any agreement to which such Person is a party or by which it or any of its property is bound, any of such Person’s organizational documents or other legal proceedings binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Note” shall mean collectively, the Term Note, the Equipment Note and the Revolving Credit Note.

“Obligations” shall mean and include any and all loans, advances, debts, liabilities, obligations, covenants and duties owing by each Credit Party to Lenders or Agent or to any other direct or indirect subsidiary or affiliate of Agent or any Lender of any kind or nature, present or future (including, without limitation, any interest or other amounts accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to each Credit Party, whether or not a claim for post-filing or post-petition interest or other amounts is allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, (including, without limitation, this Agreement and the Other Documents) whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, under any interest or currency swap, future, option or other similar agreement, or in any other manner, whether arising out of overdrafts or deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of Agent’s or any Lenders non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, contractual or tortious, liquidated or unliquidated, regardless of how such indebtedness or liabilities arise or by what agreement or instrument they may be evidenced or whether evidenced by any agreement or instrument, including, but not limited to, any and all of each Credit Party’s Indebtedness and/or liabilities under this Agreement, the Other Documents or under any other agreement between Agent or Lenders and each Credit Party and any amendments, extensions, renewals or increases and all costs and expenses of Agent and any Lender incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including but not limited to reasonable attorneys’ fees and expenses and all obligations of each Credit Party to Agent or Lenders to perform acts or refrain from taking any action.

“Ordinary Course of Business” shall mean the ordinary course of Borrower’s business as conducted on the Closing Date.

“Other Documents” shall mean the Mortgage, the Note, the Questionnaire, the Pledge Agreement, the Secured Subsidiaries Guaranty, any Lender-Provided Interest Rate Hedge, any Letter of Credit Document and any and all other agreements, instruments and documents, including guaranties, pledges, powers of attorney, consents, interest or currency swap agreements or other similar agreements and all other writings heretofore, now or hereafter executed by any Credit Party and/or delivered to Agent or any Lender in respect of the transactions contemplated by this Agreement.

“Out-of-Formula Loans” shall have the meaning set forth in Section 15.2(b).

“Parent” of any Person shall mean a corporation or other entity owning, directly or indirectly at least fifty percent (50%) of the shares of stock or other ownership interests having ordinary voting power to elect a majority of the directors of the Person, or other Persons performing similar functions for any such Person.

“Participant” shall mean each Person who, in accordance with Section 15.3(b), shall be granted the right by any Lender to participate in any of the Advances and who shall have entered into a participation agreement in form and substance satisfactory to such Lender.

“Participation Advance” shall have the meaning set forth in Section 2.12(d).

“Participation Commitment” shall mean each Lender’s obligation to buy a participation of the Letters of Credit issued hereunder.

“Payee” shall have the meaning set forth in Section 3.10.

“Payment Office” shall mean initially Two Tower Center Boulevard, East Brunswick, New Jersey 08816; thereafter, such other office of Agent, if any, which it may designate by notice to Borrower and to each Lender to be the Payment Office.

“PBGC” shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

“Pension Benefit Plan” shall mean at any time any employee pension benefit plan (including a Multiple Employer Plan, but not a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code and either (i) is maintained by any member of the Controlled Group for employees of any member of the Controlled Group; or (ii) has at any time within the preceding five years been maintained by any entity which was at such time a member of the Controlled Group for employees of any entity which was at such time a member of the Controlled Group.

“Permitted Encumbrances” shall mean:

- (a) Liens in favor of Agent for the benefit of Agent and Lenders;
- (b) Liens for Charges not delinquent or being Properly Contested;
- (c) Liens disclosed in the financial statements referred to in Section 5.5, the existence of which Agent has consented to in writing;
- (d) deposits or pledges to secure obligations under worker’s compensation, social security or similar laws, or under unemployment insurance;
- (e) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the Ordinary Course of Business;
- (f) Liens arising by virtue of the rendition, entry or issuance against any Credit Party, or any property of any Credit Party, of any judgment, writ, order, or decree for so long as each such Lien (x) is in existence for less than twenty (20) consecutive days after it first arises or is being Properly Contested and (y) is at all times junior in priority to any Liens in favor of Agent;
- (g) mechanics’, workers’, materialmen’s, carriers’, repairmens’ or other like Liens arising in the Ordinary Course of Business with respect to obligations which are not due or which are being Properly Contested;
- (h) Liens securing Permitted Purchase Money Indebtedness, provided that (i) such Liens shall be created substantially simultaneously with the acquisition of the asset acquired with such Indebtedness, (ii) such Liens do not at any time encumber any property other than the property financed by such Indebtedness, (iii) the amount of Indebtedness secured thereby is not increased and (iv) the principal amount of Indebtedness secured by any such Lien shall at no time exceed 100% of the original purchase price of such property;

(i) encroachments, easements, rights-of-way, restrictions and other similar encumbrances or Liens incurred in the Ordinary Course of Business which do not materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business on the property subject to such encumbrances;

(j) Liens disclosed on Schedule 1.2(b); provided that such Liens shall secure only those obligations which they secure on the Closing Date (and extensions, renewals and refinancings of such obligations permitted by Section 7.8) and shall not subsequently apply to any other property or assets of Borrower.

(k) Liens for taxes not yet due; and

(l) Liens set forth on any mortgagee title insurance policy that are acceptable to Agent.

“Permitted Purchase Money Indebtedness” shall mean Purchase Money Indebtedness of Borrower which is incurred after the date of this Agreement and which is secured by no Lien or only by a Purchase Money Lien; provided that (a) the aggregate principal amount of such Purchase Money Indebtedness outstanding at any time shall not exceed \$1,000,000 (including any such Indebtedness on Schedule 7.8), (b) such Indebtedness when incurred shall not exceed the purchase price of the asset(s) financed, and (c) no such Indebtedness shall be refinanced for a principal amount in excess of the principal balance outstanding thereon at the time of such refinancing.

“Person” shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, limited liability partnership, institution, public benefit corporation, joint venture, entity or Governmental Body (whether federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof).

“Plan” shall mean any employee benefit plan within the meaning of Section 3(3) of ERISA (including a Pension Benefit Plan), maintained for employees of Borrower or any member of the Controlled Group or any such Plan to which Borrower or any member of the Controlled Group is required to contribute on behalf of any of its employees.

“Pledge Agreement” shall mean the Pledge Agreement executed by Borrower in favor of Agent.

“PNC” shall have the meaning set forth in the preamble to this Agreement and shall extend to all of its successors and assigns.

“Preferred Stock” means Borrower’s Series 17 Class Q Preferred Stock consisting of Borrower’s former Series 9 Class I Convertible Preferred Stock, Series 14 Class N Convertible Preferred Stock, Series 15 Class O Convertible Preferred Stock and Series 16 Class P Convertible Preferred Stock.

“Pro Forma Balance Sheet” shall have the meaning set forth in Section 5.5(a) hereof.

“Pro Forma Financial Statements” shall have the meaning set forth in Section 5.5(b) hereof.

“Projections” shall have the meaning set forth in Section 5.5(b) hereof.

“Properly Contested” shall mean, in the case of any Indebtedness or Lien, as applicable, of any Person (including any taxes) that is not paid as and when due or payable by reason of such Person’s bona fide dispute concerning its liability to pay same or concerning the amount thereof, (i) such Indebtedness or Lien, as applicable, is being properly contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) such Person has established appropriate reserves as shall be required in conformity with GAAP; (iii) the non-payment of such Indebtedness will not have a Material Adverse Effect and will not result in the forfeiture of any assets of such Person having a value in excess of \$50,000; (iv) no Lien is imposed upon any of such Person’s assets having a value in excess of \$50,000 with respect to such Indebtedness unless such Lien is at all times junior and subordinate in priority to the Liens in favor of Agent (except only with respect to property taxes that have priority as a matter of applicable state law) and enforcement of such Lien is stayed during the period prior to the final resolution or disposition of such dispute; (v) if such Indebtedness or Lien, as applicable, results from, or is determined by the entry, rendition or issuance against a Person or any of its assets having a value in excess of \$50,000 of a judgment, writ, order or decree, enforcement of such judgment, writ, order or decree is stayed pending a timely appeal or other judicial review; and (vi) if such contest is abandoned, settled or determined adversely (in whole or in part) to such Person, such Person forthwith pays such Indebtedness and all penalties, interest and other amounts due in connection therewith.

“Published Rate” shall mean the rate of interest published each Business Day in The Wall Street Journal “Money Rates” listing under the caption “London Interbank Offered Rates” for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one month period as published (which may include electronic methods of “publication”) in another publication or source determined by Agent.

“Purchase Money Indebtedness” shall mean and include (i) Indebtedness (other than the Obligations) of any Credit Party for the payment of all or any part of the purchase price of any Equipment, (ii) any Indebtedness (other than the Obligations) of any Credit Party incurred at the time of or within thirty (30) days prior to or one hundred twenty (120) days after the acquisition of any Equipment for the purpose of financing all or any part of the purchase price thereof (whether by means of a loan agreement, capitalized lease or otherwise), and (iii) any renewals, extensions or refinancings (but not any increases in the principal amounts) thereof outstanding at the time.

“Purchase Money Lien” shall mean a Lien upon Equipment which secures Purchase Money Indebtedness, but only if such Lien shall at all times be confined solely to the fixed assets acquired through the incurrence of the Purchase Money Indebtedness secured by such Lien and shall not encumber any other property of Borrower, and such Lien constitutes a purchase money security interest under the Uniform Commercial Code.

“Purchasing CLO” shall have the meaning set forth in Section 15.3(d) hereof.

“Purchasing Lender” shall have the meaning set forth in Section 15.3(c) hereof.

“Questionnaire” shall mean the Documentation Information Questionnaire and the responses thereto provided by Borrower and delivered to Agent.

“RCRA” shall mean the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., as the same may be amended from time to time.

“Real Property” shall mean all real property owned and leased by a Credit Party and identified on Schedule 4.5 hereto or which is hereafter owned or leased by a Credit Party.

“Receivables” shall mean and include, as to any Credit Party, all of such Credit Party’s accounts, contract rights, instruments (including those evidencing indebtedness owed to such Credit Party by its Affiliates), documents, chattel paper (including electronic chattel paper), general intangibles relating to accounts, drafts and acceptances, credit card receivables and all other forms of obligations owing to such Credit Party arising out of or in connection with the sale or lease of Inventory or the rendition of services pursuant to term contracts or otherwise or the licensing of any general intangible rights, all supporting obligations, guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Agent hereunder.

“Receivables Advance Rate” shall have the meaning set forth in Section 2.1(a)(y)(i) hereof.

“Register” shall have the meaning set forth in Section 15.3(e).

“Reimbursement Obligation” shall have the meaning set forth in Section 2.12(b) hereof.

“Release” shall have the meaning set forth in Section 5.7(c)(i) hereof.

“Reportable Event” shall mean a reportable event described in Section 4043(b) of ERISA or the regulations promulgated thereunder.

“Required Lenders” shall mean Lenders holding at least sixty-six and two thirds percent (66-2/3%) of the Advances, and if no Advances are outstanding, shall mean Lenders holding at least sixty-six and two thirds percent (66-2/3%) of the Commitment Percentage; provided, however, if there are fewer than three (3) Lenders (including any Defaulting Lender), Required Lenders shall mean all Lenders (other than any Defaulting Lender).

“Reserve Percentage” shall mean as of any day the maximum percentage in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including, without limitation, supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as “Eurocurrency Liabilities”).

“Revolving Advances” shall mean Advances made other than Letters of Credit, Equipment Loans and the Term Loan.

“Revolving Credit Note” shall mean the promissory note referred to in Section 2.1(a) hereof.

“Revolving Interest Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus the Applicable Margin with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus the Applicable Margin with respect to Eurodollar Rate Loans.

“SEC” shall mean the Securities and Exchange Commission or any successor thereto.

“Section 20 Subsidiary” shall mean the Subsidiary of the bank holding company controlling PNC, which Subsidiary has been granted authority by the Federal Reserve Board to underwrite and deal in certain Ineligible Securities.

“Secured Subsidiaries Guaranty” shall mean the Amended and Restated Secured Subsidiaries Guaranty executed by each of the Guarantors.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Seller” shall mean Homeland Security Capital Corporation, a Delaware corporation.

“Senior Debt Payments” shall mean and include all cash actually expended by any Credit Party to make (a) interest payments on any Advances hereunder, plus (b) scheduled principal payments on the Term Loan and Equipment Loans, plus (c) payments for all fees, commissions and charges set forth herein and with respect to any Advances, plus (d) capitalized lease payments, plus (e) payments with respect to any other Indebtedness for borrowed money, including Purchase Money Indebtedness.

“Settlement Date” shall mean the Closing Date and thereafter Wednesday or Thursday of each week or more frequently if Agent deems appropriate unless such day is not a Business Day in which case it shall be the next succeeding Business Day.

“Subsidiary” of any Person shall mean a corporation or other entity of whose Equity Interests having ordinary voting power (other than Equity Interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

“Subsidiary Stock” shall mean:

(a) one hundred percent 100% of the issued and outstanding Equity Interests of any Domestic Subsidiary of Borrower and 65% of each class of the issued and outstanding Equity Interests entitled to vote (within the meaning of Treas. Reg. Section 1.956-2(c)(2)) (“Voting Equity”) and 100% of each class of the issued and outstanding Equity Interests not entitled to vote (within the meaning of Treas. Reg. Section 1.956-2(c)(2)) (“Non-Voting Equity”) of each Foreign Subsidiary (but only to the extent that the pledge of such Non-Voting Equity would not cause the Obligations to be treated as “United States property” of such Foreign Subsidiary within the meaning of Treas. Reg. Section 1.956-2), in each case together with the certificates (or other agreements or instruments), if any, representing such Equity Interests, and all options and other rights, contractual or otherwise, with respect thereto (collectively, the “Pledged Capital Stock”), including, but not limited to, the following:

(y) subject to the percentage restrictions described above, all shares, securities, membership interests or other equity interests representing a dividend on any of the Pledged Capital Stock, or representing a distribution or return of capital upon or in respect of the Pledged Capital Stock, or resulting from a stock split, revision, reclassification or other exchange therefor, and any subscriptions, warrants, rights or options issued to the holder of, or otherwise in respect of, the Pledged Capital Stock; and

(z) without affecting the obligations of Borrower under any provision prohibiting such action hereunder, in the event of any consolidation or merger involving the issuer of any Pledged Capital Stock and in which such issuer is not the surviving entity, all shares of each class of the Equity Interests of the successor entity formed by or resulting from such consolidation or merger;

(b) Subject to the percentage restrictions described above, any and all other Capital Stock owned by Borrower in any Domestic Subsidiary or any Foreign Subsidiary; and

(c) All proceeds and products of the foregoing, however and whenever acquired and in whatever form.

“Tangible Adjusted Net Worth” shall mean, at a particular date, (a) the aggregate amount of all assets of Borrower on a consolidated basis, as may properly be classified as such in accordance with GAAP consistently applied and such other assets as are properly classified as “intangible assets” but specifically excluding such other assets as may be properly classified as goodwill assets under GAAP, less (b) the aggregate amount of all Indebtedness of Borrower on a consolidated basis. For purposes of this definition, any amounts noted in Borrower’s books and records for “Acquired Permits” shall not be deemed “goodwill”.

“Term” shall have the meaning set forth in Section 13.1 hereof.

“Term Loan” shall mean the Advances made pursuant to Section 2.4(a) hereof.

“Term Loan Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus the Applicable Margin with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus the Applicable Margin with respect to Eurodollar Rate Loans.

“Term Note” shall mean the promissory note described in Section 2.4(a) hereof.

“Termination Event” shall mean (i) a Reportable Event with respect to any Plan or Multiemployer Plan; (ii) the withdrawal of Borrower or any member of the Controlled Group from a Plan or Multiemployer Plan during a plan year in which such entity was a “substantial employer” as defined in Section 4001(a)(2) of ERISA; (iii) the providing of notice of intent to terminate a Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Plan or Multiemployer Plan; (v) any event or condition (a) which would constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan or Multiemployer Plan, or (b) that would result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA; or (vi) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of Borrower or any member of the Controlled Group from a Multiemployer Plan.

“Toxic Substance” shall mean and include any material present on the Real Property or Leasehold Interests which has been shown to have significant adverse effect on human health or which is subject to regulation under the Toxic Substances Control Act (TSCA), 15 U.S.C. §§ 2601 et seq., applicable state law, or any other applicable Federal or state laws now in force or hereafter enacted relating to toxic substances. “Toxic Substance” includes but is not limited to asbestos, polychlorinated biphenyls (PCBs) and lead-based paints.

“Trading with the Enemy Act” shall mean the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any enabling legislation or executive order relating thereto.

“Transactions” shall have the meaning set forth in Section 5.5 hereof.

“Transferee” shall have the meaning set forth in Section 15.3(d) hereof.

“Undrawn Availability” at a particular date shall mean an amount equal to (a) the lesser of (i) the Formula Amount or (ii) the Maximum Revolving Advance Amount, minus (b) the sum of (i) the outstanding amount of Advances (other than the Equipment Loans and Term Loan) plus (ii) all amounts due and owing to any Credit Party’s trade creditors which are outstanding more than sixty (60) days after their due date, plus (iii) fees and expenses for which any Credit Party is liable but which have not been paid or charged to Borrower’s Account.

“Unfinanced Capital Expenditures” shall mean all Capital Expenditures of Borrower other than those made utilizing financing provided by the applicable seller or third party lenders. For the avoidance of doubt, Capital Expenditures made by Borrower utilizing Revolving Advances shall be deemed Unfinanced Capital Expenditures.

“Uniform Commercial Code” shall have the meaning set forth in Section 1.3 hereof.

“USA PATRIOT Act” shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“Voting Stock” shall mean, with respect to any Person, Capital Stock issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

“Week” shall mean the time period commencing with the opening of business on a Wednesday and ending on the end of business the following Tuesday.

1.3. Uniform Commercial Code Terms.

All terms used herein and defined in the Uniform Commercial Code as adopted in the State of New York from time to time (the “Uniform Commercial Code”) shall have the meaning given therein unless otherwise defined herein. Without limiting the foregoing, the terms “accounts”, “chattel paper”, “commercial tort claims”, “instruments”, “general intangibles”, “goods”, “payment intangibles”, “proceeds”, “supporting obligations”, “securities”, “investment property”, “documents”, “deposit accounts”, “software”, “letter of credit rights”, “inventory”, “equipment” and “fixtures”, as and when used in the description of Collateral shall have the meanings given to such terms in Articles 8 or 9 of the Uniform Commercial Code. To the extent the definition of any category or type of collateral is expanded by any amendment, modification or revision to the Uniform Commercial Code, such expanded definition will apply automatically as of the date of such amendment, modification or revision.

1.4. Certain Matters of Construction.

The terms “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. All references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and vice versa. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. Unless otherwise provided, all references to any instruments or agreements to which Agent is a party, including, without limitation, references to any of the Other Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof. All references herein to the time of day shall mean the time in New York, New York. Unless otherwise provided, all financial calculations shall be performed with Inventory valued on a first-in, first-out basis. Whenever the words “including” or “include” shall be used, such words shall be understood to mean “including, without limitation” or “include, without limitation”. A Default or Event of Default shall be deemed to exist at all times during the period commencing on the date that such Default or Event of Default occurs to the date on which such Default or Event of Default is waived in writing pursuant to this Agreement or, in the case of a Default, is cured within any period of cure expressly provided for in this Agreement; and an Event of Default shall “continue” or be “continuing” until such Event of Default has been waived in writing by the Required Lenders. Any Lien referred to in this Agreement or any of the Other Documents as having been created in favor of Agent, any agreement entered into by Agent pursuant to this Agreement or any of the Other Documents, any payment made by or to or funds received by Agent pursuant to or as contemplated by this Agreement or any of the Other Documents, or any act taken or omitted to be taken by Agent, shall, unless otherwise expressly provided, be created, entered into, made or received, or taken or omitted, for the benefit or account of Agent and Lenders. Wherever the phrase “to the best of Borrower’s knowledge” or words of similar import relating to the knowledge or the awareness of Borrower are used in this Agreement or Other Documents, such phrase shall mean and refer to (i) the actual knowledge of a senior officer of Borrower or (ii) the knowledge that a senior officer would have obtained if he had engaged in good faith and diligent performance of his/her duties, including the making of such reasonably specific inquiries as may be necessary of the employees or agents of Borrower and a good faith attempt to ascertain the existence or accuracy of the matter to which such phrase relates. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or otherwise within the limitations of, another covenant shall not avoid the occurrence of a default if such action is taken or condition exists. In addition, all representations and warranties hereunder shall be given independent effect so that if a particular representation or warranty proves to be incorrect or is breached, the fact that another representation or warranty concerning the same or similar subject matter is correct or is not breached will not affect the incorrectness of a breach of a representation or warranty hereunder.

ARTICLE II

ADVANCES, PAYMENTS

2.1. Revolving Advances.

(a) Amount of Revolving Advances

Subject to the terms and conditions set forth in this Agreement including Section 2.1(b), each Lender, severally and not jointly, will make Revolving Advances to Borrower in aggregate amounts outstanding at any time equal to such Lender’s Commitment Percentage of the lesser of (x) the Maximum Revolving Advance Amount less the aggregate Maximum Undrawn Amount of all outstanding Letters of Credit or (y) an amount equal to the sum of:

(i) an amount equal to the sum of (without duplication) (A) up to 85%, subject to the provisions of Section 2.1(b) hereof, of Acceptable Government Agency Receivables, (B) up to 50%, subject to the provision of Section 2.1(b) hereof, of Acceptable Unbilled Amounts, (C) up to 85%, subject to the provisions of Section 2.1(b) hereof, of Commercial Broker Receivables, and (D) up to 85%, subject to the provisions of Section 2.1(b) hereof, of Commercial Receivables (collectively, the “Advance Rates”); provided, however, that Foreign Receivables shall not constitute more than ten percent (10%) of Eligible Receivables at any time, minus

- (ii) the aggregate Maximum Undrawn Amount of all outstanding Letters of Credit, minus
- (iii) such reserves as Agent may in good faith reasonably deem proper and necessary from time to time.

The amount derived from the sum of (x) Sections 2.1(a)(y)(i) minus (y) Section 2.1 (a)(y)(ii) and (iii) at any time and from time to time shall be referred to as the "Formula Amount". The Revolving Advances shall be evidenced by one or more secured promissory notes (collectively, the "Revolving Credit Note") substantially in the form attached hereto as Exhibit 2.1(a).

(b) Discretionary Rights.

The Advance Rates may be increased or decreased by Agent at any time and from time to time in evaluating specific Receivables in the exercise of its good faith reasonable discretion. Borrower consents to any such increases or decreases and acknowledges that decreasing the Advance Rates or increasing or imposing reserves may limit or restrict Advances requested by Borrower. The rights of Agent under this subsection are subject to the provisions of Section 15.2(b).

2.2. Procedure for Revolving Advances Borrowing.

(a) Borrower may notify Agent prior to 10:00 a.m. (New York time) on a Business Day of Borrower's request to incur, on that day, a Revolving Advance hereunder. Subject to the satisfaction of the conditions set forth in Section 8.3 hereof, in the event Borrower desires an Equipment Loan, Borrower shall give Agent at least three (3) Business Days' prior written notice. Should any amount required to be paid as interest hereunder, or as fees or other charges under this Agreement or any other agreement with Agent or Lenders, or with respect to any other Obligation, become due, same shall be deemed a request for a Revolving Advance maintained as a Domestic Rate Loan as of the date such payment is due, in the amount required to pay in full such interest, fee, charge or Obligation under this Agreement or any other agreement with Agent or Lenders, and such request shall be irrevocable.

(b) Notwithstanding the provisions of subsection (a) above, in the event Borrower desires to obtain a Eurodollar Rate Loan, Borrower shall give Agent written notice by no later than 10:00 a.m. on the day which is three (3) Business Days prior to the date such Eurodollar Rate Loan is to be borrowed, specifying (i) the date of the proposed borrowing (which shall be a Business Day), (ii) the type of borrowing and the amount on the date of such Advance to be borrowed, which amount shall be in an aggregate principal amount that is not less than \$1,000,000 and integral multiples of \$250,000 in excess thereof, and (iii) the duration of the first Interest Period therefor. Interest Periods for Eurodollar Rate Loans shall be for one, two or three months; provided, if an Interest Period would end on a day that is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the Interest Period shall end on the next preceding Business Day. No Eurodollar Rate Loan shall be made available to Borrower during the continuance of a Default or an Event of Default. After giving effect to each requested Eurodollar Rate Loan, including those which are converted from a Domestic Rate Loan under Section 2.2(d), there shall not be outstanding more than five (5) Eurodollar Rate Loans, in the aggregate.

(c) Each Interest Period of a Eurodollar Rate Loan shall commence on the date such Eurodollar Rate Loan is made and shall end on such date as Borrower may elect as set forth in subsection (b)(iii) above provided that the exact length of each Interest Period shall be determined in accordance with the practice of the interbank market for offshore Dollar deposits and no Interest Period shall end after the last day of the Term.

Borrower shall elect the initial Interest Period applicable to a Eurodollar Rate Loan by its notice of borrowing given to Agent pursuant to Section 2.2(b) or by its notice of conversion given to Agent pursuant to Section 2.2(d), as the case may be. Borrower shall elect the duration of each succeeding Interest Period by giving irrevocable written notice to Agent of such duration not later than 10:00 a.m. (New York time) on the day which is three (3) Business Days prior to the last day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Agent does not receive timely notice of the Interest Period elected by Borrower, Borrower shall be deemed to have elected to convert to a Domestic Rate Loan subject to Section 2.2(d) hereinbelow.

(d) Provided that no Event of Default shall have occurred and be continuing, on the last Business Day of the then current Interest Period applicable to any outstanding Eurodollar Rate Loan, or on any Business Day with respect to Domestic Rate Loans, Borrower may convert any such loan into a loan of another type in the same aggregate principal amount provided that any conversion of a Eurodollar Rate Loan shall be made only on the last Business Day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Borrower desires to convert a loan, Borrower shall give Agent written notice by no later than 10:00 a.m. (New York time) (i) on the day which is three (3) Business Days' prior to the date on which such conversion is to occur with respect to a conversion from a Domestic Rate Loan to a Eurodollar Rate Loan, or (ii) on the day which is one (1) Business Day prior to the date on which such conversion is to occur with respect to a conversion from a Eurodollar Rate Loan to a Domestic Rate Loan, specifying, in each case, the date of such conversion, the loans to be converted and if the conversion is from a Domestic Rate Loan to any other type of loan, the duration of the first Interest Period therefor.

(e) At its option and upon written notice given prior to 10:00 a.m. (New York time) at least three (3) Business Days' prior to the date of such prepayment, Borrower may prepay the Eurodollar Rate Loans in whole at any time or in part from time to time with accrued interest on the principal being prepaid to the date of such repayment. Borrower shall specify the date of prepayment of Advances which are Eurodollar Rate Loans and the amount of such prepayment. In the event that any prepayment of a Eurodollar Rate Loan is required or permitted on a date other than the last Business Day of the then current Interest Period with respect thereto, Borrower shall indemnify Agent and Lenders therefor in accordance with Section 2.2(f) hereof.

(f) Borrower shall indemnify Agent and Lenders and hold Agent and Lenders harmless from and against any and all losses or expenses that Agent and Lenders may sustain or incur as a consequence of any prepayment, conversion of or any default by Borrower in the payment of the principal of or interest on any Eurodollar Rate Loan or failure by Borrower to complete a borrowing of, a prepayment of or conversion of or to a Eurodollar Rate Loan after notice thereof has been given, including, but not limited to, any interest payable by Agent or Lenders to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Agent or any Lender to Borrower shall be conclusive absent manifest error.

(g) Notwithstanding any other provision hereof, if any Applicable Law, or any change therein or in the interpretation or application thereof, shall make it unlawful for any Lender (for purposes of this subsection (g), the term "Lender" shall include any Lender and the office or branch where any Lender or any corporation or bank controlling such Lender makes or maintains any Eurodollar Rate Loans) to make or maintain its Eurodollar Rate Loans, the obligation of Lenders to make Eurodollar Rate Loans hereunder shall forthwith be cancelled and Borrower shall, if any affected Eurodollar Rate Loans are then outstanding, promptly upon request from Agent, either pay all such affected Eurodollar Rate Loans or convert such affected Eurodollar Rate Loans into loans of another type. If any such payment or conversion of any Eurodollar Rate Loan is made on a day that is not the last day of the Interest Period applicable to such Eurodollar Rate Loan, Borrower shall pay Agent, upon Agent's request, such amount or amounts as may be necessary to compensate Lenders for any loss or expense sustained or incurred by Lenders in respect of such Eurodollar Rate Loan as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by Lenders to lenders of funds obtained by Lenders in order to make or maintain such Eurodollar Rate Loan. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Lenders to Borrower shall be conclusive absent manifest error.

(h) Borrower's obligations and indemnifications under this Section 2.2 shall survive the termination of this Agreement.

2.3. Disbursement of Advance Proceeds.

All Advances shall be disbursed from whichever office or other place Agent may designate from time to time and, together with any and all other Obligations of Borrower to Agent or Lenders, shall be charged to Borrower's Account on Agent's books. During the Term, Borrower may use the Revolving Advances by borrowing, prepaying and reborrowing, all in accordance with the terms and conditions hereof. The proceeds of each Revolving Advance requested by Borrower or deemed to have been requested by Borrower under Section 2.2(a) hereof shall, with respect to requested Revolving Advances to the extent Lenders make such Revolving Advances, be made available to Borrower on the day so requested by way of credit to Borrower's operating account at PNC, or such other bank as Borrower may designate following notification to Agent, in immediately available federal funds or other immediately available funds or, with respect to Revolving Advances deemed to have been requested by Borrower, be disbursed to Agent to be applied to the outstanding Obligations giving rise to such deemed request.

2.4. Loans.

(a) Term Loan.

Subject to the terms and conditions of this Agreement, each Lender, severally and not jointly, will make a Term Loan to Borrower in the sum equal to such Lender's Commitment Percentage of \$16,000,000. The Term Loan shall be advanced on the Closing Date and shall be, with respect to principal, payable as follows, subject to acceleration upon the occurrence of an Event of Default under this Agreement or termination of this Agreement: equal month installments of \$190,476 commencing on December 1, 2011 and continuing on the first (1st) day of each month thereafter with the remaining balance due in full on the last day of the Term. The Term Loan shall be evidenced by one or more secured promissory notes (collectively, the "Term Note") in substantially the form attached hereto as Exhibit 2.4(a). The Term Loan may consist of Domestic Rate Loans or Eurodollar Rate Loans, or a combination thereof, as Borrower may request. In the event that Borrower desires to obtain or extend a Eurodollar Rate Loan or to convert a Domestic Rate Loan to a Eurodollar Rate Loan, Borrower shall comply with the notification requirements set forth in Sections 2.2(b) and (d) and the provisions of Sections 2.2(b) through (h) shall apply.

(b) Equipment Loans.

(i) Subject to the terms and conditions of this Agreement, each Lender, severally and not jointly, shall, from time to time, make available Advances to Borrower (each, an "Equipment Loan" and collectively, the "Equipment Loans") to finance Borrower's purchase of Equipment for use in Borrower's business. All such Equipment Loans shall be in such amounts as are requested by Borrower, but in no event shall any Equipment Loan exceed ninety (90%) percent of the net invoice cost (excluding taxes, shipping, delivery, handling, installation, overhead and other so called "soft" costs) of the Equipment then to be purchased by Borrower and the total amount of all Equipment Loans outstanding hereunder shall not exceed, in the aggregate, the sum of Two Million Five Hundred Thousand Dollars (\$2,500,000). In no event shall any Lender be required to provide more than its Commitment Percentage of any Equipment Loan. Once repaid Equipment Loans may not be reborrowed.

(ii) Advances constituting Equipment Loans shall be accumulated during each twelve month period (each a “Borrowing Period”) during the first three years of the Term the first of which commences on the date hereof and ends on October __, 2012 (the “Initial Borrowing Period”). At the end of each Borrowing Period, the sum of all Equipment Loans made during the Borrowing Period shall amortize on the basis of a sixty (60) month schedule (such amount as determined with respect to any Borrowing Period, the “Amortization Amount”). Monthly principal payments will be initially determined for the Equipment Loans made during the Initial Borrowing Period and the amount of such monthly principal payments shall be increased upon the completion of each such subsequent Borrowing Period by the Amortization Amount for each such subsequent Borrowing Period. The Equipment Loans shall be, with respect to principal, payable in equal monthly installments based upon the amortization schedule set forth above, commencing on the first day of the month following the anniversary of the Closing Date and on the first day of each month thereafter with the balance payable upon the expiration of the Term, subject to acceleration upon the occurrence of an Event of Default under this Agreement or termination of this Agreement. Equipment Loans shall be evidenced by one or more secured promissory notes (collectively, the “Equipment Note”) in substantially the form attached hereto as Exhibit 2.4(b). The Equipment Loans may consist of Domestic Rate Loans or Eurodollar Rate Loans, or a combination thereof, as Borrower may request. In the event that Borrower desires to obtain or extend a Eurodollar Rate Loan or to convert a Domestic Rate Loan to a Eurodollar Rate Loan, Borrower shall comply with the notification requirements set forth in Sections 2.2(b) and (d) and the provisions of Sections 2.2(b) through (h) shall apply.

2.5. Maximum Advances.

The aggregate balance of Revolving Advances outstanding at any time shall not exceed the lesser of (a) the Maximum Revolving Advance Amount or (b) the Formula Amount less, in each case, the aggregate Maximum Undrawn Amount of all issued and outstanding Letters of Credit.

2.6. Repayment of Advances.

(a) The Revolving Advances shall be due and payable in full on the last day of the Term subject to earlier prepayment as herein provided. The Term Loan shall be due and payable as provided in Section 2.4(a) hereof and in the Term Note, subject to mandatory prepayments as herein provided. The Equipment Loans shall be due and payable as provided in Section 2.4(b) hereof and in the Equipment Note, subject to mandatory prepayments as herein provided.

(b) Borrower recognizes that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by Agent on the date received. In consideration of Agent’s agreement to conditionally credit Borrower’s Account as of the next Business Day following Agent’s receipt of those items of payment, Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by Agent on account of the Obligations one (1) Business Day after (i) the Business Day Agent receives such payments via wire transfer or electronic depository check or (ii) in the case of payments received by Agent in any other form, the Business Day such payment constitutes good funds in Agent’s account. Agent is not, however, required to credit Borrower’s Account for the amount of any item of payment which is unsatisfactory to Agent and Agent may charge Borrower’s Account for the amount of any item of payment which is returned to Agent unpaid.

(c) All payments of principal, interest and other amounts payable hereunder, or under any of the Other Documents shall be made to Agent at the Payment Office not later than 1:00 P.M. (New York time) on the due date therefor in lawful money of the United States of America in federal funds or other funds immediately available to Agent. Agent shall have the right to effectuate payment on any and all Obligations due and owing hereunder by charging Borrower’s Account or by making Advances as provided in Section 2.2 hereof.

(d) Borrower shall pay principal, interest, and all other amounts payable hereunder, or under any related agreement, without any deduction whatsoever, including, but not limited to, any deduction for any setoff or counterclaim.

2.7. Repayment of Excess Advances.

The aggregate balance of Advances outstanding at any time in excess of the maximum amount of Advances permitted hereunder shall be immediately due and payable without the necessity of any demand, at the Payment Office, whether or not a Default or Event of Default has occurred.

2.8. Statement of Account.

Agent shall maintain, in accordance with its customary procedures, a loan account ("Borrower's Account") in the name of Borrower in which shall be recorded the date and amount of each Advance made by Agent and the date and amount of each payment in respect thereof; provided, however, the failure by Agent to record the date and amount of any Advance shall not adversely affect Agent or any Lender. Each month, Agent shall send to Borrower a statement showing the accounting for the Advances made, payments made or credited in respect thereof, and other transactions between Agent and Borrower, during such month. The monthly statements shall be deemed correct and binding upon Borrower in the absence of manifest error and shall constitute an account stated between Lenders and Borrower unless Agent receives a written statement of Borrower's specific exceptions thereto within thirty (30) days after such statement is received by Borrower. The records of Agent with respect to the loan account shall be conclusive evidence absent manifest error of the amounts of Advances and other charges thereto and of payments applicable thereto.

2.9. Letters of Credit.

Subject to the terms and conditions hereof, Agent shall issue or cause the issuance of standby and/or trade letters of credit for the account of Borrower; provided, however, that Agent will not be required to issue or cause to be issued any Letters of Credit to the extent that the issuance thereof would then cause the sum of (i) the outstanding Revolving Advances plus (ii) the Maximum Undrawn Amount of all outstanding Letters of Credit to exceed the lesser of (x) the Maximum Revolving Advance Amount or (y) the Formula Amount. The Maximum Undrawn Amount of all outstanding Letters of Credit shall not exceed in the aggregate at any time the Letter of Credit Sublimit. All disbursements or payments related to Letters of Credit shall be deemed to be Domestic Rate Loans consisting of Revolving Advances and shall bear interest at the applicable Contract Rate for Domestic Rate Loans. Letters of Credit that have not been drawn upon shall not bear interest.

2.10. Issuance of Letters of Credit.

(a) Borrower may request Agent to issue or cause the issuance of a Letter of Credit by delivering to Agent, at the Payment Office, prior to 10:00 a.m. (New York time), at least five (5) Business Days' prior to the proposed date of issuance, Agent's form of Letter of Credit Application (the "Letter of Credit Application") completed to the satisfaction of Agent; and, such other certificates, documents and other papers and information as Agent may reasonably request. Borrower also has the right to give instructions and make agreements with respect to any application, any applicable letter of credit and security agreement, any applicable letter of credit reimbursement agreement and/or any other applicable agreement, any letter of credit and the disposition of documents, disposition of any unutilized funds, and to agree with Agent upon any amendment, extension or renewal of any Letter of Credit.

(b) Each Letter of Credit shall, among other things, (i) provide for the payment of sight drafts, other written demands for payment, or acceptances of usance drafts when presented for honor thereunder in accordance with the terms thereof and when accompanied by the documents described therein and (ii) have an expiry date not later than twelve (12) months after such Letter of Credit's date of issuance and in no event later than the last day of the Term. Each standby Letter of Credit shall be subject either to the Uniform Customs and Practice for Documentary Credits as most recently published by the International Chamber of Commerce at the time a Letter of Credit is issued (the "UCP") or the International Standby Practices (ISP98-International Chamber of Commerce Publication Number 590) (the "ISP98 Rules"), and any subsequent revisions thereof at the time a standby Letter of Credit is issued, as determined by Agent, and each trade Letter of Credit shall be subject to the UCP.

(c) Agent shall use its reasonable efforts to notify Lenders of the request by Borrower for a Letter of Credit hereunder.

2.11. Requirements For Issuance of Letters of Credit.

(a) Borrower shall authorize and direct any Issuer to name Borrower as the "Applicant" or "Account Party" of each Letter of Credit. If Agent is not the Issuer of any Letter of Credit, Borrower shall authorize and direct the Issuer to deliver to Agent all instruments, documents, and other writings and property received by the Issuer pursuant to the Letter of Credit and to accept and rely upon Agent's instructions and agreements with respect to all matters arising in connection with the Letter of Credit, the application therefor or any Acceptance therefor.

(b) In connection with all Letters of Credit issued or caused to be issued by Agent under this Agreement, Borrower hereby appoints Agent, or its designee, as its attorney, with full power and authority if an Event of Default shall have occurred and be continuing, (i) to sign and/or endorse Borrower's name upon any warehouse or other receipts, letter of credit applications and acceptances, (ii) to sign Borrower's name on bills of lading; (iii) to clear Inventory through the United States of America Customs Department ("Customs") in the name of Borrower or Agent or Agent's designee, and to sign and deliver to Customs officials powers of attorney in the name of Borrower for such purpose; and (iv) to complete in Borrower's name or Agent's, or in the name of Agent's designee, any order, sale or transaction, obtain the necessary documents in connection therewith, and collect the proceeds thereof. Neither Agent nor its attorneys will be liable for any acts or omissions nor for any error of judgment or mistakes of fact or law, except for Agent's or its attorney's willful misconduct. This power, being coupled with an interest, is irrevocable as long as any Letters of Credit remain outstanding.

2.12. Disbursements, Reimbursement.

(a) Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from Agent a participation in such Letter of Credit and each drawing thereunder in an amount equal to such Lender's Commitment Percentage of the Maximum Face Amount of such Letter of Credit and the amount of such drawing, respectively.

(b) In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, Agent will promptly notify Borrower. Provided that it shall have received such notice, Borrower shall reimburse (such obligation to reimburse Agent shall sometimes be referred to as a "Reimbursement Obligation") Agent prior to 12:00 Noon, New York time on each date that an amount is paid by Agent under any Letter of Credit (each such date, a "Drawing Date") in an amount equal to the amount so paid by Agent. In the event Borrower fails to reimburse Agent for the full amount of any drawing under any Letter of Credit by 12:00 Noon, New York time, on the Drawing Date, Agent will promptly notify each Lender thereof, and Borrower shall be deemed to have requested that a Revolving Advance maintained as a Domestic Rate Loan be made by the Lenders to be disbursed on the Drawing Date under such Letter of Credit, subject to the amount of the unutilized portion of the lesser of Maximum Revolving Advance Amount or the Formula Amount and subject to Section 8.2 hereof. Any notice given by Agent pursuant to this Section 2.12(b) may be oral if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(c) Each Lender shall upon any notice pursuant to Section 2.12(b) make available to Agent an amount in immediately available funds equal to its Commitment Percentage of the amount of the drawing, whereupon the participating Lenders shall (subject to Section 2.12(d)) each be deemed to have made a Revolving Advance maintained as a Domestic Rate Loan to Borrower in that amount. If any Lender so notified fails to make available to Agent the amount of such Lender's Commitment Percentage of such amount by no later than 2:00 p.m., New York time on the Drawing Date, then interest shall accrue on such Lender's obligation to make such payment, from the Drawing Date to the date on which such Lender makes such payment (i) at a rate per annum equal to the Federal Funds Effective Rate during the first three (3) days following the Drawing Date and (ii) at a rate per annum equal to the rate applicable to Revolving Advances maintained as a Domestic Rate Loans on and after the fourth day following the Drawing Date. Agent will promptly give notice of the occurrence of the Drawing Date, but failure of Agent to give any such notice on the Drawing Date or in sufficient time to enable any Lender to effect such payment on such date shall not relieve such Lender from its obligation under this Section 2.12(c), provided that such Lender shall not be obligated to pay interest as provided in Section 2.12(c) (i) and (ii) until and commencing from the date of receipt of notice from Agent of a drawing.

(d) With respect to any unreimbursed drawing that is not converted into a Revolving Advance maintained as a Domestic Rate Loan to Borrower in whole or in part as contemplated by Section 2.12(b), because of Borrower's failure to satisfy the conditions set forth in Section 8.2 (other than any notice requirements) or for any other reason, Borrower shall be deemed to have incurred from Agent a borrowing (each a "Letter of Credit Borrowing") in the amount of such drawing. Such Letter of Credit Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the rate per annum applicable to a Revolving Advance maintained as a Domestic Rate Loan. Each Lender's payment to Agent pursuant to Section 2.12(c) shall be deemed to be a payment in respect of its participation in such Letter of Credit Borrowing and shall constitute a "Participation Advance" from such Lender in satisfaction of its Participation Commitment under this Section 2.12.

Each Lender's Participation Commitment shall continue until the last to occur of any of the following events: (x) Agent ceases to be obligated to issue or cause to be issued Letters of Credit hereunder; (y) no Letter of Credit issued or created hereunder remains outstanding and uncanceled and (z) all Persons (other than Borrower) have been fully reimbursed for all payments made under or relating to Letters of Credit.

2.13. Repayment of Participation Advances.

(a) Upon (and only upon) receipt by Agent for its account of immediately available funds from Borrower (i) in reimbursement of any payment made by Agent under the Letter of Credit with respect to which any Lender has made a Participation Advance to Agent, or (ii) in payment of interest on such a payment made by Agent under such a Letter of Credit, Agent will pay to each Lender, in the same funds as those received by Agent, the amount of such Lender's Commitment Percentage of such funds, except Agent shall retain the amount of the Commitment Percentage of such funds of any Lender that did not make a Participation Advance in respect of such payment by Agent.

(b) If Agent is required at any time to return to Borrower, or to a trustee, receiver, liquidator, custodian, or any official in any insolvency proceeding, any portion of the payments made by Borrower to Agent pursuant to Section 2.13(a) in reimbursement of a payment made under the Letter of Credit or interest or fee thereon, each Lender shall, on demand of Agent, forthwith return to Agent the amount of its Commitment Percentage of any amounts so returned by Agent plus interest at the Federal Funds Effective Rate.

2.14. Documentation.

Borrower agrees to be bound by the terms of the Letter of Credit Application and by Agent's interpretations of any Letter of Credit issued for Borrower's account and by Agent's written regulations and customary practices relating to letters of credit, though Agent's interpretations may be different from Borrower's own. In the event of a conflict between the Letter of Credit Application and this Agreement, this Agreement shall govern. It is understood and agreed that, except in the case of gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment), Agent shall not be liable for any error, negligence and/or mistakes, whether of omission or commission, in following Borrower's instructions or those contained in the Letters of Credit or any modifications, amendments or supplements thereto.

2.15. Determination to Honor Drawing Request.

In determining whether to honor any request for drawing under any Letter of Credit by the beneficiary thereof, Agent shall be responsible only to determine that the documents and certificates required to be delivered under such Letter of Credit have been delivered and that they comply on their face with the requirements of such Letter of Credit and that any other drawing condition appearing on the face of such Letter of Credit has been satisfied in the manner so set forth.

2.16. Nature of Participation and Reimbursement Obligations.

Each Lender's obligation in accordance with this Agreement to make the Revolving Advances or Participation Advances as a result of a drawing under a Letter of Credit, and the obligations of Borrower to reimburse Agent upon a draw under a Letter of Credit, shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Section 2.16 under all circumstances, including the following circumstances:

(i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against Agent, Borrower or any other Person for any reason whatsoever;

(ii) the failure of Borrower or any other Person to comply, in connection with a Letter of Credit Borrowing, with the conditions set forth in this Agreement for the making of a Revolving Advance, it being acknowledged that such conditions are not required for the making of a Letter of Credit Borrowing and the obligation of the Lenders to make Participation Advances under Section 2.12;

(iii) any lack of validity or enforceability of any Letter of Credit;

(iv) any claim of breach of warranty that might be made by Borrower or any Lender against the beneficiary of a Letter of Credit, or the existence of any claim, set-off, recoupment, counterclaim, cross claim, defense or other right which Borrower or any Lender may have at any time against a beneficiary, any successor beneficiary or any transferee of any Letter of Credit or the proceeds thereof (or any Persons for whom any such transferee may be acting), Agent or any Lender or any other Person, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between Borrower or any Subsidiaries of Borrower and the beneficiary for which any Letter of Credit was procured);

(v) the lack of power or authority of any signer of (or any defect in or forgery of any signature or endorsement on) or the form of or lack of validity, sufficiency, accuracy, enforceability or genuineness of any draft, demand, instrument, certificate or other document presented under or in connection with any Letter of Credit, or any fraud or alleged fraud in connection with any Letter of Credit, or the transport of any property or provisions of services relating to a Letter of Credit, in each case even if Agent or any of Agent's Affiliates has been notified thereof;

(vi) payment by Agent under any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit;

(vii) the solvency of, or any acts or omissions by, any beneficiary of any Letter of Credit, or any other Person having a role in any transaction or obligation relating to a Letter of Credit, or the existence, nature, quality, quantity, condition, value or other characteristic of any property or services relating to a Letter of Credit;

(viii) any failure by Agent or any of Agent's Affiliates to issue any Letter of Credit in the form requested by Borrower, unless Agent has received written notice from Borrower of such failure within three (3) Business Days after Agent shall have furnished Borrower a copy of such Letter of Credit and such error is material and no drawing has been made thereon prior to receipt of such notice;

(ix) any Material Adverse Effect on Borrower or any Guarantor;

(x) any breach of this Agreement or any Other Document by any party thereto;

(xi) the occurrence or continuance of an insolvency proceeding with respect to Borrower or any Guarantor;

(xii) the fact that a Default or Event of Default shall have occurred and be continuing;

(xiii) the fact that the Term shall have expired or this Agreement or the Obligations hereunder shall have been terminated; and

(xiv) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

2.17. Indemnity.

In addition to amounts payable as provided in Section 15.5, Borrower hereby agrees to protect, indemnify, pay and save harmless Agent and any of Agent's Affiliates that have issued a Letter of Credit from and against any and all claims, demands, liabilities, damages, taxes, penalties, interest, judgments, losses, costs, charges and expenses (including reasonable fees, expenses and disbursements of counsel and allocated costs of internal counsel) which Agent or any of Agent's Affiliates may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit, other than as a result of (A) the gross negligence or willful misconduct of Agent as determined by a final and non-appealable judgment of a court of competent jurisdiction or (b) the wrongful dishonor by Agent or any of Agent's Affiliates of a proper demand for payment made under any Letter of Credit, except if such dishonor resulted from any act or omission, whether rightful or wrongful, of any present or future de jure or de facto Governmental Body (all such acts or omissions herein called "Governmental Acts"). The foregoing obligations and the indemnifications hereunder shall survive the termination of this Agreement.

2.18. Liability for Acts and Omissions.

As between Borrower and Agent and Lenders, Borrower assumes all risks of the acts and omissions of, or misuse of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the respective foregoing, Agent shall not be responsible for: (i) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for an issuance of any such Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged (even if Agent shall have been notified thereof); (ii) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) the failure of the beneficiary of any such Letter of Credit, or any other party to which such Letter of Credit may be transferred, to comply fully with any conditions required in order to draw upon such Letter of Credit or any other claim of Borrower against any beneficiary of such Letter of Credit, or any such transferee, or any dispute between or among Borrower and any beneficiary of any Letter of Credit or any such transferee; (iv) errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, facsimile, telex or otherwise, whether or not they be in cipher; (v) errors in interpretation of technical terms; (vi) any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such Letter of Credit or of the proceeds thereof; (vii) the misapplication by the beneficiary of any such Letter of Credit of the proceeds of any drawing under such Letter of Credit; or (viii) any consequences arising from causes beyond the control of Agent, including any governmental acts, and none of the above shall affect or impair, or prevent the vesting of, any of Agent's rights or powers hereunder. Nothing in the preceding sentence shall relieve Agent from liability for Agent's gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment) in connection with actions or omissions described in such clauses (i) through (viii) of such sentence. In no event shall Agent or Agent's Affiliates be liable to Borrower for any indirect, consequential, incidental, punitive, exemplary or special damages or expenses (including without limitation attorneys' fees), or for any damages resulting from any change in the value of any property relating to a Letter of Credit.

Without limiting the generality of the foregoing, Agent and each of its Affiliates (i) may rely on any oral or other communication believed in good faith by Agent or such Affiliate to have been authorized or given by or on behalf of the applicant for a Letter of Credit, (ii) may honor any presentation if the documents presented appear on their face substantially to comply with the terms and conditions of the relevant Letter of Credit; (iii) may honor a previously dishonored presentation under a Letter of Credit, whether such dishonor was pursuant to a court order, to settle or compromise any claim of wrongful dishonor, or otherwise, and shall be entitled to reimbursement to the same extent as if such presentation had initially been honored, together with any interest paid by Agent or its Affiliates; (iv) may honor any drawing that is payable upon presentation of a statement advising negotiation or payment, upon receipt of such statement (even if such statement indicates that a draft or other document is being delivered separately), and shall not be liable for any failure of any such draft or other document to arrive, or to conform in any way with the relevant Letter of Credit; (v) may pay any paying or negotiating bank claiming that it rightfully honored under the laws or practices of the place where such bank is located; and (vi) may settle or adjust any claim or demand made on Agent or its Affiliate in any way related to any order issued at the applicant's request to an air carrier, a letter of guarantee or of indemnity issued to a carrier or any similar document (each an "Order") and honor any drawing in connection with any Letter of Credit that is the subject of such Order, notwithstanding that any drafts or other documents presented in connection with such Letter of Credit fail to conform in any way with such Letter of Credit.

In furtherance and extension and not in limitation of the specific provisions set forth above, any action taken or omitted by Agent under or in connection with the Letters of Credit issued by it or any documents and certificates delivered thereunder, if taken or omitted in good faith and without gross negligence (as determined by a court of competent jurisdiction in a final non-appealable judgment), shall not put Agent under any resulting liability to Borrower or any Lender.

2.19. Additional Payments.

Any sums expended by Agent or any Lender due to Borrower's failure to perform or comply with its obligations under this Agreement or any Other Document including Borrower's obligations under Sections 4.2, 4.4, 4.12, 4.13, 4.14 and 6.1 hereof, may be charged to Borrower's Account as a Revolving Advance and added to the Obligations.

2.20. Manner of Borrowing and Payment.

(a) Each borrowing of Revolving Advances shall be advanced according to the applicable Commitment Percentages of Lenders. The Term Loan shall be advanced according to the Commitment Percentages of Lenders. Each borrowing of Equipment Loans shall be advanced according to the applicable Commitment Percentages of Lenders.

(b) Each payment (including each prepayment) by Borrower on account of the principal of and interest on the Revolving Advances, shall be applied to the Revolving Advances pro rata according to the applicable Commitment Percentages of Lenders. Each payment (including each prepayment) by Borrower on account of the principal of and interest on the Term Note, shall be made from or to, or applied to that portion of the Term Loan evidenced by the Term Note pro rata according to the Commitment Percentages of Lenders. Each payment (including each prepayment) by Borrower on account of the principal of and interest on the Equipment Note, shall be applied to that portion of the Equipment Loan evidenced by the Equipment Note pro rata according to the Commitment Percentages of Lenders. Except as expressly provided herein, all payments (including prepayments) to be made by Borrower on account of principal, interest and fees shall be made without set off or counterclaim and shall be made to Agent on behalf of the Lenders to the Payment Office, in each case on or prior to 1:00 P.M., New York time, in Dollars and in immediately available funds.

(c) (i) Notwithstanding anything to the contrary contained in Sections 2.20(a) and (b) hereof, commencing with the first Business Day following the Closing Date, each borrowing of Revolving Advances shall be advanced by Agent and each payment by Borrower on account of Revolving Advances shall be applied first to those Revolving Advances advanced by Agent. On or before 1:00 P.M., New York time, on each Settlement Date commencing with the first Settlement Date following the Closing Date, Agent and Lenders shall make certain payments as follows: (I) if the aggregate amount of new Revolving Advances made by Agent during the preceding Week (if any) exceeds the aggregate amount of repayments applied to outstanding Revolving Advances during such preceding Week, then each Lender shall provide Agent with funds in an amount equal to its applicable Commitment Percentage of the difference between (w) such Revolving Advances and (x) such repayments and (II) if the aggregate amount of repayments applied to outstanding Revolving Advances during such Week exceeds the aggregate amount of new Revolving Advances made during such Week, then Agent shall provide each Lender with funds in an amount equal to its applicable Commitment Percentage of the difference between (y) such repayments and (z) such Revolving Advances.

(ii) Each Lender shall be entitled to earn interest at the applicable Contract Rate on outstanding Advances which it has funded.

(iii) Promptly following each Settlement Date, Agent shall submit to each Lender a certificate with respect to payments received and Advances made during the Week immediately preceding such Settlement Date. Such certificate of Agent shall be conclusive in the absence of manifest error.

(d) If any Lender or Participant (a "benefited Lender") shall at any time receive any payment of all or part of its Advances, or interest thereon, or receive any Collateral in respect thereof (whether voluntarily or involuntarily or by set-off) in a greater proportion than any such payment to and Collateral received by any other Lender, if any, in respect of such other Lender's Advances, or interest thereon, and such greater proportionate payment or receipt of Collateral is not expressly permitted hereunder, such benefited Lender shall purchase for cash from the other Lenders a participation in such portion of each such other Lender's Advances, or shall provide such other Lender with the benefits of any such Collateral, or the proceeds thereof, as shall be necessary to cause such benefited Lender to share the excess payment or benefits of such Collateral or proceeds ratably with each of the other Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. Each Lender so purchasing a portion of another Lender's Advances may exercise all rights of payment (including rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(e) Unless Agent shall have been notified by telephone, confirmed in writing, by any Lender that such Lender will not make the amount which would constitute its applicable Commitment Percentage of the Advances available to Agent, Agent may (but shall not be obligated to) assume that such Lender shall make such amount available to Agent on the next Settlement Date and, in reliance upon such assumption, make available to Borrower a corresponding amount. Agent will promptly notify Borrower of its receipt of any such notice from a Lender. If such amount is made available to Agent on a date after such next Settlement Date, such Lender shall pay to Agent on demand an amount equal to the product of (i) the daily average Federal Funds Rate (computed on the basis of a year of 360 days) during such period as quoted by Agent, times (ii) such amount, times (iii) the number of days from and including such Settlement Date to the date on which such amount becomes immediately available to Agent. A certificate of Agent submitted to any Lender with respect to any amounts owing under this paragraph (e) shall be conclusive, in the absence of manifest error. If such amount is not in fact made available to Agent by such Lender within three (3) Business Days after such Settlement Date, Agent shall be entitled to recover such an amount, with interest thereon at the rate per annum then applicable to such Revolving Advances hereunder, on demand from Borrower; provided, however, that Agent's right to such recovery shall not prejudice or otherwise adversely affect Borrower's rights (if any) against such Lender.

2.21. Mandatory Prepayments.

Subject to Section 4.3 hereof, when any Credit Party sells or otherwise disposes of any Collateral other than Inventory in the Ordinary Course of Business, Borrower shall repay the Advances in an amount equal to the Net Cash Proceeds, such repayments to be made promptly but in no event more than three (3) Business Days following receipt of such net proceeds, and until the date of payment, such proceeds shall be held in trust for Agent. The foregoing shall not be deemed to be implied consent to any such sale otherwise prohibited by the terms and conditions hereof. Such repayments shall be applied (i) if the Collateral disposed of is Equipment the purchase of which was financed by an Equipment Loan, (x) first, to the outstanding principal installments of the Equipment Loans in the inverse order of the maturities thereof, (y) second, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof and (z) third, to the remaining Advances in such order as Agent may determine, subject to Borrower's ability to reborrow Revolving Advances in accordance with the terms hereof.

2.22. Use of Proceeds.

(a) Borrower shall apply the proceeds of Advances to (i) finance the transaction evidenced by the Acquisition Agreement, (ii) repay existing indebtedness of Borrower, (iii) pay fees and expenses relating to this transaction, (iv) provide for its working capital needs and reimburse drawings under Letters of Credit, and (v) for other general corporate purposes of Borrower.

(b) Without limiting the generality of Section 2.22(a) above, neither Borrower, the Guarantors nor any other Person which may in the future become party to this Agreement or the Other Documents as Borrower or Guarantor, intends to use nor shall they use any portion of the proceeds of the Advances, directly or indirectly, for any purpose in violation of the Trading with the Enemy Act.

2.23. Defaulting Lender.

(a) Notwithstanding anything to the contrary contained herein, in the event any Lender (x) has refused (which refusal constitutes a breach by such Lender of its obligations under this Agreement) to make available its portion of any Advance or (y) notifies either Agent or Borrower that it does not intend to make available its portion of any Advance (if the actual refusal would constitute a breach by such Lender of its obligations under this Agreement) (each, a “Lender Default”), all rights and obligations hereunder of such Lender (a “Defaulting Lender”) as to which a Lender Default is in effect and of the other parties hereto shall be modified to the extent of the express provisions of this Section 2.23 while such Lender Default remains in effect.

(b) Advances shall be incurred pro rata from Lenders (the “Non-Defaulting Lenders”) which are not Defaulting Lenders based on their respective Commitment Percentages, and no Commitment Percentage of any Lender or any pro rata share of any Advances required to be advanced by any Lender shall be increased as a result of such Lender Default. Amounts received in respect of principal of any type of Advances shall be applied to reduce the applicable Advances of each Lender (other than any Defaulting Lender) pro rata based on the aggregate of the outstanding Advances of that type of all Lenders at the time of such application; provided, that, Agent shall not be obligated to transfer to a Defaulting Lender any payments received by Agent for the Defaulting Lender’s benefit, nor shall a Defaulting Lender be entitled to the sharing of any payments hereunder (including any principal, interest or fees). Amounts payable to a Defaulting Lender shall instead be paid to or retained by Agent. Agent may hold and, in its discretion, re-lend to Borrower the amount of such payments received or retained by it for the account of such Defaulting Lender.

(c) A Defaulting Lender shall not be entitled to give instructions to Agent or to approve, disapprove, consent to or vote on any matters relating to this Agreement and the Other Documents. All amendments, waivers and other modifications of this Agreement and the Other Documents may be made without regard to a Defaulting Lender and, for purposes of the definition of “Required Lenders”, a Defaulting Lender shall be deemed not to be a Lender and not to have either Advances outstanding or a Commitment Percentage.

(d) Other than as expressly set forth in this Section 2.23, the rights and obligations of a Defaulting Lender (including the obligation to indemnify Agent) and the other parties hereto shall remain unchanged. Nothing in this Section 2.23 shall be deemed to release any Defaulting Lender from its obligations under this Agreement and the Other Documents, shall alter such obligations, shall operate as a waiver of any default by such Defaulting Lender hereunder, or shall prejudice any rights which Borrower, Agent or any Lender may have against any Defaulting Lender as a result of any default by such Defaulting Lender hereunder.

(e) In the event a Defaulting Lender retroactively cures to the satisfaction of Agent the breach which caused a Lender to become a Defaulting Lender, such Defaulting Lender shall no longer be a Defaulting Lender and shall be treated as a Lender under this Agreement.

ARTICLE III

INTEREST AND FEES

3.1. Interest.

Interest on Advances shall be payable in arrears on the first day of each month with respect to Domestic Rate Loans and, with respect to Eurodollar Rate Loans, at the end of each Interest Period. Interest charges shall be computed on the actual principal amount of Advances outstanding during the month at a rate per annum equal to (i) with respect to Revolving Advances, the applicable Revolving Interest Rate and (ii) with respect to the Term Loan and the Equipment Loans, the applicable Term Loan Rate (as applicable, the "Contract Rate"). Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Contract Rate for Domestic Rate Loans shall be similarly changed without notice or demand of any kind by an amount equal to the amount of such change in the Alternate Base Rate during the time such change or changes remain in effect. The Eurodollar Rate shall be adjusted with respect to Eurodollar Rate Loans without notice or demand of any kind on the effective date of any change in the Reserve Percentage as of such effective date. Upon and after the occurrence of an Event of Default, and during the continuation thereof, at the option of Agent or at the direction of Required Lenders, the Obligations shall bear interest at the applicable Contract Rate plus two (2%) percent per annum (as applicable, the "Default Rate").

3.2. Letter of Credit Fees.

(a) Borrower shall pay (x) to Agent, for the ratable benefit of Lenders, fees for each Letter of Credit for the period from and excluding the date of issuance of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding Letter of Credit multiplied by two percent (2.0%) per annum, such fees to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable quarterly in arrears on the first day of each fiscal quarter and on the last day of the Term, and (y) to the Issuer, a fronting fee of one quarter of one percent (0.25%) per annum, together with any and all administrative, issuance, amendment, payment and negotiation charges with respect to Letters of Credit and all fees and expenses as agreed upon by the Issuer and Borrower in connection with any Letter of Credit, including in connection with the opening, amendment or renewal of any such Letter of Credit and any acceptances created thereunder and shall reimburse Agent for any and all fees and expenses, if any, paid by Agent to the Issuer (all of the foregoing fees, the "Letter of Credit Fees"). All such charges shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or pro-ration upon the termination of this Agreement for any reason. Any such charge in effect at the time of a particular transaction shall be the charge for that transaction, notwithstanding any subsequent change in the Issuer's prevailing charges for that type of transaction. All Letter of Credit Fees payable hereunder shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or pro-ration upon the termination of this Agreement for any reason. Upon and after the occurrence of an Event of Default, and during the continuation thereof, at the option of Agent or at the direction of Required Lenders, the Letter of Credit Fees described in clause (x) of this Section 3.2(a) shall be increased by an additional two percent (2%) per annum.

(b) Following an Event of Default that is continuing or if a Letter of Credit will expire after the Term, Borrower will cause cash to be deposited and maintained in an account with Agent, as cash collateral, in an amount equal to one hundred and five percent (105%) of the Maximum Undrawn Amount of all outstanding Letters of Credit, and Borrower hereby irrevocably authorizes Agent, in its discretion, on Borrower's behalf and in Borrower's name, to open such an account and to make and maintain deposits therein, or in an account opened by Borrower, in the amounts required to be made by Borrower, out of the proceeds of Receivables or other Collateral or out of any other funds of Borrower coming into any Lender's possession at any time. Agent will invest such cash collateral (less applicable reserves) in such short-term money-market items as to which Agent and Borrower mutually agree and the net return on such investments shall be credited to such account and constitute additional cash collateral. During the period that an Event of Default is continuing, Borrower may not withdraw amounts credited to any such account except upon the occurrence of all of the following: (x) payment and performance in full of all Obligations, (y) expiration of all Letters of Credit and (z) termination of this Agreement.

3.3. Closing Fee and Facility Fee.

(a) Closing Fee.

Upon the execution of this Agreement, Borrower shall pay to Agent for the ratable benefit of Lenders a closing fee of \$217,500.

(b) Facility Fee.

Borrower shall pay to Agent a fee for the ratable benefit of Lenders in an amount equal to one-quarter of one percent (0.25%) per annum multiplied by the amount by which the Maximum Revolving Advance Amount and the maximum amount of the Equipment Loans exceeds the average daily unpaid balance of the Revolving Advances and the Equipment Loans plus the aggregate amount of any outstanding Letters of Credit that are available to be drawn during each calendar quarter. Such fee shall be payable to Agent in arrears on the first day of each calendar quarter with respect to the previous calendar quarter.

3.4. Collateral Fees.

(a) Collateral Evaluation Fee.

Borrower shall pay Agent a collateral evaluation fee equal to \$6,250 per month commencing on the first day of the month following the Closing Date and on the first day of each month thereafter during the Term. The collateral evaluation fee shall be deemed earned in full on the date when same is due and payable hereunder and shall not be subject to rebate or proration upon termination of this Agreement for any reason.

(b) Collateral Monitoring Fee.

Borrower shall pay to Agent on the first day of each month following any month in which Agent performs any collateral monitoring - namely any field examination, collateral analysis or other business analysis, the need for which is to be determined by Agent and which monitoring is undertaken by Agent or for Agent's benefit - a collateral monitoring fee in an amount equal to \$850 per day for each person employed to perform such monitoring plus all costs and disbursements incurred by Agent in the performance of such examination or analysis.

3.5. Computation of Interest and Fees.

Interest and fees hereunder shall be computed on the basis of a year of 360 days and for the actual number of days elapsed. If any payment to be made hereunder becomes due and payable on a day other than a Business Day, the due date thereof shall be extended to the next succeeding Business Day and interest thereon shall be payable at the applicable Contract Rate for Domestic Rate Loans during such extension.

3.6. Maximum Charges.

In no event whatsoever shall interest and other charges charged hereunder exceed the highest rate permissible under law. In the event interest and other charges as computed hereunder would otherwise exceed the highest rate permitted under law, such excess amount shall be first applied to any unpaid principal balance owed by Borrower, and if the then remaining excess amount is greater than the previously unpaid principal balance, Lenders shall promptly refund such excess amount to Borrower and the provisions hereof shall be deemed amended to provide for such permissible rate.

3.7. Increased Costs.

(a) In the event that any Applicable Law, or any change therein or in the interpretation or application thereof, or compliance by any Lender (for purposes of this Section 3.7, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) and the office or branch where Agent or any Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(i) subject Agent or any Lender to any tax of any kind whatsoever with respect to this Agreement or any Other Document or change the basis of taxation of payments to Agent or any Lender of principal, fees, interest or any other amount payable hereunder or under any Other Documents (except for changes in the rate of tax on the overall net income of Agent or any Lender by the jurisdiction in which it maintains its principal office);

(ii) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of Agent or any Lender, including (without limitation) pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(iii) impose on Agent or any Lender or the London interbank Eurodollar market any other condition with respect to this Agreement or any Other Document;

and the result of any of the foregoing is to increase the cost to Agent or any Lender of making, renewing or maintaining its Advances hereunder by an amount that Agent or such Lender deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the Advances by an amount that Agent or such Lender deems to be material, then, in any case Borrower shall promptly pay Agent or such Lender, upon its demand, such additional amount as will compensate Agent or such Lender for such additional cost or such reduction, as the case may be, provided that the foregoing shall not apply to increased costs which are reflected in the Eurodollar Rate, as the case may be. Agent or such Lender shall certify the amount of such additional cost or reduced amount to Borrower, and such certification shall be conclusive absent manifest error.

(b) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender and delivered to Borrowers shall be conclusive absent manifest error, provided that such certificate shall set forth reasonably detailed calculations.

(c) Failure or delay on the part of any Lender to demand compensation pursuant to the foregoing provisions of this Section 3.7 shall not constitute a waiver of such Lender's right to demand such compensation.

3.8. Basis For Determining Interest Rate Inadequate or Unfair.

In the event that Agent or any Lender shall have determined that:

(a) reasonable means do not exist for ascertaining the Eurodollar Rate applicable pursuant to Section 2.2 hereof for any Interest Period; or

(b) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank Eurodollar market, with respect to an outstanding Eurodollar Rate Loan, a proposed Eurodollar Rate Loan, or a proposed conversion of a Domestic Rate Loan into a Eurodollar Rate Loan,

then Agent shall give Borrower prompt written or telephonic notice of such determination. If such notice is given, (i) any such requested Eurodollar Rate Loan shall be made as a Domestic Rate Loan, unless Borrower shall notify Agent no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the date of such proposed borrowing, that its request for such borrowing shall be cancelled or made as an unaffected type of Eurodollar Rate Loan, (ii) any Domestic Rate Loan or Eurodollar Rate Loan which was to have been converted to an affected type of Eurodollar Rate Loan shall be continued as or converted into a Domestic Rate Loan, or, if Borrower shall notify Agent, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of Eurodollar Rate Loan, and (iii) any outstanding affected Eurodollar Rate Loans shall be converted into a Domestic Rate Loan, or, if Borrower shall notify Agent, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Rate Loan, shall be converted into an unaffected type of Eurodollar Rate Loan, on the last Business Day of the then current Interest Period for such affected Eurodollar Rate Loans. Until such notice has been withdrawn, Lenders shall have no obligation to make an affected type of Eurodollar Rate Loan or maintain outstanding affected Eurodollar Rate Loans and Borrower shall not have the right to convert a Domestic Rate Loan or an unaffected type of Eurodollar Rate Loan into an affected type of Eurodollar Rate Loan.

3.9. Capital Adequacy.

(a) In the event that Agent or any Lender shall have determined that any Applicable Law or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Body, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Agent or any Lender (for purposes of this Section 3.9, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) and the office or branch where Agent or any Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on Agent or any Lender's capital as a consequence of its obligations hereunder to a level below that which Agent or such Lender could have achieved but for such adoption, change or compliance (taking into consideration Agent's and each Lender's policies with respect to capital adequacy) by an amount deemed by Agent or any Lender to be material, then, from time to time, Borrower shall pay upon demand to Agent or such Lender such additional amount or amounts as will compensate Agent or such Lender for such reduction. In determining such amount or amounts, Agent or such Lender may use any reasonable averaging or attribution methods. The protection of this Section 3.9 shall be available to Agent and each Lender regardless of any possible contention of invalidity or inapplicability with respect to the Applicable Law or condition.

(b) A certificate of Agent or such Lender setting forth such amount or amounts as shall be necessary to compensate Agent or such Lender with respect to Section 3.9(a) hereof when delivered to Borrower shall be conclusive absent manifest error.

(c) Failure or delay on the part of any Lender to demand compensation pursuant to the foregoing provisions of this Section 3.9 shall not constitute a waiver of such Lender's right to demand such compensation.

3.10. Gross Up for Taxes.

If Borrower shall be required by Applicable Law to withhold or deduct any taxes from or in respect of any sum payable under this Agreement or any of the Other Documents to Agent, or any Lender, assignee of any Lender, or Participant (each, individually, a “Payee” and collectively, the “Payees”), (a) the sum payable to such Payee or Payees, as the case may be, shall be increased as may be necessary so that, after making all required withholding or deductions, the applicable Payee or Payees receives an amount equal to the sum it would have received had no such withholding or deductions been made (the “Gross-Up Payment”), (b) Borrower shall make such withholding or deductions, and (c) Borrower shall pay the full amount withheld or deducted to the relevant taxation authority or other authority in accordance with Applicable Law. Notwithstanding the foregoing, Borrower shall not be obligated to make any portion of the Gross-Up Payment that is attributable to any withholding or deductions that would not have been paid or claimed had the applicable Payee or Payees properly claimed a complete exemption with respect thereto pursuant to Section 3.11 hereof.

3.11. Withholding Tax Exemption.

(a) Each Payee that is not incorporated under the Laws of the United States of America or a state thereof (and, upon the written request of Agent, each other Payee) agrees that it will deliver to Borrower and Agent two (2) duly completed appropriate valid Withholding Certificates (as defined under §1.1441-1(c)(16) of the Income Tax Regulations (“Regulations”)) certifying its status (i.e., U.S. or foreign person) and, if appropriate, making a claim of reduced, or exemption from, U.S. withholding tax on the basis of an income tax treaty or an exemption provided by the Code. The term “Withholding Certificate” means a Form W-9; a Form W-8BEN; a Form W-8ECI; a Form W-8IMY and the related statements and certifications as required under §1.1441-1(e)(2) and/or (3) of the Regulations; a statement described in §1.871-14(c)(2)(v) of the Regulations; or any other certificates under the Code or Regulations that certify or establish the status of a payee or beneficial owner as a U.S. or foreign person.

(b) Each Payee required to deliver to Borrower and Agent a valid Withholding Certificate pursuant to Section 3.11(a) hereof shall deliver such valid Withholding Certificate as follows: (A) each Payee which is a party hereto on the Closing Date shall deliver such valid Withholding Certificate at least five (5) Business Days prior to the first date on which any interest or fees are payable by Borrower hereunder for the account of such Payee; (B) each Payee shall deliver such valid Withholding Certificate at least five (5) Business Days before the effective date of such assignment or participation (unless Agent in its sole discretion shall permit such Payee to deliver such Withholding Certificate less than five (5) Business Days before such date in which case it shall be due on the date specified by Agent). Each Payee which so delivers a valid Withholding Certificate further undertakes to deliver to Borrower and Agent two (2) additional copies of such Withholding Certificate (or a successor form) on or before the date that such Withholding Certificate expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent Withholding Certificate so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by Borrower or Agent.

(c) Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of or exemption from U.S. withholding tax required under Section 3.11(b) hereof, Agent shall be entitled to withhold United States federal income taxes at the full 30% withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under §1.1441-7(b) of the Regulations. Further, Agent is indemnified under §1.1461-1(e) of the Regulations against any claims and demands of any Payee for the amount of any tax it deducts and withholds in accordance with regulations under §1441 of the Code.

3.12 Survival of Obligations.

Borrower's obligations and the indemnifications under this Article III shall survive the termination of this Agreement.

ARTICLE IV

COLLATERAL: GENERAL TERMS

4.1. Security Interest in the Collateral.

To secure the prompt payment and performance to Agent and each Lender of the Obligations, Borrower hereby assigns, pledges and grants (and shall cause each of its Subsidiaries to assign, pledge and grant) to Agent for its benefit and for the ratable benefit of each Lender a continuing security interest in and to and Lien on all of its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located. Borrower shall, and shall cause each of its Subsidiaries to, mark its books and records as may be necessary or appropriate to evidence, protect and perfect Agent's security interest and shall cause its financial statements to reflect such security interest. Borrower shall promptly provide Agent with written notice of all commercial tort claims, such notice to contain the case title together with the applicable court and a brief description of the claim(s). Upon delivery of each such notice, Borrower shall be deemed to hereby grant to Agent a security interest and lien in and to such commercial tort claims and all proceeds thereof.

4.2. Perfection of Security Interest.

Borrower shall (and shall cause each of its Subsidiaries to) take, or cause to be taken, any and all action that may be necessary or desirable, or that Agent may reasonably request, so as at all times to maintain the validity, perfection, enforceability and priority of Agent's security interest in and Lien on the Collateral or to enable Agent to protect, exercise or enforce its rights hereunder and in the Collateral, including, but not limited to, (i) immediately discharging all Liens other than Permitted Encumbrances, (ii) obtaining Lien Waiver Agreements, (iii) delivering to Agent, endorsed or accompanied by such instruments of assignment as Agent may specify, and stamping or marking, in such manner as Agent may specify, any and all chattel paper, instruments, letters of credits and advices thereof and documents evidencing or forming a part of the Collateral, (iv) entering into warehousing, lockbox and other custodial arrangements satisfactory to Agent, and (v) executing and delivering financing statements, control agreements, instruments of pledge, mortgages, notices and assignments, in each case in form and substance satisfactory to Agent, relating to the creation, validity, perfection, maintenance or continuation of Agent's security interest and Lien under the Uniform Commercial Code or other Applicable Law. Agent is hereby authorized to file financing statements in accordance with the Uniform Commercial Code as adopted in the State of New York from time to time. By its signature hereto, Borrower hereby authorizes Agent to file against Borrower, one or more financing continuation or amendment statements pursuant to the Uniform Commercial Code in form and substance satisfactory to Agent (which statements may have a description of collateral which is broader than that set forth herein and which may describe the Collateral as "all assets" or "all personal property"). All charges, expenses and fees Agent may incur in doing any of the foregoing, and any local taxes relating thereto, shall be charged to Borrower's Account as a Revolving Advance of a Domestic Rate Loan and added to the Obligations, or, at Agent's option, shall be paid to Agent for its benefit and for the ratable benefit of Lenders immediately upon demand.

4.3. Disposition of Collateral.

(a) Borrower shall (and cause each of its Subsidiaries to) reasonably safeguard and protect all Collateral for Agent's general account and make no disposition thereof whether by sale, lease or otherwise except (a) the sale of Inventory in the Ordinary Course of Business and (b) the disposition or transfer of obsolete and worn-out Equipment in the Ordinary Course of Business during any fiscal year having an aggregate fair market value, based upon Agent's reasonable estimation), of not more than \$500,000 and only to the extent that (i) the proceeds of any such disposition are used to acquire replacement Equipment which is subject to Agent's first priority security interest or (ii) the proceeds of which are remitted to Agent to be applied pursuant to Section 2.21.

(b) No fees or charges shall apply to such prepayments other than those set forth in Section 13.1.

4.4. Preservation of Collateral.

Following the occurrence of a Default or Event of Default that is continuing in addition to the rights and remedies set forth in Section 11.1 hereof, Agent: (a) may at any time take such steps as Agent deems necessary to protect Agent's interest in and to preserve the Collateral, including the hiring of such security guards or the placing of other security protection measures as Agent may deem appropriate; (b) may employ and maintain at any Credit Party's premises a custodian who shall have full authority to do all acts necessary to protect Agent's interests in the Collateral; (c) may lease warehouse facilities to which Agent may move all or part of the Collateral; (d) may use any Credit Party's owned or leased lifts, hoists, trucks and other facilities or equipment for handling or removing the Collateral; and (e) shall have, and is hereby granted, a right of ingress and egress to the places where the Collateral is located, and may proceed over and through any of any Credit Party's owned or leased property. Each Credit Party shall cooperate fully with all of Agent's efforts to preserve the Collateral and will take such actions to preserve the Collateral as Agent may direct. All of Agent's expenses of preserving the Collateral, including any expenses relating to the bonding of a custodian, shall be charged to Borrower's Account as a Revolving Advance maintained as a Domestic Rate Loan and added to the Obligations.

4.5. Ownership of Collateral.

(a) With respect to the Collateral, at the time the Collateral becomes subject to Agent's security interest: (i) a Credit Party shall be the sole owner of and fully authorized and able to sell, transfer, pledge and/or grant a first priority security interest in each and every item of the its respective Collateral to Agent; and, except for Permitted Encumbrances the Collateral shall be free and clear of all Liens and encumbrances whatsoever; (ii) each document and agreement executed by a Credit Party or delivered to Agent or any Lender in connection with this Agreement shall be true and correct in all respects; (iii) all signatures and endorsements of a Credit Party that appear on such documents and agreements shall be genuine and such Credit Party shall have full capacity to execute same; and (iv) the Credit Party's Equipment and Inventory shall be located as set forth on Schedule 4.5 and shall not be removed from such location(s) without the prior written consent of Agent except with respect to the sale of Inventory in the Ordinary Course of Business and Equipment to the extent permitted in Section 4.3 hereof.

(b) (i) As of the Closing Date, there is no location at which Borrower has any Inventory (except for Inventory in transit) or other Collateral other than those locations listed on Schedule 4.5; (ii) Schedule 4.5 hereto contains a correct and complete list, as of the Closing Date, of the legal names and addresses of each warehouse at which Inventory of Borrower is stored and each warehouseman, bailee or other third party in possession of any of Borrower's Inventory or Equipment; (iii) Schedule 4.5 hereto sets forth a correct and complete list as of the Closing Date of (A) each place of business of Borrower and (B) the chief executive office of Borrower; and (iv) Schedule 4.5 hereto sets forth a correct and complete list as of the Closing Date of the location, by state and street address, of all Real Property owned or leased by Borrower, identifying which properties are owned and which are leased, together with the names and addresses of any landlords.

4.6. Defense of Agent's and Lenders' Interests.

Until (a) payment and performance in full of all of the Obligations and (b) termination of this Agreement, Agent's interests in the Collateral shall continue in full force and effect. During such period Borrower shall not (and shall not permit any of its Subsidiaries to), without Agent's prior written consent, pledge, sell (except Inventory in the Ordinary Course of Business and Equipment to the extent permitted in Section 4.3 hereof), assign, transfer, create or suffer to exist a Lien upon or encumber or allow or suffer to be encumbered in any way except for Permitted Encumbrances, any part of the Collateral. Borrower shall (and shall cause each of its Subsidiaries to) defend Agent's interests in the Collateral against any and all Persons whatsoever. At any time following demand by Agent for payment of all Obligations, Agent shall have the right to take possession of the indicia of the Collateral and the Collateral in whatever physical form contained, including, without limitation: labels, stationery, documents, instruments and advertising materials. If Agent exercises this right to take possession of the Collateral, Borrower shall, upon demand, assemble it in the best manner possible and make it available to Agent at a place reasonably convenient to Agent. In addition, with respect to all Collateral, Agent and Lenders shall be entitled to all of the rights and remedies set forth herein and further provided by the Uniform Commercial Code or other Applicable Law. Borrower shall (and shall cause each of its Subsidiaries to), and Agent may, at its option, instruct all suppliers, carriers, forwarders, warehousemen or others receiving or holding cash, checks, Inventory, documents or instruments in which Agent holds a security interest to deliver same to Agent and/or subject to Agent's order and if they shall come into a Credit Party's possession, they, and each of them, shall be held by such Credit Party in trust as Agent's trustee, and such Credit Party will immediately deliver them to Agent in their original form together with any necessary endorsement.

4.7. Books and Records.

Borrower shall (and shall cause each of its Subsidiaries to) (a) keep proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to its business and affairs which books and records shall be kept at Borrower's principal place of business or make such accessible to Agent at Borrower's principal place of business; (b) set up on its books accruals with respect to all taxes, assessments, charges, levies and claims; and (c) on a reasonably current basis set up on its books, from its earnings, allowances against doubtful Receivables, advances and investments and all other proper accruals (including, without limitation, by reason of enumeration, accruals for premiums, if any, due on required payments and accruals for depreciation, obsolescence, or amortization of properties), which should be set aside from such earnings in connection with its business. All determinations pursuant to this subsection shall be made in accordance with, or as required by, GAAP consistently applied in the opinion of such independent public accountant as shall then be regularly engaged by Borrower.

4.8. Financial Disclosure.

Borrower hereby irrevocably authorizes and directs all accountants and auditors employed by Borrower at any time during the Term to exhibit and deliver to Agent and each Lender copies of any of Borrower's financial statements, trial balances or other accounting records of any sort in the accountant's or auditor's possession, and to disclose to Agent and each Lender any information such accountants may have concerning any Credit Party's financial status and business operations. Borrower hereby authorizes all Governmental Bodies to furnish to Agent and each Lender copies of reports or examinations relating to Borrower or any of its Subsidiaries, whether made by Borrower or any such Subsidiary or otherwise; however, Agent and each Lender will attempt to obtain such information or materials directly from Borrower prior to obtaining such information or materials from such accountants or Governmental Bodies.

4.9. Compliance with Laws.

Borrower shall (and shall cause each of its Subsidiaries to) comply in all material respects with all Applicable Laws with respect to the Collateral or any part thereof or to the operation of any Credit Party's business the non-compliance with which would have a Material Adverse Effect. The Credit Parties may, however, contest or dispute any acts, regulations, orders and directions of those bodies or officials in any reasonable manner, provided that any related Lien is inchoate or stayed and sufficient reserves are established to the reasonable satisfaction of Agent to protect Agent's Lien on or security interest in the Collateral. The Collateral, at all times, shall be maintained in accordance with the requirements of all insurance carriers which provide insurance with respect to the Collateral so that such insurance shall remain in full force and effect.

4.10. Inspection of Premises; Appraisals.

At all reasonable times Agent and each Lender shall have full access to and the right to audit, check, inspect and make abstracts and copies from the Credit Parties' books, records, audits, correspondence and all other papers relating to the Collateral and the operation of the Credit Parties' business. Agent, any Lender and their agents may enter upon any of the Credit Parties' premises at any time during business hours and at any other reasonable time, and from time to time, for the purpose of inspecting the Collateral and any and all records pertaining thereto and the operation of the Credit Parties' business and discussing the affairs, finances and business of the Credit Parties with any officers and directors of any Credit Party or with the Accountants. At the sole cost of Borrower, Agent will conduct no more than four field examinations per year in the absence of a Default. If an Event of Default exists Agent may conduct appraisals (whether real estate appraisals, appraisals of Inventory or appraisals of Equipment) at Borrower's expense.

4.11. Insurance.

The assets and properties of the Credit Parties at all times shall be maintained in accordance with the material requirements (unless failure to comply with a non-material requirement would result in the cancellation of the insurance) of all insurance carriers which provide insurance with respect to the assets and properties of the Credit Parties so that such insurance shall remain in full force and effect. The Credit Parties shall bear the full risk of any loss of any nature whatsoever with respect to the Collateral. At the Credit Parties' own cost and expense in amounts and with carriers acceptable to Agent, the Credit Parties shall (a) keep all its insurable properties and properties in which the Credit Parties have an interest (including leased premises) insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to the Credit Parties' including, without limitation, business interruption insurance; (b) maintain a bond or insurance policy in such amounts as is customary in the case of companies engaged in businesses similar to the Credit Parties insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of any Credit Parties either directly or through authority to draw upon such funds or to direct generally the disposition of such assets; (c) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (d) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which such Credit Parties is engaged in business; (e) furnish Agent with (i) copies of all policies and evidence of the maintenance of such policies by the renewal thereof at least thirty (30) days before any expiration date, and (ii) appropriate loss payable endorsements in form and substance satisfactory to Agent, naming Agent as a lender loss payee as its interests may appear with respect to all insurance coverage referred to in clauses (a) and (c) above, and providing (A) that all proceeds thereunder shall be payable to Agent or the applicable Credit Party, (B) no such insurance shall be affected by any act or neglect of the insured or owner of the property described in such policy, and (C) that such policy and loss payable clauses may not be cancelled, amended or terminated unless at least twenty (20) days' prior written notice is given to Agent. Without limiting the foregoing, Borrower shall, and shall cause each of its Subsidiaries to, maintain insurance of such type and in such amounts as may be required by Applicable Law. In the event of any loss thereunder, the carriers named therein hereby are directed by Agent and the Credit Parties to make payment for such loss to Agent and not to the Credit Parties and Agent jointly. If any insurance losses are paid by check, draft or other instrument payable to the Credit Parties and Agent jointly, Agent may endorse the Credit Parties' name thereon and do such other things as Agent may deem advisable to reduce the same to cash. If any payment for such loss is made to the Credit Parties and not Agent, the Credit Parties shall turn over such payment to Agent. Agent is hereby authorized to adjust and compromise claims under insurance coverage referred to in clauses (a) and (b) above, provided, however, the applicable Credit Party shall have six (6) months from the date of the loss to adjust and compromise such claims prior to such authorization for any such claim. All loss recoveries received by Agent upon any such insurance may be applied to the Obligations, in such order as Agent in its reasonable discretion shall determine. Any surplus shall be paid by Agent to the Credit Parties or applied as may be otherwise required by law. Any deficiency thereon shall be paid by the Credit Parties to Agent, on demand. Anything hereinabove to the contrary notwithstanding, and subject to the fulfillment of the conditions set forth below, Agent shall remit to Borrower insurance proceeds received by Agent during any calendar year under insurance policies procured and maintained by Borrower which insure Credit Parties' insurable properties to the extent such insurance proceeds do not exceed \$250,000 in the aggregate during such calendar year or \$250,000 per occurrence. In the event the amount of insurance proceeds received by Agent for any occurrence exceeds \$250,000, then Agent shall not be obligated to remit the insurance proceeds to Borrower unless Borrower shall provide Agent with evidence reasonably satisfactory to Agent that the insurance proceeds will be used by the applicable Credit Party to repair, replace or restore the insured property which was the subject of the insurable loss. In the event the Credit Parties have previously received (or, after giving effect to any proposed remittance by Agent to Borrower would receive) insurance proceeds which equal or exceed \$25,000 in the aggregate during any calendar year, then Agent may, in its sole discretion, either remit the insurance proceeds to Borrower upon Borrower providing Agent with evidence reasonably satisfactory to Agent that the insurance proceeds will be used by the applicable Credit Party to repair, replace or restore the insured property which was the subject of the insurable loss, or apply the proceeds to the Obligations, as aforesaid. The agreement of Agent to remit insurance proceeds in the manner above provided shall be subject in each instance to satisfaction of each of the following conditions: (x) No Event of Default or Default shall then have occurred, and (y) the applicable Credit Party shall use such insurance proceeds to repair, replace or restore the insurable property which was the subject of the insurable loss and for no other purpose.

4.12. Failure to Pay Insurance.

If any Credit Party fails to obtain insurance as hereinabove provided, or to keep the same in force, Agent, if Agent so elects, may obtain such insurance and pay the premium therefor on behalf of Borrower, and charge Borrower's Account therefor as a Revolving Advance of a Domestic Rate Loan and such expenses so paid shall be part of the Obligations.

4.13. Payment of Taxes.

Each Credit Party will pay, when due, all taxes, assessments and other Charges lawfully levied or assessed upon Borrower or any of the Collateral including, without limitation, real and personal property taxes, assessments and charges and all franchise, income, employment, social security benefits, withholding, and sales taxes, except for such taxes, assessments and other Charges contested in good faith provided that adequate reserves are maintained for such amounts provided, nevertheless, that in no event shall such amount exceed \$75,000 at any one time. If any tax by any Governmental Body is or may be imposed on or as a result of any transaction between any Credit Party and Agent or any Lender which Agent or any Lender may be required to withhold or pay or if any taxes, assessments, or other Charges remain unpaid after the date fixed for their payment, or if any claim shall be made which, in Agent's or any Lender's opinion, may possibly create a valid Lien on the Collateral, Agent may without notice to any Credit Party pay the taxes, assessments or other Charges and Borrower hereby indemnifies and holds Agent and each Lender harmless in respect thereof. The amount of any payment by Agent under this Section 4.13 shall be charged to Borrower's Account as a Revolving Advance maintained as a Domestic Rate Loan and added to the Obligations and, until Borrower shall furnish Agent with an indemnity therefor (or supply Agent with evidence satisfactory to Agent that due provision for the payment thereof has been made), Agent may hold without interest any balance standing to Borrower's credit and Agent shall retain its security interest in and Lien on any and all Collateral held by Agent.

4.14. Payment of Leasehold Obligations.

Borrower shall (and shall cause each of its Subsidiaries to) at all times pay, when and as due, its rental obligations under all leases under which it is a tenant, and shall otherwise comply, in all material respects, with all other terms of such leases and keep them in full force and effect and, at Agent's request will provide evidence of having done so.

4.15. Receivables.

(a) Nature of Receivables.

Each of the Receivables shall be a bona fide and valid account representing a bona fide indebtedness incurred by the Customer therein named, for a fixed sum as set forth in the invoice relating thereto (provided immaterial or unintentional invoice errors shall not be deemed to be a breach hereof) with respect to an absolute sale or lease and delivery of goods upon stated terms of the applicable Credit Party, or work, labor or services theretofore rendered by the applicable Credit Party as of the date each Receivable is created. Same shall be due and owing in accordance with the applicable Credit Party's standard terms of sale without dispute, setoff or counterclaim except as may be stated on the accounts receivable schedules delivered by Borrower to Agent. The Acceptable Unbilled Amounts shall relate to work done, Inventory sold or services rendered which would constitute Eligible Receivables but for the fact that the amount in question has not yet been billed.

(b) Solvency of Customers.

Each Customer, to the best of each Credit Party's reasonable knowledge, as of the date each Receivable is created, is and will be solvent and able to pay all Receivables on which the Customer is obligated in full when due or with respect to such Customers of Borrower who are not solvent Borrower has set up on its books and in its financial records bad debt reserves adequate to cover such Receivables.

(c) Location of Borrower.

Borrower's chief executive office is located at the address set forth on Schedule 4.5. Until written notice is given to Agent by Borrower of any other office at which Borrower keeps its records pertaining to Receivables, all such records shall be kept at such executive office.

(d) Collection of Receivables.

Until Borrower's authority to do so is terminated by Agent (which notice Agent may give at any time following the occurrence of an Event of Default that has not been waived or cured or when Agent in its sole discretion deems it to be in Lenders' best interest to do so), Borrower will, at Borrower's sole cost and expense, but on Agent's behalf and for Agent's account, collect as Agent's property and in trust for Agent all amounts received on Receivables, and shall not commingle such collections with Borrower's funds or use the same except to pay Obligations. Borrower shall deposit in the Blocked Account or, upon request by Agent, deliver to Agent, in original form and on the date of receipt thereof, all checks, drafts, notes, money orders, acceptances, cash and other evidences of Indebtedness.

(e) Notification of Assignment of Receivables.

At any time following the occurrence of an Event of Default or a Default that is continuing, that has not been waived or cured, Agent shall have the right to send notice of the assignment of, and Agent's security interest in and Lien on, the Receivables to any and all Customers or any third party holding or otherwise concerned with any of the Collateral. Thereafter, Agent shall have the sole right to collect the Receivables, take possession of the Collateral, or both. Agent's actual collection expenses, including, but not limited to, stationery and postage, telephone and facsimile, secretarial and clerical expenses and the salaries of any collection personnel used for collection, may be charged to Borrower's Account and added to the Obligations.

(f) Power of Agent to Act on Borrower's Behalf.

Agent shall have the right to receive, endorse, assign and/or deliver in the name of Agent or Borrower any and all checks, drafts and other instruments for the payment of money relating to the Receivables, and Borrower hereby waives notice of presentment, protest and non-payment of any instrument so endorsed. Borrower hereby constitutes Agent or Agent's designee as Borrower's attorney with power (i) to endorse Borrower's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral; (ii) to sign Borrower's name on any invoice or bill of lading relating to any of the Receivables, drafts against Customers, assignments and verifications of Receivables; (iii) to send verifications of Receivables to any Customer; (iv) to sign Borrower's name on all documents or instruments deemed necessary or appropriate by Agent to preserve, protect, or perfect Agent's interest in the Collateral and to file same; (v) to demand payment of the Receivables; (vi) to enforce payment of the Receivables by legal proceedings or otherwise; (vii) to exercise all of Borrower's rights and remedies with respect to the collection of the Receivables and any other Collateral; (viii) to settle, adjust, compromise, extend or renew the Receivables; (ix) to settle, adjust or compromise any legal proceedings brought to collect Receivables; (x) to prepare, file and sign Borrower's name on a proof of claim in bankruptcy or similar document against any Customer; (xi) to prepare, file and sign Borrower's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables; and (xii) to do all other acts and things necessary to carry out this Agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or of law, unless done maliciously or with gross (not mere) negligence (as determined by a court of competent jurisdiction in a final non-appealable judgment); this power being coupled with an interest is irrevocable while any of the Obligations remain unpaid. Agent shall have the right at any time following the occurrence of an Event of Default or Default, to change the address for delivery of mail addressed to Borrower to such address as Agent may designate and to receive, open and dispose of all mail addressed to Borrower.

(g) No Liability.

Neither Agent nor any Lender shall, under any circumstances or in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Receivables or any instrument received in payment thereof, or for any damage resulting therefrom. Following the occurrence of an Event of Default or Default Agent may, without notice or consent from Borrower, sue upon or otherwise collect, extend the time of payment of, compromise or settle for cash, credit or upon any terms any of the Receivables or any other securities, instruments or insurance applicable thereto and/or release any obligor thereof. Agent is authorized and empowered to accept following the occurrence of an Event of Default or Default that is continuing, the return of the goods represented by any of the Receivables, without notice to or consent by Borrower, all without discharging or in any way affecting Borrower's liability hereunder.

(h) Establishment of a Cash Management System.

Except as otherwise provided in this Agreement, all proceeds of Collateral shall be deposited by each Credit Party into either (i) a lockbox account, dominion account or such other “blocked account” (“Blocked Accounts”) established at a bank or banks (each such bank, a “Blocked Account Bank”) pursuant to an arrangement with such Blocked Account Bank as may be selected by Borrower and be acceptable to Agent or (ii) depository accounts (“Depository Accounts”) established at Agent for the deposit of such proceeds. Each Credit Party, Agent and each Blocked Account Bank shall enter into a deposit account control agreement in form and substance satisfactory to Agent directing such Blocked Account Bank to transfer such funds so deposited to Agent, either to any account maintained by Agent at said Blocked Account Bank or by wire transfer to appropriate account(s) of Agent. All funds deposited in such Blocked Accounts shall immediately become the property of Agent and each Credit Party shall obtain the agreement by such Blocked Account Bank to waive any offset rights against the funds so deposited. Neither Agent nor any Lender assumes any responsibility for such blocked account arrangement, including any claim of accord and satisfaction or release with respect to deposits accepted by any Blocked Account Bank thereunder. All deposit accounts and investment accounts of Borrower and its Subsidiaries are set forth on Schedule 4.15(h) . Notwithstanding the foregoing, deposit account control agreements are not required for accounts of Safety & Ecology Holdings Corporation, Safety and Ecology Corporation or SEC Federal Services Corporation provided all such accounts must be closed within forty-five (45) days of the Closing Date.

(i) Adjustments.

No Credit Party will permit, without Agent’s consent, compromise or adjust any material amount of the Receivables (or extend the time for payment thereof) or accept any material returns of merchandise or grant any additional discounts, allowances or credits thereon except for those compromises, adjustments, returns, discounts, credits and allowances as have been heretofore customary in the business of the Credit Parties.

4.16. Inventory.

To the extent Inventory held for sale or lease has been produced by a Credit Party, it has been and will be produced by such Credit Party in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations and orders thereunder.

4.17. Maintenance of Equipment.

The Equipment shall be maintained in good operating condition and repair (reasonable wear and tear excepted) and all necessary replacements of and repairs thereto shall be made so that the value and operating efficiency of the Equipment shall be maintained and preserved. Borrower will not, and will not permit any Credit Party to, use or operate the Equipment in violation of any law, statute, ordinance, code, rule or regulation. Borrower and the other Credit Parties shall have the right to sell Equipment to the extent set forth in Section 4.3 hereof.

4.18. Exculpation of Liability.

Nothing herein contained shall be construed to constitute Agent or any Lender as agent for any Credit Party for any purpose whatsoever, nor shall Agent or any Lender be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof. Neither Agent nor any Lender, whether by anything herein or in any assignment or otherwise, assume any Credit Party's obligations under any contract or agreement assigned to Agent or such Lender, and neither Agent nor any Lender shall be responsible in any way for the performance by any Credit Party of any of the terms and conditions thereof.

4.19. Environmental Matters.

(a) Except as disclosed on Schedule 5.7, Borrower shall, and shall cause each other Credit Party to, ensure that the Real Property owned or leased by Borrower remains in compliance with all Environmental Laws and they shall not place or permit to be placed any Hazardous Substances on any Real Property except as permitted by Applicable Law or appropriate governmental authorities or other than where such failure to comply would have a Material Adverse Effect.

(b) Borrower shall, and shall cause each of the other Credit Parties to, establish and maintain a system to assure and monitor continued compliance with all applicable Environmental Laws which system shall include periodic reviews of such compliance, the failure of which would have a Material Adverse Effect.

(c) Borrower shall, and shall cause each of the other Credit Parties to, (i) employ in connection with the use of the Real Property appropriate technology necessary to maintain compliance with any applicable Environmental Laws and (ii) dispose of any and all Hazardous Waste generated at the Real Property only at facilities and with carriers that maintain valid permits under RCRA and any other applicable Environmental Laws the failure of which would have a Material Adverse Effect. Borrower shall use its best efforts to obtain certificates of disposal, such as hazardous waste manifest receipts, from all treatment, transport, storage or disposal facilities or operators employed by any Credit Party in connection with the transport or disposal of any Hazardous Waste generated at the Real Property.

(d) In the event any Credit Party obtains, gives or receives notice of any Release or threat of Release of a reportable quantity of any Hazardous Substances at the Real Property (any such event being hereinafter referred to as a "Hazardous Discharge") or receives any notice of violation, request for information or notification that it is potentially responsible for investigation or cleanup of environmental conditions at the Real Property, demand letter or complaint, order, citation, or other written notice with regard to any Hazardous Discharge or violation of Environmental Laws affecting the Real Property or any Credit Party's interest therein (any of the foregoing is referred to herein as an "Environmental Complaint") from any Person other than that would have Material Adverse Effect, including any state agency responsible in whole or in part for environmental matters in the state in which the Real Property is located or the United States Environmental Protection Agency (any such person or entity hereinafter the "Authority"), then Borrower shall, within five (5) Business Days, give written notice of same to Agent detailing facts and circumstances of which Borrower or any other Credit Party is aware giving rise to the Hazardous Discharge or Environmental Complaint. Such information is to be provided to allow Agent to protect its security interest in and Lien on the Real Property and the Collateral and is not intended to create nor shall it create any obligation upon Agent or any Lender with respect thereto.

(e) Borrower shall promptly forward to Agent copies of any request for information, notification of potential liability, demand letter relating to potential responsibility that could have a Material Adverse Effect with respect to the investigation or cleanup of Hazardous Substances at any other site owned, operated or used by any Credit Party to dispose of Hazardous Substances and shall continue to forward copies of correspondence between such Credit Party and the Authority regarding such claims to Agent until the claim is settled. Borrower shall promptly forward to Agent copies of all documents and reports concerning a Hazardous Discharge at the Real Property that any Credit Party is required to file under any Environmental Laws. Such information is to be provided solely to allow Agent to protect Agent's security interest in and Lien on the Real Property and the Collateral.

(f) Borrower shall respond promptly to any Hazardous Discharge or Environmental Complaint that could have a Material Adverse Effect and take all necessary action in order to safeguard the health of any Person and to avoid subjecting the Collateral or Real Property to any Lien. If any Credit Party shall fail to respond promptly to any Hazardous Discharge or Environmental Complaint or any Credit Party shall fail to comply with any of the requirements of any Environmental Laws that could have a Material Adverse Effect, Agent on behalf of Lenders may, but without the obligation to do so, for the sole purpose of protecting Agent's interest in the Collateral: (A) give such notices or (B) enter onto the Real Property (or authorize third parties to enter onto the Real Property) and take such actions as Agent (or such third parties as directed by Agent) deem reasonably necessary or advisable, to clean up, remove, mitigate or otherwise deal with any such Hazardous Discharge or Environmental Complaint. All reasonable costs and expenses incurred by Agent and Lenders (or such third parties) in the exercise of any such rights, including any sums paid in connection with any judicial or administrative investigation or proceedings, fines and penalties, together with interest thereon from the date expended at the Default Rate for Domestic Rate Loans constituting Revolving Advances shall be paid upon demand by Borrower, and until paid shall be added to and become a part of the Obligations secured by the Liens created by the terms of this Agreement or any other agreement between Agent, any Lender and Borrower.

(g) Promptly upon the written request of Agent from time to time, Borrower shall provide Agent, at Borrower's expense, with an environmental site assessment or environmental audit report prepared by an environmental engineering firm acceptable in the reasonable opinion of Agent upon the occurrence of a Material Adverse Effect, to assess with a reasonable degree of certainty the existence of a Hazardous Discharge and the potential costs in connection with abatement, cleanup and removal of any Hazardous Substances found on, under, at or within the Real Property. Any report or investigation of such Hazardous Discharge proposed and acceptable to an appropriate Authority that is charged to oversee the clean-up of such Hazardous Discharge shall be acceptable to Agent. If such estimates, individually or in the aggregate, exceed \$100,000 (other than estimates previously disclosed to Agent), Agent shall have the right to require Borrower or any other Credit Party, as applicable, to post a bond, letter of credit or other security reasonably satisfactory to Agent to secure payment of these costs and expenses.

(h) Borrower shall defend and indemnify Agent and Lenders and hold Agent, Lenders and their respective employees, agents, directors and officers harmless from and against all loss, liability, damage and expense, claims, costs, fines and penalties, including attorney's fees, suffered or incurred by Agent or Lenders under or on account of any Environmental Laws, including, without limitation, the assertion of any Lien thereunder, with respect to any Hazardous Discharge, the presence of any Hazardous Substances affecting the Real Property, whether or not the same originates or emerges from the Real Property or any contiguous real estate, including any loss of value of the Real Property as a result of the foregoing except to the extent such loss, liability, damage and expense is attributable to any Hazardous Discharge resulting from actions on the part of Agent or any Lender. Borrower's obligations under this Section 4.19 shall arise upon the discovery of the presence of any Hazardous Substances at the Real Property, whether or not any federal, state, or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Substances. Borrower's obligation and the indemnifications hereunder shall survive the termination of this Agreement.

(i) For purposes of Section 4.19 and 5.7, all references to Real Property shall be deemed to include all of Borrower's right, title and interest in and to its owned and leased premises.

4.20. Financing Statements.

Except as respects the financing statements filed by Agent and the financing statements relating to Permitted Encumbrances or described on Schedule 1.2, no financing statement covering any of the Collateral or any proceeds thereof is on file in any public office.

4.21. Voting Rights in Respect of Subsidiary Stock Pledged to Agent.

(a) So long as no Event of Default shall have occurred and be continuing, to the extent permitted by law, Borrower may exercise any and all voting and other consensual rights pertaining to the Subsidiary Stock of Borrower pledged to Agent or any part thereof for any purpose not inconsistent with the terms of this Agreement; and

(b) Upon the occurrence and during the continuance of an Event of Default and following written notice by Agent, all rights of Borrower to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to paragraph (a) of this Section shall cease and all such rights shall thereupon become vested in Agent which shall then have the sole right to exercise such voting and other consensual rights.

4.22. Dividend and Distribution Rights in Respect of Subsidiary Shares Pledged to Agent.

(a) So long as no Event of Default shall have occurred and be continuing, Borrower may receive and retain any and all dividends (other than stock or ownership interest dividends and other dividends constituting Subsidiary Stock pledged to Agent which are addressed herein), distributions or interest paid in respect of the Subsidiary Stock pledged to Agent to the extent they are allowed under this Agreement.

(b) Upon the occurrence and during the continuation of an Event of Default:

(A) all rights of Borrower to receive the dividends, distributions and interest payments which it would otherwise be authorized to receive and retain pursuant to paragraph (a) of this Section shall cease and all such rights shall thereupon be vested in Agent which shall then have the sole right to receive and hold as Subsidiary Stock such dividends, distributions and interest payments; and

(B) all dividends, distributions and interest payments which are received by Borrower contrary to the provisions of clause (A) of this paragraph (b) shall be received in trust for the benefit of Agent, shall be segregated from other property or funds of Borrower, and shall be forthwith paid over to Agent as Subsidiary Stock in the exact form received, to be held by Agent as Subsidiary Stock and as further collateral security for the Obligations.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1. Authority.

Each Credit Party has full power, authority and legal right to enter into this Agreement and the Other Documents to which it is a party and to perform all its respective Obligations hereunder and thereunder, in each case to the extent that such Person is a party thereto. This Agreement and the Other Documents have been duly executed and delivered by each Credit Party, and this Agreement and the Other Documents constitute the legal, valid and binding obligation of such Credit Party enforceable in accordance with their terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, moratorium, fraudulent transfer or conveyance or similar laws affecting creditors' rights generally and limits imposed by equitable principles. The execution, delivery and performance of this Agreement and of the Other Documents by each Credit Party (a) are within such Credit Party's corporate powers, have been duly authorized by all necessary corporate action, are not in contravention of law or the terms of such Credit Party's by-laws, certificate of incorporation or other applicable documents relating to each Credit Party's formation or to the conduct of such Credit Party's business or of any material agreement or undertaking to which such Credit Party is a party or by which such Credit Party is bound, (b) will not conflict with or violate any law or regulation, or any judgment, order or decree of any Governmental Body, (c) will not require the Consent of any Governmental Body or any other Person, except those Consents set forth on Schedule 5.1 hereto, all of which will have been duly obtained, made or compiled prior to the Closing Date and which are in full force and effect and (d) will not conflict with, nor result in any breach in any of the provisions of or constitute a default under or result in the creation of any Lien except Permitted Encumbrances upon any asset of any Credit Party under the provisions of any agreement, charter document, instrument, by-law, or other instrument to which such Credit Party is a party or by which it or its property is a party or by which it may be bound.

5.2. Formation and Qualification.

(a) Each Credit Party is duly incorporated and in good standing under the laws of the state indicated on Schedule 5.2(a) and is qualified to do business and is in good standing in the states indicated on Schedule 5.2(a) which constitute all states in which qualification and good standing are necessary for such Credit Party to conduct its business and own its property and where the failure to so qualify could reasonably be expected to have a Material Adverse Effect. Each Credit Party has delivered to Agent true and complete copies of its certificate of incorporation and by-laws and will promptly notify Agent of any amendment or changes thereto.

(b) As of the Closing Date, the only Subsidiaries of Borrower are listed on Schedule 5.2(b). As of the Closing Date, the Persons identified on Schedule 5.2(b) are the record and beneficial owners of all of the shares of Capital Stock of each of the Subsidiaries of Borrower listed on Schedule 5.2(b) as being owned by thereby, there are no proxies, irrevocable or otherwise, with respect to such shares other than as set forth on Schedule 5.2(b), and, except as set forth on Schedule 5.2(b) no equity securities of any of such Persons are or may become required to be issued by reason of any options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, shares of any Capital Stock of any such Person, and there are no contracts, commitments, understandings or arrangements by which any such Person is or may become bound to issue additional shares of its Capital Stock or securities convertible into or exchangeable for such shares. All of the shares owned by Borrower are owned free and clear of any Liens other than Permitted Encumbrances.

5.3. Survival of Representations and Warranties.

All representations and warranties of Borrower contained in this Agreement and the Other Documents shall be true at the time of Borrower's execution of this Agreement and the Other Documents, and shall survive the execution, delivery and acceptance thereof by the parties thereto and the closing of the transactions described therein or related thereto.

5.4. Tax Returns.

Each Credit Party's federal tax identification number is set forth on Schedule 5.4. Each Credit Party has filed all federal, state and local tax returns and other reports it is required by law to file and has paid all taxes, assessments, fees and other governmental charges that are due and payable other than those contested in good faith for which reserves have been established except as disclosed on Schedule 5.4. The provision for taxes on the books of the Credit Parties is adequate for all years not closed by applicable statutes, and for its current fiscal year, and Borrower has no knowledge of any deficiency or additional assessment in connection therewith not provided for on its books.

5.5. Financial Statements.

(a) The pro forma consolidated balance sheet of Borrower (the "Pro Forma Balance Sheet") furnished to Agent prior to the Closing Date reflects the consummation of the transactions contemplated by the Acquisition Agreement and under this Agreement (collectively, the "Transactions") and is accurate, complete and correct and fairly reflects the consolidated financial condition of Borrower as of such date, and has been prepared in accordance with GAAP, consistently applied. The Pro Forma Balance Sheet has been certified that it fairly reflects the consolidated financial condition of Borrower in all material respects by the President and Chief Financial Officer of Borrower. All financial statements referred to in this subsection 5.5(a), including the related schedules and notes thereto, have been prepared, in accordance with GAAP, except as may be disclosed in such financial statements.

(b) The twelve-month consolidated cash flow projections of Borrower and its projected balance sheets as of the Closing Date (and income statements), copies of which are annexed hereto as Exhibit 5.5(b) (the "Projections") were prepared by the Chief Financial Officer of Borrower, are based on underlying assumptions which provide a reasonable basis for the projections contained therein and reflect Borrower's judgment based on present circumstances of the most likely set of conditions and course of action for the projected period. The cash flow Projections together with the Pro Forma Balance Sheet, are referred to as the "Pro Forma Financial Statements".

(c) The consolidated and consolidating balance sheets of Borrower, its Subsidiaries and such other Persons described therein (including the accounts of all Subsidiaries for the respective periods during which a subsidiary relationship existed) as of August 31, 2011, and the related statements of income, changes in stockholder's equity, and changes in cash flow for the period ended on such date, all accompanied by reports thereon containing opinions without qualification by independent certified public accountants, copies of which have been delivered to Agent, have been prepared in accordance with GAAP, consistently applied (except for changes in application in which such accountants concur) and present fairly the financial position of Borrower and its Subsidiaries at such date and the results of their operations for such period; provided however, that the Credit Parties to be acquired in the Transactions are not included in Borrower's consolidated financial statements. Separate consolidated financial statements for the Credit Parties to be acquired in the Transactions as of August 31, 2011 have been provided to Agent. Since August 31, 2011 there has been no change in the condition, financial or otherwise, of Borrower or its Subsidiaries as shown on the consolidated balance sheet as of such date and no change in the aggregate value of machinery, equipment and Real Property owned by Borrower and its Subsidiaries, except changes in the Ordinary Course of Business, none of which individually or in the aggregate has been materially adverse or has had a Material Adverse Effect and changes to the Credit Parties to be acquired in the Transactions.

5.6. Entity Name and Locations.

Borrower has not been known by any other corporate name in the past five years and does not sell Inventory under any other name except as set forth on Schedule 5.6, nor has Borrower been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any Person during the preceding five (5) years.

5.7. O.S.H.A. and Environmental Compliance.

(a) Except as disclosed on Schedule 5.7, each Credit Party has duly complied with, and its operating facilities, business, assets, property, leaseholds, Real Property and Equipment are in compliance in all material respects with, the provisions of the Federal Occupational Safety and Health Act, the Environmental Protection Act, RCRA and all other Environmental Laws, the failure of which would have a Material Adverse Effect and all judgments, decrees and other enforcement orders and directives relating thereto; there have been no outstanding citations, notices or orders of non-compliance issued to any Credit Party or relating to its business, assets, property, leaseholds or Equipment under any such laws, rules or regulations that could have a Material Adverse Effect; provided however, that the representatives and warranties contained in this Section 5.7(a) as to the Credit Parties to be acquired in the Transactions are made only to Borrower's knowledge.

(b) Except as disclosed on Schedule 5.7, each Credit Party has been issued for the conduct of its business and activities all required federal, state and local licenses, certificates or permits relating to all applicable Environmental Laws, each of which is in effect, the failure of which could have a Material Adverse Effect.

(c) Except as disclosed on Schedule 5.7, there are no facts which suggest, and (i) there are no visible signs of releases, spills, discharges, leaks or disposal (collectively referred to as "Releases") of Hazardous Substances at, upon, under or within any Real Property or any premises leased by Borrower that could have a Material Adverse Effect; (ii) there are no underground storage tanks or polychlorinated biphenyls on the Real Property or any premises leased by Borrower; (iii) neither the Real Property nor any premises leased by Borrower has ever been used as a treatment, storage or disposal facility of Hazardous Waste; and (iv) no Hazardous Substances are present on the Real Property or any premises leased by Borrower that would have a Material Adverse Effect, excepting such quantities as are handled in accordance with all applicable manufacturer's instructions and governmental regulations and in proper storage containers and as are necessary for the operation of the commercial business of Borrower or of its tenants.

5.8. Solvency; No Litigation, Violation, Indebtedness or Default.

(a) Borrower, on a consolidated basis, is now and, after giving effect to the Transactions will be, solvent, able to pay its debts as they mature, has and, after giving effect to the Transactions, will have, capital sufficient to carry on its business and all businesses in which it is about to engage, and (i) as of the Closing Date, the fair present saleable value of its assets, on a consolidated basis, calculated on a going concern basis, is in excess of the amount of Borrowers' and its Subsidiaries' liabilities and (ii) subsequent to the Closing Date, the fair saleable value of its assets (calculated on a going concern basis) will be in excess of the amount of its liabilities.

(b) Except as disclosed on Schedule 5.8(b), no Credit Party has (and as to the Credit Parties to be acquired in the Transactions, to Borrower's knowledge, have) any (i) pending or threatened litigation, arbitration, actions or proceedings that could have a Material Adverse Effect, and (ii) liabilities or indebtedness for borrowed money other than the Obligations.

(c) Except as disclosed on Schedule 5.8(c), no Credit Party is (and as to the Credit Parties to be acquired in the Transactions, to Borrower's knowledge, are) in violation of any applicable statute, law, rule, regulation or ordinance in any respect which would have a Material Adverse Effect, nor is any Credit Party (and as to a Credit Party to be acquired in the Transactions to Borrower's knowledge are) in violation of any order of any court, Governmental Body or arbitration board or tribunal that could have a Material Adverse Effect.

(d) Neither Borrower nor any member of the Controlled Group maintains or contributes to any Plan other than as of the Closing Date, those listed on Schedule 5.8(d) hereto and thereafter, as permitted under this Agreement. Except as set forth on Schedule 5.8(d), to Borrower's knowledge, (i) no Plan has incurred any "accumulated funding deficiency," as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Code, whether or not waived, and Borrower and each member of the Controlled Group has met all applicable minimum funding requirements under Section 302 of ERISA in respect of each Plan; (ii) each Plan which is intended to be a qualified plan under Section 401(a) of the Code as currently in effect has been determined by the Internal Revenue Service to be qualified under Section 401(a) of the Code and the trust related thereto is exempt from federal income tax under Section 501(a) of the Code; (iii) neither Borrower nor any member of the Controlled Group has incurred any liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due which are unpaid; (iv) no Plan has been terminated by the plan administrator thereof nor by the PBGC, and there is no occurrence which would cause the PBGC to institute proceedings under Title IV of ERISA to terminate any Plan; (v) at this time, the current value of the assets of each Plan exceeds the present value of the accrued benefits and other liabilities of such Plan and neither Borrower nor any member of the Controlled Group knows of any facts or circumstances which would materially change the value of such assets and accrued benefits and other liabilities; (vi) neither Borrower nor any member of the Controlled Group has breached any of the responsibilities, obligations or duties imposed on it by ERISA with respect to any Plan; (vii) neither Borrower nor any member of a Controlled Group has incurred any liability for any excise tax arising under Section 4972 or 4980B of the Code, and no fact exists which could give rise to any such liability; (viii) neither Borrower nor any member of the Controlled Group nor any fiduciary of, nor any trustee to, any Plan, has engaged in a "prohibited transaction" described in Section 406 of the ERISA or Section 4975 of the Code nor taken any action which would constitute or result in a Termination Event with respect to any such Plan which is subject to ERISA; (ix) Borrower and each member of the Controlled Group has made all contributions due and payable with respect to each Plan; (x) there exists no event described in Section 4043(b) of ERISA, for which the thirty (30) day notice period has not been waived; (xi) neither Borrower nor any member of the Controlled Group has any fiduciary responsibility for investments with respect to any plan existing for the benefit of persons other than employees or former employees of Borrower and any member of the Controlled Group; (xii) neither Borrower nor any member of the Controlled Group maintains or contributes to any Plan which provides health, accident or life insurance benefits to former employees, their spouses or dependents, other than in accordance with Section 4980B of the Code; (xiii) neither Borrower nor any member of the Controlled Group has withdrawn, completely or partially, from any Multiemployer Plan so as to incur liability under the Multiemployer Pension Plan Amendments Act of 1980; and (xiv) no Plan fiduciary (as defined in Section 3(21) of ERISA) has any material liability for breach of fiduciary duty or for any failure in connection with the administration or investment of the assets of a Plan.

5.9. Patents, Trademarks, Copyrights and Licenses.

All patents, patent applications, trademarks, trademark applications, service marks, service mark applications, copyrights, copyright applications, design rights, tradenames, assumed names, trade secrets and licenses owned or utilized by each Credit Party are set forth on Schedule 5.9, are valid and have been duly registered or filed with all appropriate Governmental Bodies and constitute all of the intellectual property rights which are necessary for the operation of its business; there is no objection to or pending challenge to the validity of any such patent, trademark, copyright, design rights, tradename, trade secret or license and Borrower is not aware of any grounds for any challenge, except as set forth in Schedule 5.9 hereto. Each patent, patent application, patent license, trademark, trademark application, trademark license, service mark, service mark application, service mark license, design rights, copyright, copyright application and copyright license owned or held by each Credit Party and all trade secrets used by each Credit Party consist of original material or property developed by such Credit Party or was lawfully acquired by such Credit Party from the proper and lawful owner thereof. Each of such items has been maintained so as to preserve the value thereof from the date of creation or acquisition thereof. With respect to all software used by any Credit Party, such Credit Party is in possession of all source and object codes related to each piece of software or is the beneficiary of a source code escrow agreement, each such source code escrow agreement being listed on Schedule 5.9 hereto.

5.10. Licenses and Permits.

Except as set forth on Schedule 5.10, each Credit Party (a) is in compliance with and (b) has procured and is now in possession of, all material licenses or permits required by any applicable federal, state or local law, rule or regulation for the operation of its business in each jurisdiction wherein it is now conducting or proposes to conduct business and where the failure to procure such licenses or permits could have a Material Adverse Effect.

5.11. Default of Indebtedness.

No Credit Party is in default in the payment of the principal of or interest on any Indebtedness for borrowed money (exclusive of trade debt) or under any instrument or agreement under or subject to which any Indebtedness for borrowed money (exclusive of trade debt) has been issued and no event has occurred under the provisions of any such instrument or agreement which with or without the lapse of time or the giving of notice, or both, constitutes or would constitute an event of default thereunder, the effect of which would have a Material Adverse Effect.

5.12. No Default.

No Credit Party is in default in the payment or performance of any of its contractual obligations and no Default has occurred that would have a Material Adverse Effect other than as set forth on Schedule 5.12.

5.13. No Burdensome Restrictions.

No Credit Party is party to any contract or agreement the performance of which would have a Material Adverse Effect, other than as set forth on Schedule 5.28. Borrower has heretofore delivered to Agent true and complete copies of all material contracts to which it is a party or to which it or any of its properties is subject. Borrower has not agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien which is not a Permitted Encumbrance.

5.14. No Labor Disputes.

No Credit Party is involved in any labor dispute; there are no strikes or walkouts or union organization of such Credit Party's employees threatened or in existence and no labor contract is scheduled to expire during the Term other than as set forth on Schedule 5.14 hereto.

5.15. Margin Regulations.

No Credit Party is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. No part of the proceeds of any Advance will be used for "purchasing" or "carrying" "margin stock" as defined in Regulation U of such Board of Governors.

5.16. Investment Company Act.

No Credit Party is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, nor is it controlled by such a company.

5.17. Disclosure.

No representation or warranty made by any Credit Party in this Agreement or in any financial statement, report, certificate or any other document furnished in connection herewith contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein not misleading that could have a Material Adverse Effect. There is no fact known to any Credit Party or which reasonably should be known to any Credit Party that any Credit Party has not disclosed to Agent in writing with respect to the Transactions which could reasonably be expected to have a Material Adverse Effect.

5.18. Delivery of Acquisition Agreement.

Agent has received complete copies of the Acquisition Agreement (including all exhibits, schedules and disclosure letters referred to therein or delivered pursuant thereto, if any) and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof. None of such documents and agreements has been amended or supplemented, nor have any of the provisions thereof been waived, except pursuant to a written agreement or instrument which has heretofore been delivered to Agent.

5.19. Swaps.

No Credit Party is a party to, nor will it be a party to, any swap agreement whereby such Credit Party has agreed or will agree to swap interest rates or currencies unless same provides that damages upon termination following an event of default thereunder are payable on an unlimited "two-way basis" without regard to fault on the part of either party.

5.20. Conflicting Agreements.

No provision of any mortgage, indenture, contract, agreement, judgment, decree or order binding on any Credit Party or affecting the Collateral conflicts with, or requires any Consent which has not already been obtained to, or would in any way prevent the execution, delivery or performance of, the terms of this Agreement or the Other Documents.

5.21. Application of Certain Laws and Regulations.

No Credit Party is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

5.22. Business and Property of Borrower.

Upon and after the Closing Date, no Credit Party proposes to engage in any business other than providing treatment, storage, and disposal facility services and on-site remediation, upgrades and nuclear services in compliance with applicable Environmental Laws; consulting services with respect to toxic, radioactive and Hazardous Waste; nuclear energy design, build, refurbishment and operational support services; instrumentation and measurement technologies; and activities that are necessary to conduct the foregoing. On the Closing Date, each Credit Party will own or have the right to use all the Property and possess all of the rights and Consents necessary for the conduct of its business.

5.23. Section 20 Subsidiaries.

No Credit Party intends to use and shall not use any portion of the proceeds of the Advances, directly or indirectly, to purchase during the underwriting period, or for 30 days thereafter, Ineligible Securities being underwritten by a Section 20 Subsidiary.

5.24. Anti-Terrorism Laws.

(a) General. Neither Borrower nor any Affiliate of Borrower is in violation of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(b) Executive Order No. 13224. Neither Borrower nor any Affiliate of Borrower or their respective agents acting or benefiting in any capacity in connection with the Advances or other transactions hereunder, is any of the following (each a "Blocked Person"):

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(iii) a Person or entity with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224;

(v) a Person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list, or

(vi) a Person or entity who is affiliated or associated with a Person or entity listed above.

Neither Borrower or to the knowledge of Borrower, any of its agents acting in any capacity in connection with the Advances or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

5.25. Trading with the Enemy.

Borrower has not engaged, nor does it intend to engage, in any business or activity prohibited by the Trading with the Enemy Act.

5.26. Commercial Tort Claims.

Borrower does not have any known commercial tort claims as of the Closing Date that would have a Material Adverse Effect.

5.27. Partnership and Limited Liability Company Interests.

Except as previously disclosed in writing to Agent, none of the Subsidiary Stock consisting of partnership or limited liability company interests (i) is dealt in or traded on a securities exchange or in a securities market, (ii) by its terms expressly provides that it is a security governed by Article 8 of the Uniform Commercial Code, (iii) is an investment company security, (iv) is held in a securities account or (v) constitutes a "security" or a "financial asset" as such terms are defined in Article 8 of the Uniform Commercial Code.

5.28. Material Contracts.

Set forth on Schedule 5.28, as updated from time to time, is a complete and accurate list of all Material Contracts of Borrower and its Subsidiaries. All of the Material Contracts are in full force and effect, and no material defaults currently exist thereunder which would have a Material Adverse Effect other than as set forth on Schedule 5.28.

5.29. Future Subsidiaries.

Promptly upon any Person becoming a direct or indirect Subsidiary of Borrower (other than with respect to joint ventures and limited liability companies not wholly owned by Borrower), Borrower shall promptly provide written notice thereof to Agent, setting forth with specificity a description of the proposed locations, business and property of such Subsidiary and of all material real and personal property owned and leased by it. Borrower shall also promptly cause such Subsidiary holding any capital stock of such Subsidiary to execute and deliver to Agent a Secured Subsidiaries Guaranty, together with such financing statements and other documents as shall in the reasonable opinion of the Agent be necessary or advisable in order that Agent receive valid and perfect first-priority Liens in all of the ownership interests and (subject to Permitted Encumbrances) substantially all of the property (including, without limitation, leasehold interests) of such Subsidiary, together with certificates representing all of the ownership interests of such Subsidiary, accompanied by appropriate instruments of transfer duly executed in blank. Borrower or such Subsidiary shall also deliver one or more opinions of counsel to the Borrower or such Subsidiary (including opinions of local counsel) covering such legal matters with respect to such agreements and other instruments and documents as the Agent may reasonably request. All of such agreements, instruments, opinions and documents shall be reasonably satisfactory in form and substance in all respects to counsel to the Agent.

ARTICLE VI

AFFIRMATIVE COVENANTS

Borrower shall, and shall cause each of its Subsidiaries to, until payment in full of the Obligations and termination of this Agreement:

6.1. Payment of Fees.

Pay to Agent on demand all usual and customary fees and expenses which Agent incurs in connection with (a) the forwarding of Advance proceeds and (b) the establishment and maintenance of any Blocked Accounts or Depository Accounts as provided for in Section 4.15(h). Agent may, without making demand, charge Borrower's Account for all such fees and expenses.

6.2. Conduct of Business and Maintenance of Existence and Assets.

(a) Conduct continuously and operate actively its business according to good business practices and maintain all of its properties useful or necessary in its business in good working order and condition (reasonable wear and tear excepted and except as may be disposed of in accordance with the terms of this Agreement), including, without limitation, all licenses, patents, copyrights, design rights, tradenames, trade secrets and trademarks and take all actions necessary to enforce and protect the validity of any intellectual property right or other right included in the Collateral; (b) keep in full force and effect its existence and comply in all material respects with the laws and regulations governing the conduct of its business where the failure to do so could have a Material Adverse Effect; and (c) make all such reports and pay all such franchise and other taxes and license fees and do all such other acts and things as may be lawfully required to maintain its rights, licenses, leases, powers and franchises under the laws of the United States or any political subdivision thereof where the failure to do so could have a Material Adverse Effect.

6.3. Violations.

Promptly notify Agent in writing of any violation of any law, statute, regulation or ordinance of any Governmental Body, or of any agency thereof, applicable to any Credit Party which could reasonably be expected to have a Material Adverse Effect.

6.4. Government Receivables.

Take all steps necessary to protect Agent's interest in the Collateral under the Federal Assignment of Claims Act, the Uniform Commercial Code and all other applicable state or local statutes or ordinances and deliver to Agent appropriately endorsed, any instrument or chattel paper connected with any Receivable arising out of contracts between any Credit Party and the United States, any state or any department, agency or instrumentality of any of them.

6.5. Financial Covenants.

(a) Tangible Adjusted Net Worth.

Maintain at all times a Tangible Adjusted Net Worth in an amount not less than \$30,000,000.

(b) Fixed Charge Coverage Ratio.

Cause to be maintained a Fixed Charge Coverage Ratio of not less than 1.25 to 1.0 for the four quarter period ending as of the end of each fiscal quarter of Borrower, as determined on a consolidated basis, commencing with the quarter ending December 31, 2011. For purposes of calculating the Fixed Charge Coverage Ratio the calculation of the Senior Debt Payments for (i) the quarter ending December 31, 2011 shall be limited to the Senior Debt Payments for the one quarter period ending December 31, 2011 annualized; (ii) the quarter ending March 31, 2012 shall be limited to the Senior Debt Payments for the two quarter period ending March 31, 2012 annualized; and (iii) the quarter ending June 30, 2012 shall be limited to the Senior Debt Payments for the three quarter period ending June 30, 2012 annualized.

6.6. Execution of Supplemental Instruments.

Execute and deliver to Agent from time to time, upon demand, such supplemental agreements, statements, assignments and transfers, or instructions or documents relating to the Collateral, and such other instruments as Agent may reasonably request, in order that the full intent of this Agreement may be carried into effect.

6.7. Payment of Indebtedness.

Pay, discharge or otherwise satisfy at or before maturity (subject, where applicable, to specified grace periods and, in the case of the trade payables, to normal payment practices) all its obligations and liabilities of whatever nature, except when the failure to do so would have a Material Adverse Effect or when the amount or validity thereof is currently being Properly Contested.

6.8. Standards of Financial Statements.

Cause all financial statements referred to in Sections 9.7, 9.8, 9.9, 9.10, 9.11, 9.12 and 9.13 as to which GAAP is applicable to fairly represent in all material respects (subject, in the case of interim financial statements, to normal year-end audit adjustments) and to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein (except as concurred in by such reporting accountants or officer, as the case may be, and disclosed therein).

6.9. Exercise of Rights.

In Borrower's sole discretion, enforce all of its rights under the Acquisition Agreement including, but not limited to, all indemnification rights and pursue all remedies available to it with diligence and in good faith in connection with the enforcement of any such rights.

6.10. Real Property.

If any Credit Party shall acquire at any time or times hereafter any fee simple interest and title in real property with a value in excess of \$1,000,000, then within ninety (90) days of the acquisition thereof such Credit Party shall execute and deliver to Agent, as additional security and Collateral for the Obligations, deeds of trust, security deeds, mortgages or other collateral assignments reasonably satisfactory in form and substance to Agent and its counsel (herein collectively referred to as "New Mortgages") covering such real property. The New Mortgages shall be duly recorded (at Borrower's expense) in each office where such recording is required to constitute a valid lien on the real property covered thereby. In respect of any New Mortgage, Borrower shall deliver to Agent, at Borrower's expense, mortgagee title insurance policies issued by a title insurance company reasonably satisfactory to Agent, which policies shall be in form and substance reasonably satisfactory to Agent and shall insure a valid lien in favor of Agent on the property covered thereby, subject only to Permitted Encumbrances and those other exceptions reasonably acceptable to Agent and its counsel. Borrower shall also deliver to Agent such other usual and customary documents, including, without limitation, ALTA surveys of the real property described in the New Mortgages, as Agent and its counsel may reasonably request relating to the real property subject to the New Mortgages.

6.11. Inactive Subsidiaries.

To the extent a Subsidiary that is inactive as of the Closing Date subsequently becomes actively engaged in business then Borrower shall cause such Subsidiary to become a Guarantor.

ARTICLE VII

NEGATIVE COVENANTS

Borrower shall not, and shall not permit any other Credit Party to, until satisfaction in full of the Obligations and termination of this Agreement:

7.1 Merger, Consolidation, Acquisition and Sale of Assets.

(a) Enter into any merger, consolidation or other reorganization with or into any other Person or acquire all or a substantial portion of the assets or stock of any Person or permit any other Person to consolidate with or merge with it, except with the express written consent of Agent and (i) among Credit Parties and (ii) as may be permitted under Section 7.4.

(b) Sell, lease, transfer or otherwise dispose of any of its properties or assets, except (i) dispositions of Inventory and Equipment to the extent expressly permitted by Section 4.3 and (ii) any other sales or dispositions expressly permitted by this Agreement.

7.2. Creation of Liens.

Create or suffer to exist any Lien or transfer upon or against any of its property or assets now owned or hereafter acquired, except Permitted Encumbrances.

7.3. Guarantees.

Become liable upon the obligations or liabilities of any Person by assumption, endorsement or guaranty thereof or otherwise (other than to Lenders) except (a) as disclosed on Schedule 7.3, (b) guarantees made in the Ordinary Course of Business up to an aggregate amount of \$1,000,000, (c) the endorsement of checks in the Ordinary Course of Business, and (d) guarantees of any Credit Party for another Credit Party.

7.4. Investments.

Purchase or acquire obligations or Equity Interests of, or any other interest in, any Person, or make other investments except (a) obligations issued or guaranteed by the United States of America or any agency thereof, (b) commercial paper with maturities of not more than one hundred eighty (180) days and a published rating of not less than A-1 or P-1 (or the equivalent rating), (c) certificates of time deposit and bankers' acceptances having maturities of not more than one hundred eighty (180) days and repurchase agreements backed by United States government securities of a commercial bank if (i) such bank has a combined capital and surplus of at least \$500,000,000, or (ii) its debt obligations, or those of a holding company of which it is a Subsidiary, are rated not less than A (or the equivalent rating) by a nationally recognized investment rating agency, (d) U.S. money market funds that invest solely in obligations issued or guaranteed by the United States of America or an agency thereof, (e) investments in respect of Interest Rate Hedges, (f) extensions of trade credit in the Ordinary Course of Business, (g) loan and advances to officers and employees made in compliance with Section 7.5, (h) advances, loans or extensions of credit between Borrower and any Credit Party made in compliance with Section 7.5, (i) as set forth on Schedule 7.4, (j) the stock of any Credit Party, (k) as allowed under Section 7.1, (l) by and among Credit Parties to other Credit Parties, and (m) notwithstanding any other limitation of this Section, an aggregate amount not to exceed the greater of \$100,000 per year. Notwithstanding the foregoing, Borrower shall deposit all proceeds of issuances of equity and Indebtedness into the Investment Account and pledged as Collateral. Property in the Investment Account may be invested at Borrower's direction so long as no Event of Default exists; provided that no such Property shall be invested outside of Agent and its Affiliates at any time when there is an outstanding balance under the Revolving Credit Facility.

7.5. Loans.

Make advances, loans or extensions of credit to any Person, including any Parent, Subsidiary or Affiliate except with respect to (a) the extension of commercial trade credit in connection with the sale of Inventory in the Ordinary Course of Business, (b) loans to its employees in the Ordinary Course of Business not to exceed the aggregate amount of \$1,000,000 at any time outstanding, (c) advances, loans or extensions of credit between and among the Credit Parties or Borrower and any of the Credit Parties and (d) other than as set forth on Schedule 7.5.

7.6. Capital Expenditures.

Contract for, purchase or make any expenditure or commitments for Capital Expenditures in any fiscal year in an aggregate amount in excess of \$6,000,000.

7.7. Dividends.

(a) Declare, pay or make any dividend or distribution on any shares of the common stock or preferred stock of Borrower (other than dividends or distributions payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock, or of any options to purchase or acquire any such shares of common or preferred stock of Borrower except as set forth on Schedule 7.7.

7.8. Indebtedness.

Create, incur, assume or suffer to exist any Indebtedness (exclusive of trade debt) except in respect of:

- (a) Indebtedness to Lenders under this Agreement and the Other Documents;
- (b) Indebtedness incurred for Capital Expenditures permitted under Section 7.6 hereof;
- (c) Permitted Purchase Money Indebtedness;
- (d) Indebtedness described on Schedule 7.8 and any refinancings of such Indebtedness, provided that the aggregate principal amount of such Indebtedness is not increased, the scheduled maturity dates of such Indebtedness are not shortened and such refinancing is on terms and conditions no more restrictive than the terms and conditions of the Indebtedness being refinanced;
- (e) Indebtedness under any Interest Rate Hedge;
- (f) Indebtedness not otherwise permitted hereunder in an amount not to exceed \$1,500,000 outstanding at any one time;

(g) Indebtedness assumed by a Credit Party in connection with Section 7.1 or Section 7.14;

(h) Indebtedness resulting from a judgment having been rendered against a Credit Party for which reserves have been established; and

(i) Indebtedness with respect to guarantees permitted by Section 7.3.

7.9. Nature of Business.

Substantially change the nature of the business in which it will be engaged in after the completion of the Transactions, nor except as specifically permitted hereby purchase or invest, directly or indirectly, in any assets or property other than in the Ordinary Course of Business for assets or property which are useful in, necessary for and are to be used in its business as presently conducted after completion of the Transactions.

7.10. Transactions with Affiliates.

Directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, make any payment to, or enter into any transaction or arrangement with, or otherwise deal with, any Affiliate, except transactions (i) disclosed on Schedule 7.10 or (ii) disclosed to Agent, which are in the Ordinary Course of Business, on an arm's-length basis on terms and conditions no less favorable than terms and conditions which would have been obtainable from a Person other than an Affiliate; (iii) constituting the payment of reasonable compensation (including indemnity and expense reimbursement obligations to officers and employees for services actually rendered; (iv) constituting payments of management fees and transactions among the Credit Parties to the extent not otherwise prohibited by this Agreement; (v) constituting the payment of customary directors' fees, indemnities and reimbursement obligations.

7.11. Leases.

Enter as lessee into any lease arrangement for real or personal property (unless capitalized and permitted under Section 7.6 hereof) if after giving effect thereto, aggregate annual rental payments for all leased property would exceed \$1,000,000 in any one fiscal year in the aggregate for Borrower and any other Credit Party.

7.12. Subsidiaries.

(a) Form any Subsidiary unless (i) such Subsidiary is a Domestic Subsidiary, (ii) such Subsidiary expressly joins in this Agreement as a Credit Party and executes a joinder and joins the Secured Subsidiaries Guaranty and under any other agreement between any Credit Party and Lenders and (iii) Agent shall have received all documents, including, without limitation, legal opinions and appraisals it may reasonably require in connection therewith, except as described on Schedule 7.12(a).

(b) Enter into any partnership, joint venture or similar arrangement, except as described on Schedule 7.12(b) and which will be disclosed to Agent on a quarterly basis.

7.13. Fiscal Year and Accounting Changes.

Change its fiscal year from December 31 or make any significant change (i) in accounting treatment and reporting practices except as required by GAAP or (ii) in tax reporting treatment except as required by law, except for the fiscal year of those Subsidiaries to be acquired in the Transactions, which will be changed to December 31.

7.14. Pledge of Credit.

Now or hereafter pledge Agent's or any Lender's credit on any purchases or for any purpose whatsoever or use any portion of any Advance in or for any business other than Borrower's business as conducted on the date of this Agreement.

7.15. Amendment of Organizational Documents.

Amend, modify or waive any term or material provision of its Articles of Incorporation or By-Laws or other organizational documents or adopt any resolution which would have a Material Adverse Effect.

7.16. Compliance with ERISA.

(i) (x) Maintain, or permit any member of the Controlled Group to maintain, or (y) become obligated to contribute, or permit any member of the Controlled Group to become obligated to contribute, to any Plan, other than those Plans disclosed on Schedule 5.8(d) or any other Plan for which Agent has provided its prior written consent, (ii) engage, or permit any member of the Controlled Group to engage, in any non-exempt "prohibited transaction", as that term is defined in section 406 of ERISA and Section 4975 of the Code, (iii) incur, or permit any member of the Controlled Group to incur, any "accumulated funding deficiency", as that term is defined in Section 302 of ERISA or Section 412 of the Code, (iv) terminate, or permit any member of the Controlled Group to terminate, any Plan where such event could result in any liability of Borrower or any member of the Controlled Group or the imposition of a lien on the property of Borrower or any member of the Controlled Group pursuant to Section 4068 of ERISA, (v) assume, or permit any member of the Controlled Group to assume, any obligation to contribute to any Multiemployer Plan not disclosed on Schedule 5.8(d), (vi) incur, or permit any member of the Controlled Group to incur, any withdrawal liability to any Multiemployer Plan; (vii) fail promptly to notify Agent of the occurrence of any Termination Event, (viii) fail to comply, or permit a member of the Controlled Group to fail to comply, with the requirements of ERISA or the Code or other Applicable Laws in respect of any Plan, (ix) fail to meet, or permit any member of the Controlled Group to fail to meet, all minimum funding requirements under ERISA or the Code or postpone or delay or allow any member of the Controlled Group to postpone or delay any funding requirement with respect of any Plan.

7.17. Prepayment of Indebtedness.

At any time, prepay, repurchase, redeem, retire or otherwise acquire, or make any payment on account of any principal of, interest on or premium payable in connection with the prepayment or redemption of any Indebtedness for borrowed money (other than Indebtedness owed to the Lender under this Agreement or the Other Documents).

7.18. Anti-Terrorism Laws.

Borrower shall not, until satisfaction in full of the Obligations and termination of this Agreement, nor shall it permit any Affiliate or agent to:

(a) Conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person.

(b) Deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

(c) Engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the USA PATRIOT Act or any other Anti-Terrorism Law. Borrower shall deliver to Lenders any certification or other evidence requested from time to time by any Lender in its sole discretion, confirming Borrower's compliance with this Section.

7.19. Trading with the Enemy Act.

Engage in any business or activity in violation of the Trading with the Enemy Act.

7.20. Other Agreements.

Enter into any material amendment, waiver or modification that would have a Material Adverse Effect without prior notice to Agent of (a) the Acquisition Agreement or (b) any Material Contract other than with respect to the Material Contracts identified on Schedule 5.28.

7.21. Additional Negative Pledges.

Create or otherwise cause or suffer to exist or become effective, directly or indirectly, unless otherwise permitted under this Agreement, (i) any prohibition or restriction (including any agreement to provide equal and ratable security to any other Person in the event a Lien is granted to or for the benefit of Agent and the Lenders) on the creation or existence of any Lien upon the assets of Borrower or any Guarantor, other than Permitted Encumbrances, (ii) any contractual obligation which may restrict or inhibit Agent's rights or ability to sell or otherwise dispose of the Collateral or any part thereof after the occurrence of an Event of Default.

7.22. Additional Bank Accounts.

Open, maintain or otherwise have any checking, savings or other accounts at any bank or other financial institution, or any other account where money is or may be deposited or maintained with any Person, other than (a) the accounts set forth on Schedule 4.15(h), each of which shall be subject to a blocked account arrangement with the depository institution, except to the extent otherwise determined by Agent (b) deposit accounts established after the Closing Date that are subject to a blocked account arrangement with the depository institution in form and substance satisfactory to Agent, (c) other deposit accounts established after the Closing Date solely as payroll and other zero balance accounts and (d) other deposit accounts established after the Closing Date, so long as at any time the balance in any such account does not exceed \$10,000 and the aggregate balance in all such accounts does not exceed \$50,000.

ARTICLE VIII

CONDITIONS PRECEDENT

8.1. Conditions to Initial Advances.

The agreement of Lenders to make the initial Advances requested to be made on the Closing Date is subject to the satisfaction, or waiver by Agent/Lenders, immediately prior to or concurrently with the making of such Advances, of the following conditions precedent:

(a) Loan Documents.

Agent shall have received the Agreement, the Notes and each Other Documents duly executed and delivered by an authorized officer of Borrower;

(b) Filings, Registrations and Recordings.

Each document (including, without limitation, any Uniform Commercial Code financing statement) required by this Agreement, any related agreement or under law or reasonably requested by Agent to be filed, registered or recorded in order to create, in favor of Agent, a perfected security interest in or lien upon the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and Agent shall have received an acknowledgment copy, or other evidence satisfactory to it, of each such filing, registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto;

(c) Corporate Proceedings of Borrower.

Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors, Board of Managers or other similar managing body of Borrower and each of the other Credit Parties authorizing (i) the execution, delivery and performance of this Agreement, each of the Other Documents and the Acquisition Agreement (collectively, the "Documents") and (ii) the granting by Borrower and each of the other Credit Parties of the security interests in and liens upon the Collateral in each case certified by the Secretary or an Assistant Secretary of Borrower and each of the other Credit Parties as of the Closing Date; and, such certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate;

(d) Incumbency Certificates of Borrower.

Agent shall have received a certificate of the Secretary or an Assistant Secretary of Borrower and each of the other Credit Parties, dated the Closing Date, as to the incumbency and signature of the officers of Borrower and each of the other Credit Parties executing this Agreement, the Other Documents, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of each such Secretary or Assistant Secretary;

(e) Certificates.

Agent shall have received a copy of the Articles or Certificate of Incorporation of Borrower and each of the other Credit Parties, and all amendments thereto, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation together with copies of the By-Laws of Borrower and each of the other Credit Parties, and all agreements of Borrower's and each of the other Credit Parties' shareholders certified as accurate and complete by the Secretary of each such Person;

(f) Good Standing Certificates.

Agent shall have received good standing certificates for Borrower and each of the other Credit Parties dated not more than thirty (30) days prior to the Closing Date, issued by the Secretary of State or other appropriate official of Borrower's and each Guarantor's jurisdiction of incorporation and each jurisdiction where the conduct of such Persons' business activities or the ownership of its properties necessitates qualification;

(g) Legal Opinion.

Agent shall have received the executed legal opinion of counsel to Borrower in form and substance satisfactory to Agent which shall cover such matters incident to the transactions contemplated by this Agreement, the Notes, the Other Documents, the Guaranty, and related agreements as Agent may reasonably require and Borrower hereby authorizes and directs such counsel to deliver such opinions to Agent and Lenders;

(h) No Litigation.

(i) No litigation, investigation or proceeding before or by any arbitrator or Governmental Body shall be continuing or threatened against any Credit Party or against the officers or directors of any Credit Party (with respect to an officer or director of any Credit Party only litigation, investigation or proceeding that would have a Material Adverse Effect other than with respect to the Material Contracts identified on Schedule 5.8(b)) (A) in connection with this Agreement, the Other Documents or any of the transactions contemplated thereby and which, in the reasonable opinion of Agent, is deemed material or (B) which could, in the reasonable opinion of Agent, have a Material Adverse Effect; and () no injunction, writ, restraining order or other order of any nature materially adverse to any Credit Party or the conduct of its business or inconsistent with the due consummation of the Transactions shall have been issued by any Governmental Body;

(i) Financial Condition Certificates.

Agent shall have received an executed Financial Condition Certificate in the form of Exhibit 8.1(i);

(j) Collateral Examination.

Agent shall have completed Collateral examinations and received appraisals, the results of which shall be satisfactory in form and substance to Lenders, of the Receivables, Inventory, General Intangibles, Real Property and Equipment of the Credit Parties and all books and records in connection therewith;

(k) Fee.

Agent shall have received all fees payable to Agent and Lenders on or prior to the Closing Date hereunder, including pursuant to Article III hereof;

(l) Pro Forma Financial Statements.

Agent shall have received a copy of the Pro Forma Financial Statements which shall be satisfactory in all respects to Lenders;

(m) Acquisition Documents.

Agent shall have received final executed copies of the Acquisition Agreement and all related agreements, documents and instruments, together with all exhibits, schedules and amendments thereto, as in effect on the Closing Date all of which shall be reasonably satisfactory in form and substance to Agent and the transactions contemplated by such documentation shall be consummated prior to or simultaneously with the making of the initial Advance;

(n) Insurance.

Agent shall have received in form and substance satisfactory to Agent, certified copies of the Credit Parties' casualty insurance policies, together with loss payable endorsements on Agent's standard form of lender loss payee endorsement naming Agent as lender loss payee, and certified copies of Borrower's liability insurance policies, together with endorsements naming Agent as a co-insured, the terms and amount of which shall be acceptable to Agent;

(o) Title Insurance.

Agent shall have received fully paid mortgagee title insurance policies (or binding commitments to issue title insurance policies, marked to Agent's satisfaction to evidence the form of such policies to be delivered with respect to the Mortgage on the property owned by Perma-Fix Northwest Richland, Inc.), in standard ALTA form, issued by a title insurance company satisfactory to Agent, each in an amount equal to not less than the fair market value of the Real Property subject to the relevant Mortgage, insuring the relevant Mortgage to create a valid Lien on the Real Property with no exceptions which Agent shall not have approved in writing and no survey exceptions;

(p) Environmental Reports.

Agent shall have received all environmental studies and reports prepared by independent environmental engineering firms with respect to all Real Property owned or leased by the Credit Parties;

(q) Disbursement Agreement: Payment Instructions.

Agent shall have received written instructions from Borrower directing the application of proceeds of the initial Advances made pursuant to this Agreement;

(r) Blocked Accounts.

Agent shall have received duly executed agreements establishing the Blocked Accounts or Depository Accounts with financial institutions acceptable to Agent for the collection or servicing of the Receivables and proceeds of the Collateral;

(s) Consents.

Agent shall have received any and all Consents, if any, necessary to permit the Credit Parties to conduct their respective businesses and to effectuate the Transactions; and, Agent shall have received such Consents and waivers of such third parties as might assert claims with respect to the Collateral, as Agent and its counsel shall deem necessary;

(t) No Adverse Material Change.

(i) since August 31, 2011, there shall not have occurred any event, condition or state of facts which would have a Material Adverse Effect and (ii) no representations made or information supplied to Agent or Lenders shall have been proven to be inaccurate or misleading in any material respect;

(u) Leasehold Agreements.

Agent shall have received landlord, mortgagee or warehouseman agreements satisfactory to Agent with respect to all premises leased by any Credit Party at which Inventory and books and records are located;

(v) Mortgages.

Agent shall have received in form and substance satisfactory to Lenders (i) an executed Mortgage with respect to the Real Property owned by the Credit Party, Perma-Fix Northwest Richland, Inc., (ii) a title policy for such Real Property and (iii) surveys of such Real Property;

(w) Environmental Indemnity.

Agent shall have received an Environmental Indemnity for each property subject to a Mortgage;

(x) Guarantees and Other Documents.

Agent shall have received (i) the executed Secured Subsidiaries Guaranty and (ii) the executed Other Documents, all in form and substance satisfactory to Agent;

(y) Contract Review.

Agent shall have reviewed copies of all material contracts of the Credit Parties requested by Agent including leases, union contracts, labor contracts, vendor supply contracts, license agreements, purchase and sale agreements and distributorship agreements and such contracts and agreements shall be satisfactory in all respects to Agent;

(z) Closing Certificate.

Agent shall have received a closing certificate signed by the Chief Financial Officer of Borrower dated as of the date hereof, stating, among other matters, that (i) all representations and warranties set forth in this Agreement and the Other Documents are true and correct on and as of such date, (ii) each Credit Party is on such date in compliance with all the terms and provisions set forth in this Agreement and the Other Documents and (iii) on such date no Default or Event of Default has occurred or is continuing;

(aa) Borrowing Base.

Agent shall have received evidence from Borrower that the aggregate amount of Eligible Receivables and Eligible Inventory is sufficient in value and amount to support Advances in the amount requested by Borrower on the Closing Date;

(bb) Undrawn Availability.

After giving effect to the initial Advances hereunder, Borrower shall have Undrawn Availability of at least \$5,000,000;

(cc) Compliance with Laws.

Agent shall be reasonably satisfied that Borrower is in compliance with all pertinent federal, state, local or territorial regulations, including those with respect to the Federal Occupational Safety and Health Act, the Environmental Protection Act, ERISA and the Trading with the Enemy Act unless the failure to comply would have a Material Adverse Effect (other than as previously disclosed to Agent); and

(dd) Other.

All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the Transactions shall be satisfactory in form and substance to Agent and its counsel.

8.2. Conditions to Each Advance.

The agreement of Lenders to make any Advance requested to be made on any date (including the initial Advance), is subject to the satisfaction of the following conditions precedent as of the date such Advance is made:

(a) Representations and Warranties.

Each of the representations and warranties made by Borrower in or pursuant to this Agreement, the Other Documents and any related agreements to which it is a party, and each of the representations and warranties contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement, the Other Documents or any related agreement shall be true and correct in all material respects on and as of such date as if made on and as of such date;

(b) No Default.

No Event of Default or Default shall have occurred and be continuing on such date, or would exist after giving effect to the Advances requested to be made, on such date and, in the case of the initial Advance, after giving effect to the consummation of the transactions contemplated by the Acquisition Agreement; provided, however that Agent, in its sole discretion, may continue to make Advances notwithstanding the existence of an Event of Default or Default and that any Advances so made shall not be deemed a waiver of any such Event of Default or Default; and

(c) Maximum Advances.

In the case of any type of Advance requested to be made, after giving effect thereto, the aggregate amount of such type of Advance shall not exceed the maximum amount of such type of Advance permitted under this Agreement.

Each request for an Advance by Borrower hereunder shall constitute a representation and warranty by Borrower as of the date of such Advance that the conditions contained in this subsection shall have been satisfied.

8.3. Conditions to Each Equipment Loan.

The agreement of Lenders to make any Equipment Loan is subject to receipt by Agent of (a) a copy of the invoice relating to the Equipment being purchased, (b) evidence that such Equipment has been shipped to Borrower or a Credit Party, and (iii) such other documentation and evidence that Agent may reasonably request.

ARTICLE IX

INFORMATION AS TO BORROWER

Borrower shall, until satisfaction in full of the Obligations and the termination of this Agreement:

9.1. Disclosure of Material Matters.

Promptly upon learning thereof, report to Agent all matters materially affecting the value, enforceability or collectibility of any material portion of the Collateral, including, without limitation, any Credit Party's reclamation or repossession of, or the return to any Credit Party of, a material amount of goods or claims or disputes asserted by any Customer or other obligor.

9.2. Schedules.

Deliver to Agent on or before the twenty-fifth (25th) day of each month as and for the prior month (a) accounts receivable ageings inclusive of reconciliations to the general ledger, (b) accounts payable schedules inclusive of reconciliations to the general ledger, (c) Inventory reports and (d) a Borrowing Base Certificate in form and substance satisfactory to Agent (which shall be calculated as of the last day of the prior month and which shall not be binding upon Agent or restrictive of Agent's rights under this Agreement). In addition, Borrower will deliver to Agent (i) weekly sales and cash receipt journals together with any accounts receivable adjustment in form and substance satisfactory to Agent and (ii) at such intervals as Agent may require: (a) confirmatory assignment schedules, (b) copies of Customer's invoices if reasonably requested, (c) evidence of shipment or delivery, (d) such further schedules, documents and/or information regarding the Collateral as Agent may require including, without limitation, trial balances and test verifications; and (e) a statement of the balance of each of the Intercompany Receivables. Agent shall have the right to confirm and verify all Receivables by any manner and through any medium it considers advisable and do whatever it may deem reasonably necessary to protect its interests hereunder. The items to be provided under this Section are to be in form satisfactory to Agent and executed by Borrower and delivered to Agent from time to time solely for Agent's convenience in maintaining records of the Collateral, and Borrower's failure to deliver any of such items to Agent shall not affect, terminate, modify or otherwise limit Agent's Lien with respect to the Collateral.

9.3. Environmental Reports.

Furnish Agent, concurrently with the delivery of the financial statements referred to in Sections 9.7 and 9.8, a Compliance Certificate signed by the President (or such other officer permitted to execute the Compliance Certificate) of Borrower stating, to the best of his knowledge, that each Credit Party is in compliance in all material respects with all federal, state and local Environmental Laws applicable to the Credit Parties which would result in a Material Adverse Effect except as otherwise discussed on Schedule 5.7. To the extent any Credit Party is not in compliance with the foregoing laws which would result in a Material Adverse Effect, the Compliance Certificate shall briefly set forth with specificity all areas of non-compliance and the proposed action such Credit Party will implement in order to achieve full compliance to the best of such individual's knowledge after due inquiry.

9.4. Litigation.

Promptly notify Agent in writing of any claim, litigation, suit or administrative proceeding affecting any Credit Party, whether or not the claim is covered by insurance, and of any litigation, suit or administrative proceeding, which in any such case adversely affects a material amount of Collateral or which would have a Material Adverse Effect (without regard to any such insurance).

9.5. Material Occurrences.

Promptly notify Agent in writing upon the occurrence of (a) any Event of Default or Default; (b) any event, development or circumstance whereby any financial statements or other reports furnished to Agent fail in any material respect to present fairly, in accordance with GAAP consistently applied, the consolidated financial condition or operating results of Borrower as of the date of such statements; (c) any accumulated retirement plan funding deficiency which, if such deficiency continued for two plan years and was not corrected as provided in Section 4971 of the Code, could subject any Credit Party to a tax imposed by Section 4971 of the Code resulting in a Material Adverse Effect; (d) each and every default by Borrower which would result in the acceleration of the maturity of any Indebtedness in excess of \$50,000, including the names and addresses of the holders of such Indebtedness with respect to which there is a default existing or with respect to which the maturity has been or could be accelerated, and the amount of such Indebtedness; and (e) any other development in the business or affairs of any Credit Party, which would have a Material Adverse Effect; in each case describing the nature thereof and the action such Credit Party proposes to take with respect thereto.

9.6. Public Filings.

Furnish Agent concurrently with the filing thereof, copies of all filings and information statements submitted by Borrower to the Securities and Exchange Commission, any equivalent State authority, any stock exchange or to Borrower's securityholders.

9.7. Annual Financial Statements.

Furnish Agent within one hundred twenty (120) days after the end of each fiscal year of Borrower, financial statements of Borrower on a consolidating and consolidated basis including, but not limited to, statements of income and stockholders' equity and cash flow from the beginning of the current fiscal year to the end of such fiscal year and the balance sheet as at the end of such fiscal year, all prepared in accordance with GAAP applied on a basis consistent with prior practices, and in reasonable detail and accompanied by a report and opinion (which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like assumption, qualification or exception as to scope of the audit) an independent certified public accounting firm selected by Borrower and satisfactory to Agent (the "Accountants"). The report of the Accountants shall be accompanied by a statement of the Accountants certifying that (i) they have caused this Agreement to be reviewed, (ii) in making the examination upon which such report was based either no information came to their attention which to their knowledge constituted an Event of Default or a Default under this Agreement or any related agreement or, if such information came to their attention, specifying any such Default or Event of Default, its nature, when it occurred and whether it is continuing, and such report shall contain or have appended thereto calculations which set forth Borrower's compliance with the requirements or restrictions imposed by Sections 6.5, 7.4, 7.5, 7.6, 7.7, 7.8 and 7.11 hereof. In addition, the reports shall be accompanied by a Compliance Certificate.

9.8. Quarterly Financial Statements.

Furnish Agent within fifty (50) days after the end of each fiscal quarter, an unaudited balance sheet of Borrower on a consolidated and consolidating basis and unaudited statements of income and stockholders' equity and cash flow of Borrower on a consolidated and consolidating basis reflecting results of operations from the beginning of the fiscal year to the end of such quarter and for such quarter, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments that individually and in the aggregate are not material to Borrower's business. The reports shall be accompanied by a Compliance Certificate.

9.9. Monthly Financial Statements.

Furnish Agent within thirty (30) days after the end of each month, an unaudited balance sheet of Borrower on a consolidated and consolidating basis and unaudited statements of income and stockholders' equity and cash flow of Borrower on a consolidated and consolidating basis reflecting results of operations from the beginning of the fiscal year to the end of such month and for such month, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments that individually and in the aggregate are not material to Borrower's business. The reports for the last month of each quarter shall be accompanied by a Compliance Certificate regarding the quarter then ended.

9.10. Other Reports.

Furnish Agent as soon as available, but in any event within ten (10) days after the issuance thereof, with copies of such financial statements, reports and returns as Borrower shall send to its stockholders.

9.11. Additional Information.

Furnish Agent with such additional information as Agent shall reasonably request in order to enable Agent to determine whether the terms, covenants, provisions and conditions of this Agreement and the Note have been complied with by Borrower and the other Credit Parties including, without limitation, any without the necessity of any request by Agent, (a) copies of all environmental audits and reviews, (b) at least thirty (30) days prior thereto, notice of any Credit Party's opening of any new office or place of business or any Credit Party's closing of any existing office or place of business, and (c) promptly upon any Credit Party's learning thereof, notice of any labor dispute to which any Credit Party may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which any Credit Party is a party or by which any Credit Party is bound.

9.12. Projected Operating Budget.

Furnish Agent, no later than thirty (30) days prior to the beginning of each fiscal year of Borrowers commencing with fiscal year 2012, a month by month projected operating budget and cash flow of Borrower on a consolidated and consolidating basis for such fiscal year (including an income statement for each month and a balance sheet as at the end of the last month in each fiscal quarter), such projections to be accompanied by a certificate signed by the President or Chief Financial Officer of Borrower, in his personal capacity, to the effect that such projections have been prepared on the basis of sound financial planning practice consistent with past budgets and financial statements and that such officer has no reason to question the reasonableness of any material assumptions on which such projections were prepared.

9.13. Variances From Operating Budget.

Furnish Agent, concurrently with the delivery of the financial statements referred to in Section 9.7 and each monthly report, a written report summarizing all material variances from budgets submitted by Borrower pursuant to Section 9.12 and a discussion and analysis by management with respect to such variances.

9.14. Notice of Suits, Adverse Events.

Furnish Agent with prompt written notice of (i) any lapse or other termination of any Consent issued to any Credit Party by any Governmental Body or any other Person which could have a Material Adverse Effect that is material to the operation of any Credit Party's business, (ii) any refusal by any Governmental Body or any other Person to renew or extend any such Consent; and (iii) copies of any periodic or special reports filed by any Credit Party with any Governmental Body or Person, if such reports indicate any material change in the business, operations, affairs or condition of a Credit Party, or if copies thereof are requested by Lender, and (iv) copies of any material notices and other communications from any Governmental Body or Person which specifically relate to a Credit Party.

9.15. ERISA Notices and Requests.

Furnish Agent with prompt written notice in the event that (i) Borrower or any member of the Controlled Group knows or has reason to know that a Termination Event has occurred, together with a written statement describing such Termination Event and the action, if any, which Borrower or any member of the Controlled Group has taken, is taking, or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor or PBGC with respect thereto, (ii) Borrower or any member of the Controlled Group knows or has reason to know that a prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) has occurred together with a written statement describing such transaction and the action which Borrower or any member of the Controlled Group has taken, is taking or proposes to take with respect thereto, (iii) a funding waiver request has been filed with respect to any Plan together with all communications received by Borrower or any member of the Controlled Group with respect to such request, (iv) any increase in the benefits of any existing Plan or the establishment of any new Plan or the commencement of contributions to any Plan to which Borrower or any member of the Controlled Group was not previously contributing shall occur, (v) Borrower or any member of the Controlled Group shall receive from the PBGC a notice of intention to terminate a Plan or to have a trustee appointed to administer a Plan, together with copies of each such notice, (vi) Borrower or any member of the Controlled Group shall receive any favorable or unfavorable determination letter from the Internal Revenue Service regarding the qualification of a Plan under Section 401(a) of the Code, together with copies of each such letter; (vii) Borrower or any member of the Controlled Group shall receive a notice regarding the imposition of withdrawal liability, together with copies of each such notice; (viii) Borrower or any member of the Controlled Group shall fail to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment; or (ix) Borrower or any member of the Controlled Group knows that (a) a Multiemployer Plan has been terminated, (b) the administrator or plan sponsor of a Multiemployer Plan intends to terminate a Multiemployer Plan, or (c) the PBGC has instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multiemployer Plan.

9.16. Additional Documents.

Execute and deliver to Agent, upon request, such documents and agreements as Agent may, from time to time, reasonably request to carry out the purposes, terms or conditions of this Agreement.

9.17. Government Receivables.

Notify Agent immediately if any of its Receivables arise out of contracts between Borrower and the United States, any state, or any department, agency or instrumentality of any of them.

ARTICLE X

EVENTS OF DEFAULT

The occurrence of any one or more of the following events shall constitute an “Event of Default”:

10.1. Nonpayment.

Failure by Borrower to pay any principal or interest on the Obligations when due, whether at maturity or by reason of acceleration pursuant to the terms of this Agreement or by notice of intention to prepay, or by required prepayment or failure to pay when due any other liabilities or make any other payment, fee or charge provided for herein when due or in any Other Document (violations of or related to the Formula Amount and/or the Borrowing Base Certificate shall be deemed to be a default under this Section 10.1);

10.2. Breach of Representation.

Any representation or warranty made or deemed made by any Credit Party in this Agreement, any Other Document or any related agreement or in any certificate, document or financial or other statement furnished at any time in connection herewith or therewith shall prove to have been misleading in any material respect on the date when made or deemed to have been made;

10.3. Financial Information.

Failure by Borrower or any other Credit Party to (i)(x) furnish financial information when due or (y) when requested, or (ii) permit the inspection of its books or records in accordance with this Agreement;

10.4. Judicial Actions.

Issuance of a notice of Lien, levy, assessment, injunction or attachment against any Credit Party’s Eligible Receivables or against a material portion of any Credit Party’s other property which is not stayed or lifted within sixty (60) days;

10.5. Noncompliance.

Except as otherwise provided for in Section 10.1 or Section 10.3:

(a) failure or neglect of any Credit Party to perform, keep or observe any term, provision, condition, or covenant, contained in Sections 4.10, 6.2(b), 6.5 or 6.6 or in Article 7 or 9 hereof, or

(b) failure or neglect of Borrower to perform, keep or observe any term, provision, condition or covenant contained herein or any Other Document that, if such term, provision, condition or covenant is capable of cure, is not cured within thirty (30) days from the earlier to occur of (A) receipt by Borrower of written notice thereof from Agent or any Lender and (B) the date upon which Borrower obtains knowledge thereof, or within such reasonably longer period as may be required to cure same (so long as cure is commenced within the thirty-day period and thereafter is prosecuted to completion with reasonable diligence);

10.6. Judgments.

Any judgment or judgments are rendered against any Credit Party for an aggregate amount in excess of \$750,000 and (i) enforcement proceedings shall have been commenced by a creditor upon such judgment, (ii) there shall be any period of thirty (30) consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, shall not be in effect, or (iii) any such judgment results in the creation of a Lien upon any of the Collateral (other than a Permitted Encumbrance);

10.7. Bankruptcy.

Any Credit Party shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing;

10.8. Inability to Pay.

Any Credit Party shall admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business;

10.9. Material Adverse Effect.

Any change in any Credit Party's results of operations or condition (financial or otherwise) which in Agent's reasonable opinion exercised in good faith has a Material Adverse Effect after written notice by Agent to Borrower of the default and five (5) Business Days following Borrower's receipt of the written notice of default;

10.10. Lien Priority.

Any Lien created hereunder or under any Other Document or provided for hereby or thereby or under any related agreement for any reason ceases to be or is not a valid and perfected Lien having a first priority interest or Borrower or any other Person acting on its behalf shall so claim;

10.11. Cross Default.

A default of the obligations of any Credit Party under any other agreement (except for agreements relating to trade payables) to which it is a party shall occur which adversely affects its condition, affairs or prospects (financial or otherwise) by more than \$100,000 or \$500,000 in the aggregate) which default is not cured within any applicable grace period;

10.12. Breach of Guaranty.

Termination or breach of any Guaranty or Guaranty Security Agreement or similar agreement executed and delivered to Agent in connection with the Obligations of Borrower, or if any Guarantor attempts to terminate, challenges the validity of, or its liability under, any such Guaranty or Guaranty Security Agreement or similar agreement;

10.13. Change of Control.

Any Change of Control shall occur;

10.14. Invalidity.

Any material provision of this Agreement or any Other Document shall, for any reason, cease to be valid and binding on any Credit Party or any Credit Party shall so claim in writing to Agent;

10.15. Licenses.

(i) Any Governmental Body shall (A) revoke, terminate, suspend or adversely modify any license, permit, patent trademark or tradename of the Credit Parties on a consolidated basis, the continuation of which is material to the continuation of any Credit Party's business, or (B) commence proceedings to suspend, revoke, terminate or adversely modify any such license, permit, trademark, tradename or patent and such proceedings shall not be dismissed or discharged within sixty (60) days, or (C) schedule or conduct a hearing on the renewal of any license, permit, trademark, tradename or patent necessary for the continuation of any Credit Party's business on a consolidated basis and the staff of such Governmental Body issues a report recommending the termination, revocation, suspension or material, adverse modification of such license, permit, trademark, tradename or patent; (ii) any agreement which is necessary or material to the operation of any Credit Party's business shall be revoked or terminated and not replaced by a substitute acceptable to Agent within thirty (30) days after the date of such revocation or termination, and such revocation or termination and non-replacement would have a Material Adverse Effect;

10.16. Seizures.

Any portion of the Collateral having a value in excess of \$50,000 shall be seized or taken by a Governmental Body, or any Credit Party or the title and rights of any Credit Party or any Original Owner which is the owner of any material portion of the Collateral shall have become the subject matter of claim, litigation, suit or other proceeding which might, in the reasonable opinion of Agent, upon final determination, result in impairment or loss of the security provided by this Agreement or the Other Documents;

10.17. Pension Plans.

An event or condition specified in Sections 7.16 or 9.15 hereof shall occur or exist with respect to any Plan and, as a result of such event or condition, together with all other such events or conditions, Borrower or any member of the Controlled Group shall incur, or in the opinion of Agent be reasonably likely to incur, a liability to a Plan or the PBGC (or both) which would have a Material Adverse Effect.

ARTICLE XI

LENDERS' RIGHTS AND REMEDIES AFTER DEFAULT

11.1. Rights and Remedies.

(a) Upon the occurrence of (i) an Event of Default pursuant to Section 10.7 all Obligations shall be immediately due and payable and this Agreement and the obligation of Lenders to make Advances shall be deemed terminated; and, (ii) any of the other Events of Default that is continuing and at any time thereafter (such default not having previously been cured or waived), at the option of Required Lenders all Obligations shall be immediately due and payable and Lenders shall have the right to terminate this Agreement and to terminate the obligation of Lenders to make Advances and (iii) a filing of a petition against Borrower in any involuntary case under any state or federal bankruptcy laws, all Obligations shall be immediately due and payable and the obligation of Lenders to make Advances hereunder shall be terminated other than as may be required by an appropriate order of the bankruptcy court having jurisdiction over Borrower. Upon the occurrence of any Event of Default that has not been cured or waived and is continuing, Agent shall have the right to exercise any and all other rights and remedies provided for herein, under the Other Documents, under the Uniform Commercial Code and at law or equity generally, including, without limitation, the right to foreclose the security interests granted herein and to realize upon any Collateral by any available judicial procedure and/or to take possession of and sell any or all of the Collateral with or without judicial process. Agent may enter any of Borrower's premises or other premises without legal process and without incurring liability to Borrower therefor, and Agent may thereupon, or at any time thereafter, in its discretion without notice or demand, take the Collateral and remove the same to such place as Agent may deem advisable and Agent may require Borrower to make the Collateral available to Agent at a convenient place. With or without having the Collateral at the time or place of sale, Agent may sell the Collateral, or any part thereof, at public or private sale, at any time or place, in one or more sales, at such price or prices, and upon such terms, either for cash, credit or future delivery, as Agent may elect. Except as to that part of the Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Agent shall give Borrower reasonable notification of such sale or sales, it being agreed that in all events written notice mailed to Borrower at least ten (10) days prior to such sale or sales is reasonable notification. At any public sale Agent or any Lender may bid for and become the purchaser, and Agent, any Lender or any other purchaser at any such sale thereafter shall hold the Collateral sold absolutely free from any claim or right of whatsoever kind, including any equity of redemption and all such claims, rights and equities are hereby expressly waived and released by Borrower. In connection with the exercise of the foregoing remedies in the event of an Event of Default that is continuing, including the sale of Inventory, Agent is granted a perpetual nonrevocable, royalty free, nonexclusive license and Agent is granted permission to use all of Borrower's (a) trademarks, trade styles, trade names, patents, patent applications, copyrights, service marks, licenses, franchises and other proprietary rights which are used or useful in connection with Inventory for the purpose of marketing, advertising for sale and selling or otherwise disposing of such Inventory and (b) Equipment for the purpose of completing the manufacture of unfinished goods. The cash proceeds realized from the sale of any Collateral shall be applied to the Obligations in the order set forth in Section 11.5 hereof. Noncash proceeds will only be applied to the Obligations as they are converted into cash. If any deficiency shall arise, Borrower shall remain liable to Agent and Lenders therefor.

(b) To the extent that Applicable Law imposes duties on Agent to exercise remedies in a commercially reasonable manner, Borrower acknowledges and agrees that it is not commercially unreasonable for Agent (i) to fail to incur expenses reasonably deemed significant by Agent to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against Customers or other Persons obligated on Collateral or to remove Liens on or any adverse claims against Collateral, (iv) to exercise collection remedies against Customers and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) to contact other Persons, whether or not in the same business as Borrower, for expressions of interest in acquiring all or any portion of such Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (xi) to purchase insurance or credit enhancements to insure Agent against risks of loss, collection or disposition of Collateral or to provide to Agent a guaranteed return from the collection or disposition of Collateral, or (xii) to the extent deemed appropriate by Agent, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist Agent in the collection or disposition of any of the Collateral. Borrower acknowledges that the purpose of this Section 11.1(b) is to provide non-exhaustive indications of what actions or omissions by Agent would not be commercially unreasonable in Agent's exercise of remedies against the Collateral and that other actions or omissions by Agent shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 11.1(b). Without limitation upon the foregoing, nothing contained in this Section 11.1(b) shall be construed to grant any rights to Borrower or to impose any duties on Agent that would not have been granted or imposed by this Agreement or by Applicable Law in the absence of this Section 11.1(b).

11.2. Agent's Discretion.

Agent shall have the right in its reasonable discretion to determine which rights, Liens, security interests or remedies Agent may at any time pursue, relinquish, subordinate, or modify or to take any other action with respect thereto and such determination will not in any way modify or affect any of Agent's or Lenders' rights hereunder.

11.3. Setoff.

Subject to Section 14.12, in addition to any other rights which Agent or any Lender may have under Applicable Law, upon the occurrence of an Event of Default hereunder that has not been waived or cured and is continuing, Agent and such Lender shall have a right, immediately and without notice of any kind, to apply Borrower's property held by Agent and such Lender to reduce the Obligations.

11.4. Rights and Remedies not Exclusive

The enumeration of the foregoing rights and remedies is not intended to be exhaustive and the exercise of any rights or remedy shall not preclude the exercise of any other right or remedies provided for herein or otherwise provided by law, all of which shall be cumulative and not alternative.

11.5. Allocation of Payments After Event of Default.

Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by Agent on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Agent's discretion, be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of Agent in connection with enforcing its rights and the rights of the Lenders under this Agreement and the Other Documents and any protective advances made by Agent with respect to the Collateral under or pursuant to the terms of this Agreement;

SECOND, to payment of any fees owed to Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of each of the Lenders to the extent owing to such Lender pursuant to the terms of this Agreement;

FOURTH, to the payment of all of the Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Obligations (including the payment or cash collateralization of any outstanding Letters of Credit), to breakage, termination or other payments, and any interest accrued thereon, due under any Lender-Provided Interest Rate Hedge, to the extent such Lender-Provided Interest Rate Hedge is permitted by Section 7.8, and to amounts due under any Cash Management Products;

SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Other Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive (so long as it is not a Defaulting Lender) an amount equal to its pro rata share (based on the proportion that the then outstanding Advances held by such Lender bears to the aggregate then outstanding Advances) of amounts available to be applied pursuant to clauses "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by Agent in a cash collateral account and applied (A) first, to reimburse the Issuer from time to time for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other obligations of the types described in clauses "FIFTH" and "SIXTH" above in the manner provided in this Section 11.5.

ARTICLE XII

WAIVERS AND JUDICIAL PROCEEDINGS

12.1. Waiver of Notice.

Borrower hereby waives notice of non-payment of any of the Receivables, demand, presentment, protest and notice thereof with respect to any and all instruments, notice of acceptance hereof, notice of loans or advances made, credit extended, Collateral received or delivered, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein.

12.2. Delay.

No delay or omission on Agent's or any Lender's part in exercising any right, remedy or option shall operate as a waiver of such or any other right, remedy or option or of any Default or Event of Default. No Out-of-Formula Loan or protective advance made during the existence of a Default or an Event of Default shall operate as a waiver of any such Default or Event of Default.

12.3. Jury Waiver.

EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HEREBY CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENTS OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

ARTICLE XIII

EFFECTIVE DATE AND TERMINATION.

13.1. Term.

This Agreement, which shall inure to the benefit of and shall be binding upon the respective successors and permitted assigns of Borrower, Agent and each Lender, shall become effective on the date hereof and shall continue in full force and effect until October 31 , 2016 (the "Term") unless sooner terminated as herein provided. Borrower may terminate this Agreement at any time upon ninety (90) days' prior written notice upon payment in full of the Obligations. In the event the Obligations are prepaid in full prior to the last day of the Term (the date of such prepayment hereinafter referred to as the "Early Termination Date"), Borrower shall pay to Agent for the benefit of Lenders an early termination fee in an amount equal to (x) one percent (1.0%) of the Maximum Loan Amount if the Early Termination Date occurs on or after the Closing Date to and including the date immediately preceding the first anniversary of the Closing Date, and (y) one-half of one percent (0.50%) of the Maximum Loan Amount if the Early Termination Date occurs on or after the first anniversary of the Closing Date to and including the date immediately preceding the second anniversary of the Closing Date.

13.2. Termination.

The termination of the Agreement shall not affect Borrower's, Agent's or any Lender's rights, or any of the Obligations having their inception prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights or interests created or Obligations (other than contingent indemnity claims not yet asserted or threatened) have been fully and indefeasibly paid, disposed of, concluded or liquidated. The security interests, Liens and rights granted to Agent and Lenders hereunder and the financing statements filed hereunder shall continue in full force and effect, notwithstanding the termination of this Agreement or the fact that Borrower's Account may from time to time be temporarily in a zero or credit position, until all of the Obligations (other than contingent indemnity claims not yet asserted or threatened) have been indefeasibly paid and performed in full after the termination of this Agreement or Borrower has furnished Agent and Lenders with an indemnification satisfactory to Agent and Lenders with respect thereto. Accordingly, Borrower waives any rights which it may have under the Uniform Commercial Code to demand the filing of termination statements with respect to the Collateral, and Agent shall not be required to send such termination statements to Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations (other than contingent indemnity claims not yet asserted or threatened) have been indefeasibly paid in full in immediately available funds. All representations, warranties, covenants, waivers and agreements contained herein shall survive termination hereof until all Obligations (other than contingent indemnity claims not yet asserted or threatened) are indefeasibly paid and performed in full.

ARTICLE XIV

REGARDING AGENT

14.1. Appointment.

Each Lender hereby designates PNC to act as Agent for such Lender under this Agreement and the Other Documents. Each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and the Other Documents and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto and Agent shall hold all Collateral, payments of principal and interest, fees (except the fees set forth in Sections 3.3(a) and 3.4), charges and collections (without giving effect to any collection days) received pursuant to this Agreement, for the ratable benefit of Lenders. Agent may perform any of its duties hereunder by or through its agents or employees. As to any matters not expressly provided for by this Agreement (including, without limitation, collection of the Note) Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding; provided, however, that Agent shall not be required to take any action which exposes Agent to liability or which is contrary to this Agreement or the Other Documents or Applicable Law unless Agent is furnished with an indemnification reasonably satisfactory to Agent with respect thereto.

14.2. Nature of Duties.

Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and the Other Documents. Neither Agent nor any of its officers, directors, employees or agents shall be (i) liable for any action taken or omitted by them as such hereunder or in connection herewith, unless caused by their gross (not mere) negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment), or (ii) responsible in any manner for any recitals, statements, representations or warranties made by Borrower or any officer thereof contained in this Agreement, or in any of the Other Documents or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any of the Other Documents or for the value, validity, effectiveness, genuineness, due execution, enforceability or sufficiency of this Agreement, or any of the Other Documents or for any failure of Borrower to perform its obligations hereunder. Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any of the Other Documents, or to inspect the properties, books or records of Borrower. The duties of Agent as respects the Advances to Borrower shall be mechanical and administrative in nature; Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon Agent any obligations in respect of this Agreement except as expressly set forth herein.

14.3. Lack of Reliance on Agent and Resignation.

Independently and without reliance upon Agent or any other Lender, each Lender has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of Borrower and each Guarantor in connection with the making and the continuance of the Advances hereunder and the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the creditworthiness of Borrower and each Guarantor. Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before making of the Advances or at any time or times thereafter except as shall be provided by Borrower pursuant to the terms hereof. Agent shall not be responsible to any Lender for any recitals, statements, information, representations or warranties herein or in any agreement, document, certificate or a statement delivered in connection with or for the execution, effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any Other Document, or of the financial condition of Borrower or any Guarantor, or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, the Notes, the Other Documents or the financial condition of Borrower, or the existence of any Event of Default or any Default.

Agent may resign on sixty (60) days' written notice to each of Lenders and Borrower and upon such resignation, the Required Lenders will promptly designate a successor Agent reasonably satisfactory to Borrower.

Any such successor Agent shall succeed to the rights, powers and duties of Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent. After any Agent's resignation as Agent, the provisions of this Article XIV shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

14.4. Certain Rights of Agent

If Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any Other Document, Agent shall be entitled to refrain from such act or taking such action unless and until Agent shall have received instructions from the Required Lenders; and Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, Lenders shall not have any right of action whatsoever against Agent as a result of its acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

14.5. Reliance

Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, facsimile, electronic message, email, order or other document or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper person or entity, and, with respect to all legal matters pertaining to this Agreement and the Other Documents and its duties hereunder, upon advice of counsel selected by it. Agent may employ agents and attorneys-in-fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by Agent with reasonable care.

14.6. Notice of Default

Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder or under the Other Documents, unless Agent has received notice from a Lender or Borrower referring to this Agreement or the Other Documents, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that Agent receives such a notice, Agent shall give notice thereof to Lenders. Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of Lenders.

14.7. Indemnification.

To the extent Agent is not reimbursed and indemnified by Borrower, each Lender will reimburse and indemnify Agent in proportion to its respective portion of the Advances (or, if no Advances are outstanding, according to its Commitment Percentage), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against Agent in performing its duties hereunder, or in any way relating to or arising out of this Agreement or any Other Document; provided that, Lenders shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (including, without limitation, attorneys' fees) resulting from Agent's gross (not mere) negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment).

14.8. Agent in its Individual Capacity.

With respect to the obligation of Agent to lend under this Agreement, the Advances made by it shall have the same rights and powers hereunder as any other Lender and as if it were not performing the duties as Agent specified herein; and the term "Lender" or any similar term shall, unless the context clearly otherwise indicates, include Agent in its individual capacity as a Lender. Agent may engage in business with Borrower as if it were not performing the duties specified herein, and may accept fees and other consideration from Borrower for services in connection with this Agreement or otherwise without having to account for the same to Lenders.

14.9. Delivery of Documents.

To the extent Agent receives financial statements required under Sections 9.7, 9.8, 9.9, 9.12 and 9.13 or Borrowing Base Certificates from Borrower pursuant to the terms of this Agreement which Borrower is not obligated to deliver to each Lender, Agent will promptly furnish such documents and information to Lenders.

14.10. Borrower's Undertaking to Agent.

Without prejudice to its obligations to Lenders under the other provisions of this Agreement, Borrower hereby undertakes with Agent to pay to Agent from time to time on demand all amounts from time to time due and payable by it for the account of Agent or Lenders or any of them pursuant to this Agreement to the extent not already paid. Any payment made pursuant to any such demand shall pro tanto satisfy the relevant Borrower's obligations to make payments for the account of Lenders or the relevant one or more of them pursuant to this Agreement.

14.11. No Reliance on Agent's Customer Identification Program.

Each Lender acknowledges and agrees that neither such Lender, nor any of its Affiliates, participants or assignees, may rely on Agent to carry out such Lender's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA PATRIOT Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with Borrower, its Affiliates or its agents, this Agreement, the Other Documents or the transactions hereunder or contemplated hereby: (1) any identity verification procedures, (2) any record-keeping, (3) comparisons with government lists, (4) customer notices or (5) other procedures required under the CIP Regulations or such other laws.

14.12. Other Agreements.

Each of the Lenders agrees that it shall not, without the express consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the request of Agent, set off against the Obligations, any amounts owing by such Lender to Borrower or any deposit accounts of Borrower now or hereafter maintained with such Lender. Anything in this Agreement to the contrary notwithstanding, each of the Lenders further agrees that it shall not, unless specifically requested to do so by Agent, take any action to protect or enforce its rights arising out of this Agreement or the Other Documents, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the Other Documents shall be taken in concert and at the direction or with the consent of Agent or Required Lenders.

ARTICLE XV

MISCELLANEOUS

15.1. Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York. Any judicial proceeding brought by or against Borrower with respect to any of the Obligations, this Agreement, the Other Documents or any related agreement may be brought in any court of competent jurisdiction in the State of New York, United States of America, and, by execution and delivery of this Agreement, Borrower accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to Borrower at its address set forth in Section 15.6 and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Agent or any Lender to bring proceedings against Borrower in the courts of any other jurisdiction. Borrower waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. Borrower waives the right to remove any judicial proceeding brought against Borrower in any state court to any federal court. Any judicial proceeding by Borrower against Agent or any Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Agreement or any related agreement, shall be brought only in a federal or state court located in the County of New York, State of New York.

15.2. Entire Understanding.

(a) This Agreement and the documents executed concurrently herewith contain the entire understanding between Borrower, Agent and each Lender and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties or guarantees not herein contained and hereinafter made shall have no force and effect unless in writing, signed by Borrower's, Agent's and each Lender's respective officers. Neither this Agreement nor any portion or provisions hereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Borrower acknowledges that it has been advised by counsel in connection with the execution of this Agreement and Other Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Agreement.

(b) The Required Lenders, Agent with the consent in writing of the Required Lenders, and Borrower may, subject to the provisions of this Section 15.2 (b), from time to time enter into written supplemental agreements to this Agreement or the Other Documents executed by Borrower, for the purpose of adding or deleting any provisions or otherwise changing, varying or waiving in any manner the rights of Lenders, Agent or Borrower thereunder or the conditions, provisions or terms thereof or waiving any Event of Default thereunder, but only to the extent specified in such written agreements; provided, however, that no such supplemental agreement shall, without the consent of all Lenders:

(i) increase the Commitment Percentage or the maximum dollar commitment of any Lender or the Maximum Revolving Advance Amount.

(ii) extend the maturity of any Note or the due date for any amount payable hereunder (excluding any mandatory prepayment), or decrease the rate of interest or reduce any fee payable by Borrower to Lenders pursuant to this Agreement.

(iii) alter the definition of the term Required Lenders or alter, amend or modify this Section 15.2(b).

(iv) release any Collateral during any calendar year (other than in accordance with the provisions of this Agreement) having an aggregate value in excess of \$1,000,000.

(v) change the rights and duties of Agent.

(vi) permit any Revolving Advance to be made if after giving effect thereto the total of Revolving Advances outstanding hereunder would exceed the Formula Amount for more than sixty (60) consecutive Business Days or exceed one hundred and ten percent (110%) of the Formula Amount.

(vii) increase the Advance Rates above the Advance Rates in effect on the Closing Date.

(viii) release any Guarantor.

Any such supplemental agreement shall apply equally to each Lender and shall be binding upon Borrower, Lenders and Agent and all future holders of the Obligations. In the case of any waiver, Borrower, Agent and Lenders shall be restored to their former positions and rights, and any Event of Default waived shall be deemed to be cured and not continuing, but no waiver of a specific Event of Default shall extend to any subsequent Event of Default (whether or not the subsequent Event of Default is the same as the Event of Default which was waived), or impair any right consequent thereon.

In the event that Agent requests the consent of a Lender pursuant to this Section 15.2 and such consent is denied, then PNC may, at its option, require such Lender to assign its interest in the Advances to PNC or to another Lender or to any other Person designated by Agent (the "Designated Lender"), for a price equal to the then outstanding principal amount thereof plus accrued and unpaid interest and fees due such Lender, which interest and fees shall be paid when collected from Borrower. In the event PNC elects to require any Lender to assign its interest to PNC or to the Designated Lender, PNC will so notify such Lender in writing within forty-five (45) days following such Lender's denial, and such Lender will assign its interest to PNC or the Designated Lender no later than five (5) days following receipt of such notice pursuant to a Commitment Transfer Supplement executed by such Lender, PNC or the Designated Lender, as appropriate, and Agent.

Notwithstanding (a) the existence of a Default or an Event of Default that is continuing, (b) that any of the other applicable conditions precedent set forth in Section 8.2 hereof have not been satisfied or (c) any other provision of this Agreement, Agent may at its discretion and without the consent of the Required Lenders, voluntarily permit the outstanding Revolving Advances at any time to exceed the Formula Amount by up to ten percent (10%) of the Formula Amount for up to sixty (60) consecutive Business Days (the "Out-of-Formula Loans"); provided, that, such outstanding Advances do not exceed the Maximum Revolving Advance Amount. If Agent is willing in its sole and absolute discretion to make such Out-of-Formula Loans, such Out-of-Formula Loans shall be payable on demand and shall bear interest at the Default Rate for Revolving Advances consisting of Domestic Rate Loans; provided that, if Lenders do make Out-of-Formula Loans, neither Agent nor Lenders shall be deemed thereby to have changed the limits of Section 2.1(a). For purposes of this paragraph, the discretion granted to Agent hereunder shall not preclude involuntary overadvances that may result from time to time due to the fact that the Formula Amount was unintentionally exceeded for any reason, including, but not limited to, Collateral previously deemed to be either "Eligible Receivables" or "Eligible Inventory", as applicable, becomes ineligible, collections of Receivables applied to reduce outstanding Revolving Advances are thereafter returned for insufficient funds or overadvances are made to protect or preserve the Collateral. In the event Agent involuntarily permits the outstanding Revolving Advances to exceed the Formula Amount by more than ten percent (10%), Agent shall use its efforts to have Borrower decrease such excess in as expeditious a manner as is practicable under the circumstances and not inconsistent with the reason for such excess. Revolving Advances made after Agent has determined the existence of involuntary overadvances shall be deemed to be involuntary overadvances and shall be decreased in accordance with the preceding sentence.

In addition to (and not in substitution of) the discretionary Revolving Advances permitted above in this Section 15.2, Agent is hereby authorized by Borrower and the Lenders, from time to time in Agent's sole discretion, (A) after the occurrence and during the continuation of a Default or an Event of Default, or (B) at any time that any of the other applicable conditions precedent set forth in Section 8.2 hereof have not been satisfied, to make Revolving Advances to Borrower on behalf of the Lenders which Agent, in its reasonable business judgment, deems necessary or desirable (a) to preserve or protect the Collateral, or any portion thereof, (b) to enhance the likelihood of, or maximize the amount of, repayment of the Advances and other Obligations, or (c) to pay any other amount chargeable to Borrower pursuant to the terms of this Agreement; provided, that at any time after giving effect to any such Revolving Advances the outstanding Revolving Advances do not exceed one hundred and ten percent (110%) of the Formula Amount.

15.3. Successors and Assigns; Participations; New Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of Borrower, Agent, each Lender, all future holders of the Obligations and their respective successors and permitted assigns, except that Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of Agent and each Lender.

(b) Borrower acknowledges that in the regular course of commercial banking business one or more Lenders may at any time and from time to time sell participating interests in the Advances to other financial institutions (each such transferee or purchaser of a participating interest, a "Participant"); provided, that any such sale of participating interests must be for a constant and non-varying interest in all Advances. Each Participant may exercise all rights of payment (including, without limitation, rights of set-off) with respect to the portion of such Advances held by it or other Obligations payable hereunder as fully as if such Participant were the direct holder thereof provided that Borrower shall not be required to pay to any Participant more than the amount which it would have been required to pay to Lender which granted an interest in its Advances or other Obligations payable hereunder to such Participant had such Lender retained such interest in the Advances hereunder or other Obligations payable hereunder and in no event shall Borrower be required to pay any such amount arising from the same circumstances and with respect to the same Advances or other Obligations payable hereunder to both such Lender and such Participant. Borrower hereby grants to any Participant a continuing security interest in any deposits, moneys or other property actually or constructively held by such Participant as security for the Participant's interest in the Advances. No Lenders shall transfer, grant, assign or sell any participation under which the participant shall have rights to approve any amendment or waiver of this Agreement except to the extent such amendment or waiver would (A) extend the final maturity date or the date for the payments of any installment of fees or principal or interest of any Advances or Letter of Credit reimbursement obligations in which such participant is participating, (B) reduce the amount of any installment of principal of the Advances or Letter of Credit reimbursement obligations in which such participant is participating, (C) except as otherwise expressly provided in this Agreement, reduce the interest rate applicable to the Advances or Letter of Credit reimbursement obligations in which such participant is participating, or (D) except as otherwise expressly provided in this Agreement, reduce any fees payable hereunder.

(c) Any Lender, with the consent of Agent which shall not be unreasonably withheld or delayed, may sell, assign or transfer all or any part of its rights and obligations under or relating to Revolving Advances, Equipment Loans and/or Term Loans under this Agreement and the Other Documents to one or more additional banks or financial institutions and one or more additional banks or financial institutions may commit to make Advances hereunder (each a "Purchasing Lender"), in minimum amounts of not less than \$5,000,000, pursuant to a Commitment Transfer Supplement, executed by a Purchasing Lender, the transferor Lender, and Agent and delivered to Agent for recording; provided, that any such assignment of a portion must be for a constant and non-varying portion of such Lender's rights under this Agreement, the Other Documents, the Advances and Commitment Percentage. Upon such execution, delivery, acceptance and recording, from and after the transfer effective date determined pursuant to such Commitment Transfer Supplement, (i) Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder with a Commitment Percentage as set forth therein, and (ii) the transferor Lender thereunder shall, to the extent provided in such Commitment Transfer Supplement, be released from its obligations under this Agreement, the Commitment Transfer Supplement creating a novation for that purpose. Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Borrower hereby consents to the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Borrower shall execute and deliver such further documents and do such further acts and things in order to effectuate the foregoing.

(d) Any Lender, with the consent of Agent which shall not be unreasonably withheld or delayed, may directly or indirectly sell, assign or transfer all or any portion of its rights and obligations under or relating to Revolving Advances, Equipment Loans and/or Term Loans under this Agreement and the Other Documents to an entity, whether a corporation, partnership, trust, limited liability company or other entity that (i) is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and (ii) is administered, serviced or managed by the assigning Lender or an Affiliate of such Lender (a "Purchasing CLO") and together with each Participant and Purchasing Lender, each a "Transferee" and collectively the "Transferees"), pursuant to a Commitment Transfer Supplement modified as appropriate to reflect the interest being assigned ("Modified Commitment Transfer Supplement"), executed by any intermediate purchaser, the Purchasing CLO, the transferor Lender, and Agent as appropriate and delivered to Agent for recording. Upon such execution and delivery, from and after the transfer effective date determined pursuant to such Modified Commitment Transfer Supplement, (i) Purchasing CLO thereunder shall be a party hereto and, to the extent provided in such Modified Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder and (ii) the transferor Lender thereunder shall, to the extent provided in such Modified Commitment Transfer Supplement, be released from its obligations under this Agreement, the Modified Commitment Transfer Supplement creating a novation for that purpose. Such Modified Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing CLO. Borrower hereby consents to the addition of such Purchasing CLO. Borrower shall execute and deliver such further documents and do such further acts and things in order to effectuate the foregoing.

(e) Agent shall maintain at its address a copy of each Commitment Transfer Supplement and Modified Commitment Transfer Supplement delivered to it and a register (the "Register") for the recordation of the names and addresses of each Lender and the outstanding principal, accrued and unpaid interest and other fees due hereunder. The entries in the Register shall be conclusive, in the absence of manifest error, and Borrower, Agent and Lenders may treat each Person whose name is recorded in the Register as the owner of the Advance recorded therein for the purposes of this Agreement. The Register shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice. Agent shall receive a fee in the amount of \$3,500 payable by the applicable Purchasing Lender and/or Purchasing CLO upon the effective date of each transfer or assignment (other than to an intermediate purchaser) to such Purchasing Lender and/or Purchasing CLO.

(f) Borrower authorizes each Lender to disclose to any Transferee and any prospective Transferee any and all financial information in such Lender's possession concerning Borrower which has been delivered to such Lender by or on behalf of Borrower pursuant to this Agreement or in connection with such Lender's credit evaluation of Borrower.

15.4. Application of Payments.

Agent shall have the continuing and exclusive right to apply or reverse and re-apply any payment and, to the extent permitted under this Agreement, any and all proceeds of Collateral to any portion of the Obligations. To the extent that Borrower makes a payment or Agent or any Lender receives any payment or proceeds of the Collateral for Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Agent or such Lender.

15.5. Indemnity.

Borrower shall indemnify Agent, each Lender and each of their respective officers, directors, Affiliates, in-house attorneys, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Agent or any Lender in any claim, litigation, proceeding or investigation instituted or conducted by any Governmental Body or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the Other Documents, whether or not Agent or any Lender is a party thereto, except to the extent that any of the foregoing arises out of the willful misconduct of the party being indemnified (as determined by a court of competent jurisdiction in a final and non-appealable judgment). Without limiting the generality of the foregoing, this indemnity shall extend to any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including fees and disbursements of counsel) asserted against or incurred by any of the indemnitees described above in this Section 15.5 by any Person under any Environmental Laws or similar laws by reason of Borrower's or any other Person's failure to comply with laws applicable to solid or hazardous waste materials, including Hazardous Substances and Hazardous Waste, or other Toxic Substances. Additionally, if any taxes (excluding taxes imposed upon or measured solely by the net income of Agent and Lenders, but including any intangibles taxes, stamp tax, recording tax or franchise tax) shall be payable by Agent, Lenders or Borrower on account of the execution or delivery of this Agreement, or the execution, delivery, issuance or recording of any of the Other Documents, or the creation or repayment of any of the Obligations hereunder, by reason of any Applicable Law now or hereafter in effect, Borrower will pay (or will promptly reimburse Agent and Lenders for payment of) all such taxes, including interest and penalties thereon, and will indemnify and hold the indemnitees described above in this Section 15.5 harmless from and against all liability in connection therewith.

15.6 Notice.

Any notice or request hereunder may be given to Borrower or to Agent or any Lender at their respective addresses set forth below or at such other address as may hereafter be specified in a notice designated as a notice of change of address under this Section. Any notice, request, demand, direction or other communication (for purposes of this Section 15.6 only, a "Notice") to be given to or made upon any party hereto under any provision of this Loan Agreement shall be given or made by telephone or in writing (which includes by means of electronic transmission (i.e., "e-mail") or facsimile transmission or by setting forth such Notice on a site on the World Wide Web (a "Website Posting") if Notice of such Website Posting (including the information necessary to access such site) has previously been delivered to the applicable parties hereto by another means set forth in this Section 15.6) in accordance with this Section 15.6. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Section 15.6 hereof or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 15.6. Any Notice shall be effective:

- (a) In the case of hand-delivery, when delivered;
- (b) If given by mail, four (4) days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested;
- (c) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission, a Website Posting or an overnight courier delivery of a confirmatory Notice (received at or before noon on such next Business Day);
- (d) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number, if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;
- (e) In the case of electronic transmission, when actually received;
- (f) In the case of a Website Posting, upon delivery of a Notice of such posting (including the information necessary to access such site) by another means set forth in this Section 15.6; and
- (g) If given by any other means (including by overnight courier), when actually received:

Any Lender giving a Notice to Borrower shall concurrently send a copy thereof to Agent, and Agent shall promptly notify the other Lenders of its receipt of such Notice.

(A) If to Agent
or
PNC at: PNC Bank, National Association
One Piedmont Town Center
4720 Piedmont Row Drive
Suite 300
Charlotte, North Carolina 28210
Attention: Alex Council
Telephone: (704) 531-8503
Facsimile: (704) 643-7918

with an
additional
copy to: Moore & Van Allen PLLC
100 N. Tryon Street, Floor 47
Charlotte, North Carolina 28202-4003
Attention: Lea Stromire Johnson
Telephone: (704) 331-1068
Facsimile: (704) 378-2068

(B) If to a Lender other than Agent, as specified on the signature pages hereof

(C) If to Borrower: Perma-Fix Environmental Services, Inc.
8302 Dunwoody Place #205
Atlanta, Georgia 30350
Attention: Ben Naccarato
Telephone: (770) 587-9898
Telecopier: (770) 587-9937

with a copy to:

Conner & Winters, LLP
1700 One Leadership Square
211 North Robinson
Oklahoma City, Oklahoma 73102-7102
Attention: Irwin Steinhorn
Telephone: (405) 272-5750
Facsimile: (405) 232-2695

15.7. Survival.

The obligations of Borrower under Sections 2.2(f), 3.7, 3.8, 3.9, 4.19(h), and 15.5 and the obligations of Lenders under Section 14.7, shall survive termination of this Agreement and the Other Documents and payment in full of the Obligations.

15.8. Severability.

If any part of this Agreement is contrary to, prohibited by, or deemed invalid under Applicable Laws, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder hereof shall not be invalidated thereby and shall be given effect so far as possible.

15.9. Expenses.

All costs and expenses including, without limitation, reasonable attorneys' fees (including the allocated costs of in house counsel) and disbursements incurred by Agent on its behalf or on behalf of Lenders (a) in all efforts made to enforce payment of any Obligation or effect collection of any Collateral, or (b) in connection with the entering into, modification, amendment, administration and enforcement of this Agreement, the Other Documents or any consents or waivers hereunder and all related agreements, documents and instruments, or (c) in instituting, maintaining, preserving, enforcing and foreclosing on Agent's security interest in or Lien on any of the Collateral, or maintaining, preserving or enforcing any of Agent's or any Lender's rights hereunder, the Other Documents and under all related agreements, whether through judicial proceedings or otherwise, or (d) in defending or prosecuting any actions or proceedings arising out of or relating to Agent's or any Lender's transactions with Borrower, any Guarantor or (e) in connection with any advice given to Agent with respect to its rights and obligations under this Agreement, the Other Documents and all related agreements, may be charged to Borrower's Account and shall be part of the Obligations.

15.10. Injunctive Relief.

Borrower recognizes that, in the event Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, or threatens to fail to perform, observe or discharge such obligations or liabilities, any remedy at law may prove to be inadequate relief to Lenders; therefore, Agent, if Agent so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving that actual damages are not an adequate remedy.

15.11. Consequential Damages.

Neither Agent nor any Lender, nor any agent or attorney for any of them, shall be liable to Borrower or any Guarantor (or any Affiliate of any such Person) for indirect, punitive, exemplary or consequential damages arising from any breach of contract, tort or other wrong relating to the establishment, administration or collection of the Obligations or as a result of any transaction contemplated under this Agreement or any Other Document.

15.12. Captions.

The captions at various places in this Agreement are intended for convenience only and do not constitute and shall not be interpreted as part of this Agreement.

15.13. Counterparts; Facsimile Signatures.

This Agreement may be executed in any number of and by different parties hereto on separate counterparts, all of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile or other form of electronic transmission shall be deemed to be an original signature hereto.

15.14. Construction.

The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments, schedules or exhibits thereto.

15.15 Confidentiality; Sharing Information.

(a) Agent, each Lender and each Transferee shall hold all non-public information obtained by Agent, such Lender or such Transferee pursuant to the requirements of this Agreement in accordance with Agent's, such Lender's and such Transferee's customary procedures for handling confidential information of this nature; provided, however, Agent, each Lender and each Transferee may disclose such confidential information (a) to its examiners, Affiliates, outside auditors, counsel and other professional advisors, (b) to Agent, any Lender or to any prospective Transferees, and (c) as required or requested by any Governmental Body or representative thereof or pursuant to legal process; provided, further that (i) unless specifically prohibited by Applicable Law, Agent, each Lender and each Transferee shall use its reasonable best efforts prior to disclosure thereof, to notify Borrower of the applicable request for disclosure of such non-public information (A) by a Governmental Body or representative thereof (other than any such request in connection with an examination of the financial condition of a Lender or a Transferee by such Governmental Body) or (B) pursuant to legal process and (ii) in no event shall Agent, any Lender or any Transferee be obligated to return any materials furnished by Borrower other than those documents and instruments in possession of Agent or any Lender in order to perfect its Lien on the Collateral once the Obligations have been paid in full and this Agreement has been terminated.

(b) Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to Borrower or one or more of its Affiliates (in connection with this Agreement or otherwise) by any Lender or by one or more Subsidiaries or Affiliates of such Lender and Borrower hereby authorizes each Lender to share any information delivered to such Lender by Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such Subsidiary or Affiliate of such Lender, it being understood that any such Subsidiary or Affiliate of any Lender receiving such information shall be bound by the provisions of this Section 15.15 as if it were a Lender hereunder. Such authorization shall survive the repayment of the other Obligations and the termination of this Agreement.

15.16. Publicity.

Each Credit Party, Agent and each Lender hereby authorizes Agent and Borrower to make appropriate announcements of the financial arrangement entered into among Borrower, Agent and Lenders, including, without limitation, announcements which are commonly known as tombstones, in such publications and to such selected parties as Agent shall in its sole and absolute discretion deem appropriate.

15.17. Certifications From Banks and Participants; USA PATRIOT Act.

Each Lender or assignee or participant of a Lender that is not incorporated under the Laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA PATRIOT Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to Agent the certification, or, if applicable, recertification, certifying that such Lender is not a "shell" and certifying to other matters as required by Section 313 of the USA PATRIOT Act and the applicable regulations: (1) within ten (10) days after the Closing Date, and (2) as such other times as are required under the USA PATRIOT Act.

Each of the parties has signed this Agreement as of the day and year first above written.

PERMA-FIX ENVIRONMENTAL
SERVICES, INC.

By: /s/Ben Naccarato
Name: Ben Naccarato
Title: CFO

PNC BANK, NATIONAL ASSOCIATION,
as Lender and as Agent

By: /s/Alex Council
Name: Alex Council
Title: Vice President

Commitment Percentage: 100%

EXHIBIT 21.1

LIST OF SUBSIDIARIES OF PERMA-FIX ENVIRONMENTAL SERVICES, INC.
(THE "COMPANY")

Treatment

Perma-Fix of Florida, Inc. ("PFF"), a Florida Corporation, is a 100% owned subsidiary of the Company.

Diversified Scientific Services, Inc., ("DSSI") a Tennessee Corporation, is a 100% owned subsidiary of the Company.

East Tennessee Materials and Energy Corporation, ("M&EC") a Tennessee Corporation, is a subsidiary of the Company. The Company owns all of the issued voting Common Stock. M&EC has issued non-voting preferred stock owned by third parties.

Perma-Fix of Northwest Richland, Inc. ("PFNWR"), a Washington Corporation, is a 100% owned subsidiary of the Company.

Perma-Fix Northwest, Inc. ("PFNW"), a Washington Corporation, is a 100% owned subsidiary of the Company.

Services

Safety and Ecology Corporation ("SEC"), a Nevada corporation, is a 100% owned subsidiary of the Company.

Safety and Ecology Radcon Alliance, LLC ("SECRA"), a Nevada corporation, is a 75% owned subsidiary of the Company.

Perma-Fix Environmental Services UK Limited, a United Kingdom corporation, is a 100% owned subsidiary of the Company.

Safety and Ecology Holdings Corporation ("SEHC"), a Nevada corporation, is a 100% owned subsidiary of the Company.

Safety and Ecology Federal Services Corporation, a Nevada corporation, is a 100% owned subsidiary of the Company.

Perma-Fix of Canada, a Canadian corporation, is a 100% owned subsidiary of the Company.

Perma-Fix Medical S.A, a Polish Corporation, is a majority owned subsidiary of the Company.

Perma-Fix Medical Corporation, a Delaware corporation, is a 100% owned subsidiary of Perma-Fix Medical, S.A.

Discontinued Operations

Perma-Fix of South Georgia, Inc. ("PFSG"), a Georgia Corporation, is a 100% owned subsidiary of the Company.

Perma-Fix of Michigan, Inc. ("PFMI"), a Michigan Corporation, is a 100% owned subsidiary of the Company.

Perma-Fix of Memphis, Inc. ("PFM"), a Tennessee Corporation, is a 100% owned subsidiary of the Company.

Perma-Fix of Dayton, Inc. ("PFD"), an Ohio Corporation, is a 100% owned subsidiary of the Company.

Perma-Fix Treatment Services, Inc. ("PFTS"), an Oklahoma Corporation, is a 100% owned subsidiary of the Company.

Perma-Fix of Orlando, Inc. ("PFO"), a Florida Corporation, is a 100% owned subsidiary of the Company.

Perma-Fix of Maryland, Inc. ("PFMD"), a Maryland Corporation, is a 100% owned subsidiary of the Company.

Perma-Fix of Pittsburgh, Inc. ("PFP"), a Maryland Corporation, is a 100% owned subsidiary of the Company.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 24, 2017, with respect to the consolidated financial statements included in the Annual Report of Perma-Fix Environmental Services, Inc. on Form 10-K for the year ended December 31, 2016. We consent to the incorporation by reference of said report in the Registration Statements of Perma-Fix Environmental Services, Inc. on Forms S-3 (File No. 333-115061, File No. 33-85118, File No. 333-14513, File No. 333-43149, File No. 333-70676, and File No. 333-87437) and Forms S-8 (File No. 333-153086, File No. 333-110995, and File No. 333-203137).

/s/ GRANT THORNTON LLP
Atlanta, Georgia
March 24, 2017

CERTIFICATIONS

I, Louis F. Centofanti, certify that:

1. I have reviewed this annual report on Form 10-K of Perma-Fix Environmental Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2017

/s/ Louis F. Centofanti

Louis F. Centofanti
Chief Executive Officer, President
and Principal Executive Officer

CERTIFICATIONS

I, Ben Naccarato, certify that:

1. I have reviewed this annual report on Form 10-K of Perma-Fix Environmental Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2017

/s/ Ben Naccarato

Ben Naccarato
Chief Financial Officer and
Principal Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Perma-Fix Environmental Services, Inc. ("PESI") on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Dr. Louis F. Centofanti, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §78m or §78o(d)); and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 24, 2017

/s/ Louis F. Centofanti
Dr. Louis F. Centofanti
Chief Executive Officer, President and
Principal Executive Officer

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein, and not for any other purpose.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Perma-Fix Environmental Services, Inc. ("PESI") on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Ben Naccarato, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §78m or §78o(d)); and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 24, 2017

/s/ Ben Naccarato

Ben Naccarato

Chief Financial Officer and Principal Financial Officer

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein, and not for any other purpose.