PERMA FIX ENVIRONMENTAL SERVICES INC
Form PRER14A
January 28, 2002

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. 1)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

Perma-Fix Environmental Services, Inc.
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box)

[X] No fee required

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

---

2) Aggregate number of securities to which transaction applies:

---

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount in which the filing fee is calculated and state how it was determined):

____

4) Proposed maximum aggregate value of transaction:

____

5) Total fee paid:

____

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

____

2) Form, Schedule or Registration Statement No.:

____

3) Filing Party:

____

4) Date Filed:

____

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

1940 N.W. 67th Place, Suite A
Gainesville, Florida 32653

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held March ___, 2002

To the Stockholders of Perma-Fix Environmental Services, Inc.:

Notice is hereby given that a Special Meeting of Stockholders (the "Meeting") of Perma-Fix Environmental Services, Inc. (the "Company") will be held at the offices of the Company, 1940 N.W. 67th Place, Gainesville, Florida 32653, on March ____, 2002, at 10:00 a.m. (EST), to consider and act upon the following matters:

1. To approve an amendment to the Company's Restated Certificate of Incorporation increasing the authorized shares of the Company's common stock from 50,000,000 shares to 75,000,000 shares;

2. To approve the future issuance of shares of common stock upon the exercise of warrants issued by the Company in connection with the Company's private placement completed July 30, 2001; and

3. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only stockholders of record at the close of business on February ____, 2002, will be entitled to notice of, and to vote at, the Meeting and at any adjournments thereof.

By Order of the Board of Directors,

Richard T. Kelecy
Secretary

Gainesville, Florida
March ____, 2002

In order to ensure a quorum, it is important that you complete, date, sign and return the accompanying proxy. The enclosed return envelope requires no additional postage if mailed in the United States. You may revoke the proxy by writing prior to the meeting or if you attend the meeting, you may revoke the proxy and vote your shares in person.

TABLE OF CONTENTS

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING	1
INFORMATION CONCERNING THE SPECIAL MEETING	2
Date, Time and Place	2
Solicitation of Proxies	2
Revocability of Proxy	2
Record Date and Voting Securities	2
PROPOSAL 1	3
The Proposed Amendment	3
Reasons for Amendment	3
Recommendation of Board of Directors	4
Vote Required	4
PROPOSAL 2	5
The Offering	5
Nasdaq Rule 4350	5
The Warrants and Placement Agent Warrants	6
Recommendation of the Board of Directors	7
Vote Required	8
ACQUISITION OF M&EC	8
Questions and Answers About the M&EC Acquisition	8
Summary Terms of the M&EC Acquisition	9
M&EC Company Information	10
Certain M&EC Stockholder Matters	10

SPECIAL FACTORS ABOUT THE M&EC ACQUISITION 10

- Background of the M&EC Acquisition 10
- Purchase Price for M&EC 10
- M&EC's Series B Preferred Stock 11
- IRS Installment Agreements 11
- Payment of Certain M&EC Liabilities. 11
- Benefit Plan Payments 12
- Use of Offering Proceeds. 12
- Purchase Accounting 12
- Regulatory Approvals. 12
- No Registration Rights 12
- Approval of M&EC Acquisition 13
- Risk Factors Applicable to M&EC Acquisition 13
- Changes in Accountants. 14

SELECTED HISTORICAL FINANCIAL DATA OF THE COMPANY 15

SELECTED HISTORICAL FINANCIAL DATA OF M&EC 16

SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA 17

COMPARATIVE PER SHARE DATA. 19

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION OF M&EC 20

PRINCIPAL STOCKHOLDERS 24

POTENTIAL CHANGE IN CONTROL. 26

STOCKHOLDER PROPOSALS FOR THE 2002 ANNUAL MEETING OF STOCKHOLDERS 27

OTHER MATTERS 28

WHERE YOU CAN FIND MORE INFORMATION 28

APPENDIX A - FORM OF WARRANT A-1

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
1940 N.W. 67th Place, Suite A
Gainesville, Florida 32653

PROXY STATEMENT
SPECIAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

Why are we holding a Special Meeting?

Perma-Fix Environment Services, Inc. (referred to in this Proxy Statement as "we," "us," or the "Company") is holding a Special Meeting of Stockholders to consider and act upon the following matters:

1. To approve an amendment to the Company's Restated Certificate of Incorporation increasing the authorized shares of the Company's common stock from 50,000,000 shares to 75,000,000 shares (see "PROPOSAL 1" beginning on page 3); and

2. To approve the future issuance of common stock upon the exercise of warrants issued by the Company in connection with the Company's private placement completed July 30, 2001 (see "PROPOSAL 2" beginning on page 5).

Why is my vote required to approve the exercise of the warrants issued in the Company's recent private placement?

Our recent private placement was subject to a rule of the National Association of Securities Dealers, Inc. ("NASD") which requires us to obtain stockholder approval to issue shares of common stock through a private placement if, among other things, the number of shares to be issued represents 20% or more of our outstanding common stock. The number of shares of common stock previously issued under the private placement represented approximately 19.5% of our outstanding common stock as of the commencement of the private placement, and therefore, did not require stockholder approval under the NASD rule. However, the issuance of additional shares upon the exercise of the warrants issued under the private placement could cause us to exceed the 20% threshold. By agreement with the NASD, the NASD listed the shares of common stock issued in the private placement as long as we agreed to obtain shareholder approval to provide for the issuance of common stock upon exercise of the warrants issued in the private placement. (See "PROPOSAL 2" beginning on page 5).

Why is the acquisition of East Tennessee Materials and Energy Corporation discussed in this Proxy Statement?

Our acquisition of M&EC was completed utilizing a portion of the proceeds from our recent private offering. Because the future issuance of shares of common stock upon exercise of the warrants issued under our private offering requires stockholder approval under our agreement with NASD, the rules and regulations of the Securities and Exchange Commission require us to include a discussion of the material terms of our acquisition of M&EC and the business and operations of M&EC. Because the acquisition of M&EC was completed in June 2001, you are not voting on the acquisition and your vote will not limit, restrict or otherwise affect the acquisition. (See "ACQUISITION OF M&EC" beginning on page 8 and "SPECIAL FACTORS ABOUT THE M&EC ACQUISITION" beginning on page 28).

What do I need to do now?

After carefully reading and considering the information contained in this Proxy Statement, please complete and sign the enclosed Proxy Card and return it in the enclosed envelope as soon as possible, so that your shares will be represented at the Special Meeting of Stockholders. If you sign and send in your Proxy Card, but do not indicate how you want to vote, we will count your Proxy Card as a vote in favor of the proposals presented at the meeting. (See "ADDITIONAL INFORMATION CONCERNING THE SPECIAL MEETING" beginning on page 10).

Who can help answer my questions?

If you have any questions about the matters discussed in this Proxy Statement or if you need additional copies of this Proxy Statement or the enclosed Proxy, you should write or call Richard T. Kelecy, Chief Financial Officer, at 1940 N.W. 67th Place, Suite A, Gainesville, Florida 32653, (352) 395-1351. (See "WHERE YOU CAN FIND MORE INFORMATION" beginning on page 28)

INFORMATION CONCERNING THE SPECIAL MEETING

Date, Time and Place

This Proxy Statement is furnished to the holders of the common stock of Perma-Fix Environmental Services, Inc. (the "Company") in connection with the Special Meeting of Stockholders to be held at the Company's offices, located at 1940 N.W. 67th Place, Gainesville, Florida 32653 on March ____, 2002, at 10:00 a.m. (EST), and any adjournments thereof (the "Meeting"). The Notice of Special Meeting, this Proxy Statement and the accompanying Proxy Card are first being mailed to stockholders on or about March ____, 2002.

Solicitation of Proxies

The Board of Directors of the Company (the "Board of Directors" or the "Board") is soliciting proxies to be used in voting at the Meeting. The Company will pay the cost of preparing, printing, assembling and mailing this Proxy Statement and the Proxy Card and all of the costs of

the solicitation of the proxies. In addition to solicitation by use of the mail, certain of the Company's officers and employees may, without receiving additional compensation therefor, solicit the return of proxies by telephone, telegram or personal interview. The Company has also retained the services of Georgeson Shareholder Communications, Inc. to aid in the solicitation of proxies for a fee of $6,000, plus reasonable out-of-pocket expenses incurred by them. The Company has requested that brokerage houses and custodians, nominees and fiduciaries forward soliciting materials to their principals, the beneficial owners of common stock, and has agreed to reimburse them for reasonable related out-of-pocket expenses.

Revocability of Proxy

The enclosed proxy is for use at the Meeting if the stockholder will not be able to attend in person. Any stockholder who executes a proxy may revoke it at any time before it is voted by delivering to the Company's Secretary either a written revocation or a duly executed proxy bearing a later date. A stockholder's proxy may also be revoked if the stockholder attends the Meeting and requests that the proxy be revoked.

Record Date and Voting Securities

Only the holders of common stock of record at the close of business on February ____, 2002 (the "Record Date"), will have the right to receive notice of, and be entitled to vote at, the Meeting. Each stockholder of record is entitled to one vote for each share of common stock that the stockholder owned as of the Record Date on each matter to be voted upon at the Meeting.

At the close of business on the Record Date, 33,968,177 shares of common stock were issued and outstanding, including the 4,397,566 shares of common stock issued previously pursuant to the Offering described under Proposal 1, but excluding 988,000 treasury shares. A majority of all of the outstanding shares of common stock entitled to notice of, and to vote at, the Meeting, represented in person or by proxy, will constitute a quorum for the holding of the Meeting. If a quorum is not represented at the Meeting, the Meeting will be adjourned, and the Company will incur additional expense.

Pursuant to the General Corporation Law of the State of Delaware, only votes cast "FOR" a matter constitute affirmative votes, except a proxy which is not marked "FOR," "AGAINST" or "ABSTAINS" as to a particular matter will also be considered as a vote "FOR" that matter. Votes will be tabulated by an inspector of election appointed by the Board of Directors. Votes in which the stockholder marked "ABSTAINING" are counted for quorum purposes. Abstentions and broker non-votes are not considered as votes "FOR" a particular matter, but will be counted for quorum purposes.

2

PROPOSAL 1

AMENDMENT TO RESTATED CERTIFICATE OF INCORPORATION INCREASING THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 50,000,000 TO 75,000,000.

The Proposed Amendment

The Company's Restated Certificate of Incorporation, as amended (the "Certificate"), presently authorizes 52,000,000 shares of capital stock of the Company, of which 50,000,000 shares consist of common stock, par value $.001 per share, and 2,000,000 shares consist of preferred stock, par value $.001 per share. The Board of Directors of the Company recommends that the stockholders approve the amendment to the Certificate to increase the Company's authorized shares of common stock from 50,000,000 to 75,000,000 (the "Amendment"). If the Amendment is approved, the additional authorized, but unissued shares of common stock will be identical in all respects to presently authorized shares of common stock.

Under the Amendment, the first paragraph of Article Fourth of the Certificate would be amended to read as follows:

> The total number of shares of capital stock that the Corporation shall have authority to issue is 77,000,000, of which 75,000,000 shall be designated as common stock, par value $.001 per share ("Common Stock"), and 2,000,000 shall be designated as preferred stock, par value $.001 per share ("Preferred Stock").

Reasons for Amendment

The Amendment is necessary to allow the issuance of common stock upon the exercise or conversion of all of the Company's convertible securities and other rights to acquire common stock. As of October 11, 2001, these are as follows:

* 315,527 shares issuable or which could be issuable under the Company's 1991 Performance Equity Plan;

* 338,440 shares issuable or which could be issuable under the 1992 Outside Directors Stock Option and Incentive Plan;

* approximately 2,239,089 shares issuable or which could be issuable under the 1993 Nonqualified Stock Option Plan;

* approximately 250,004 shares issuable or which could be issuable under the Company's 1996 Employee Stock Purchase Plan;

* 9,987,486 shares issuable upon exercise of outstanding warrants granted by the Company (excluding the Warrants and the Placement Agent Warrants issued in the Offering);

* 4,505,566 shares issuable upon exercise of the Warrants and the Placement Agent Warrants issued in the Offering, assuming Proposal 1 is approved; and

* up to 1,666,667 shares issuable upon conversion of 2,500 outstanding shares of the Company's Series 17 Class Q Convertible Preferred Stock (the "Series 17 Preferred").

The Company is required to reserve at least 19,302,779 shares of common stock for these potential issuances of common stock. As of October 11, 2001, 33,968,177 shares of common stock were issued and outstanding, leaving only 16,031,823 authorized shares (including 988,000 treasury shares) available to satisfy the Company's existing reserve obligations. Without approval of the Amendment, the Company's available common stock is insufficient to cover the Company's existing reserve obligations. Consequently, if the stockholders do not approve the Amendment increasing the

number of authorized shares of common stock, the Company may be unable to fulfill all its obligations to issue shares of common stock. If the Company is unable to fulfill such obligations, the Company could be in default under its various obligations to issue common stock, and it is possible that certain actions could be taken against the Company for losses and damages. Such actions could have a material adverse effect on the Company.

The Board of Directors believes that increasing the number of authorized shares of common stock beyond the existing reserve requirement is also necessary in order to provide the Company with shares which will be available for issuance from time to time as needed for such proper corporate purposes as may be determined by the Board of Directors. Such corporate purposes might include the following:

* the raising of capital funds through private or public offerings,

* the acquisition by the Company of other companies,

* the declaration of stock splits or stock dividends, and

* the issuance of common stock under warrants, preferred stock, or other rights which may be granted by the Company from time to time in the future.

The Board may issue authorized common stock without future stockholder approval, except as may be required by applicable law or rule of the BSE or Nasdaq (if the Company's securities are then listed on the BSE or the Nasdaq).

The issuance of additional shares of common stock could have a detrimental effect upon existing holders of the Company's common stock because such issuance may have a dilutive effect on the earnings per share of common stock and the voting rights of holders of the common stock. The issuance of additional shares of common stock could also have a dilutive effect on the voting rights of existing holders of the

preferred stock to the extent the outstanding shares of preferred stock are converted into common stock.

Although authorization of additional shares of common stock is recommended by the Board of Directors for the reasons stated above, and not because of any possible anti-takeover effect, such additional authorized shares of common stock could be used by incumbent management to make more difficult, and thereby discourage, an attempt to acquire control of the Company, even though stockholders of the Company may deem such an acquisition desirable. For example, the shares could be privately placed with purchasers who might support the Board of Directors in opposing a hostile takeover bid. The issuance of new shares of common stock could also be used to dilute the stock ownership and voting power of a third party seeking to remove the directors, replace incumbent directors, accomplish certain business combinations or alter, amend, or repeal portions of the Certificate.

Capital Bank, as agent for certain investors, has the right to acquire 3,515,655 of the 14,508,802 shares of common stock issuable upon exercise of outstanding warrants and, if Proposal 1 is approved, an additional 842,995 shares under the Warrants. Capital Bank, as agent for certain investors, also holds the 2,500 shares of outstanding Series 17 Preferred, which are convertible into up to 1,666,667 shares of common stock. See "POTENTIAL CHANGE IN CONTROL" beginning on page 26 for a discussion of Capital Bank's ownership of common stock on agent for its various investors. Capital Bank has advised the Company that it is recommending to its investors that the shares of common stock held by Capital Bank be voted "For" this Proposal.

Recommendation of Board of Directors

The Board of Directors has Unanimously Approved and Recommends a Vote "For" the Amendment to the Company's Restated Certificate of Incorporation Increasing the Number of Authorized Shares of Common Stock From 50,000,000 to 75,000,000.

Vote Required

The Amendment to the Certificate to increase the number of shares of the authorized capital stock of the Company requires the approval of the holders of a majority of the outstanding common stock.

PROPOSAL 2

TO APPROVE THE FUTURE ISSUANCE OF SHARES OF COMMON STOCK UPON EXERCISE OF THE WARRANTS ISSUED BY THE COMPANY IN CONNECTION WITH THE COMPANY'S PRIVATE PLACEMENT COMPLETED ON JULY 30, 2001

The Offering

***General Terms*.**

From April 6, 2001 to July 30, 2001, the Company conducted a private offering (the "Offering") of a minimum of 1,500,000 units and a maximum of 4,400,000 units, at a purchase price of $1.75 per unit. Each unit consisted of one share of the Company's common stock and a warrant for the purchase of one share of common stock (a "Warrant"). Each Warrant is for a term of five years and has an exercise price of $1.75 per share of common stock. The price per unit and the exercise price of each Warrant was based on the Company's decision as to the value of a unit as of April 6, 2001, the date the Offering commenced, after consulting with the placement agents utilized by the Company in the Offering and considering that the closing price of a share of common stock as reported on the Nasdaq SmallCap Market (the "Nasdaq") on April 6, 2001, was $1.6875. The Company sold 4,397,566 units in the Offering for a total purchase price of $7,695,740.

***Use of Net Proceeds*.**

The Company used approximately $2.5 million of the net proceeds of the Offering to assist in the consummation of the Company's acquisition of East Tennessee Materials and Energy Corporation ("M&EC"), a mixed waste processing facility in Oak Ridge, Tennessee, and the remainder to reduce the short-term debt owing to its lenders and for general working capital purposes.

The acquisition of M&EC is described under "ACQUISITION OF M&EC" beginning on page 8, and "SPECIAL FACTORS ABOUT THE M&EC ACQUISITION" beginning on page 10. Certain financial information relating to M&EC and the Company is included in this Proxy Statement beginning on page 15.

Placement Agent Warrants.

Pursuant to the terms of the Offering, the Company appointed placement agents (each, a "Placement Agent") to place the units as an agent of the Company and to assist in completing the Offering. The Company paid each Placement Agent a fee equal to 7.5% of the aggregate purchase price for units placed by that particular Placement Agent. The Company also issued to each Placement Agent warrants to purchase up to the number of shares of common stock equal to 7% of the aggregate purchase price for units placed by that particular Placement Agent, divided by $1.75 (the "Placement Agent Warrants"). The Placement Agent Warrants are for a term of five years and have an exercise price of $1.75 per share. As a result, the Company paid the Placement Agents $202,500 in total fees and issued to them Placement Agent Warrants for the purchase of up to an aggregate of 108,000 shares of common stock.

Subscribers.

The Offering was sold only to accredited investors as that term is defined under Regulation D of the Securities Act of 1933, as amended (the "Act"). One of the investors in the Offering was Capital Bank -- Grawe Gruppe AG (f/k/a RBB Bank Aktiengesellschaft) ("Capital Bank"), which subscribed for 842,995 units under the Offering. As of January 16, 2002, Capital Bank owns, as agent for its investors, 9,532,904 shares of common stock, or 28.02% of the issued and outstanding common stock as of the Record Date (including the 842,995 shares comprising the Units acquired by Capital Bank in the Offering). Consequently, Capital Bank may be considered a beneficial owner of more than 10% of the Company's issued and outstanding common stock. Capital Bank has advised the Company that it is recommending to its investors that the shares of common stock held by Capital Bank be voted "For" this Proposal. See "POTENTIAL CHANGE IN CONTROL" for a discussion of Capital Bank's ownership of common stock as agent for its various investors.

Registration of Common Stock.

The issuance of the 4,397,566 shares of common stock included in the units sold in the Offering and up to 4,505,566 shares of common stock underlying the Warrants included in the units and Placement Agent Warrants does not require registration under the Act as such issuance is exempt under Rule 506 of Regulation D and/or Section 4(2) of the Act. However, in accordance with the terms of the Offering, the Company filed a Form S-3 Registration Statement on October 1, 2001 (the "Registration Statement"), to register such common stock with the Securities and Exchange Commission for resale purposes.

Nasdaq Rule 4350

Under the original terms of the Offering, the Company offered to sell a maximum of 5,000,000 units. After the Offering commenced, however, the maximum number of units offered was reduced to 4,400,000 in order to comply with Rule 4350(i)(1)(D) of the rules of the National Association of Securities Dealers, Inc. The Company's common stock is listed for trading on the Nasdaq and the Boston Stock Exchange (the "BSE"). Although the BSE approved the listing of the shares of common stock to be issued in connection with the Offering and upon the exercise of the Warrants and the Placement Agent Warrants, the Nasdaq advised the Company that the Offering could violate Rule 4350(i)(1)(D) governing the listing of additional securities on the Nasdaq as originally structured.

Rule 4350(i)(1)(D) provides that a corporation must obtain shareholder approval to issue, through a private placement such as the Offering, a number of shares of common stock equal to or greater than 20% of the corporation's outstanding common stock at a price less than the greater of book or market value of the common stock. At the time of the discussion with Nasdaq, the Company had 22,896,762 shares of common stock outstanding, and the offering of up to 5,000,000 units could have resulted in up to 10,000,000 shares being issued if the Warrants were exercised, representing more than 43.67% of the Company's then issued and outstanding common stock.

For purposes of determining whether the Offering complies with Rule 4350(i)(1)(D), the Nasdaq asserted that the Company cannot use April 6, 2001, the date the Offering commenced, to determine market value, but must determine market value as of the date that each subscription agreement for units is executed by the investor and becomes binding. Because the price of the common stock as reported on the Nasdaq rose from $1.6875 per share on the date the Offering commenced to $2.27 on the date the Offering terminated, numerous subscription agreements were executed at a time when the market value per share of common stock was greater than the $1.75 purchase price per unit. The Nasdaq claimed that the subscription agreements executed on a date when the market price was greater than the $1.75 unit purchase price represented sales at less than the greater of book or market value of the common stock, thereby implicating Rule 4350(i)(1)(D).

In order to comply with Rule 4350(i)(1)(D), the Company agreed with the Nasdaq to restructure the Offering so that (a) the maximum number of units offered was reduced from 5,000,000 to 4,400,000, and (b) the Warrants and the Placement Agent Warrants could not be exercised until the Company's stockholders approved the issuance of the shares of common stock upon the exercise of the Warrants and the Placement Agent Warrants. Prior to the closing of the Offering, the Placement Agents and the initial investors who subscribed for units agreed to amend the terms of the Warrants and the Placement Agent Warrants pursuant to the Company's agreement with the Nasdaq. As a result of these modifications, only 4,397,566 shares of common stock, representing approximately 19.5% of the issued and outstanding shares of common stock as of the commencement of the Offering, have been issued under the Offering without stockholder approval.

The Warrants and Placement Agent Warrants

Summary of Terms.

Each Warrant and Placement Agent Warrant entitles the holder to purchase one share of common stock at an exercise price of $1.75 per share, subject to the adjustments in certain cases described below. Each Warrant and Placement Agent Warrant may be exercised at any time after stockholder approval of Proposal 2 and prior to the expiration of the fifth anniversary of the date of issuance of the Warrants and Placement Agent Warrants.

Adjustments to Exercise Price and Number of Shares Purchasable.

The exercise price and the number of shares of common stock issuable upon the exercise of the Warrants and Placement Agent Warrants are subject to adjustment, from time to time, upon the occurrence of any of the following events:

* If the Company (a) pays a dividend in, or makes a distribution of, shares of capital stock on its outstanding common stock; (b) subdivides its outstanding shares of common stock into a greater number of shares; or (c) combines its outstanding shares of common stock into a smaller number of shares; and

* If the Company consolidates with, or merges into, another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding common stock).

Listing and Registration.

There is no established public trading market for the Warrants and the Placement Agent Warrants, and the Company does not expect one to emerge. As discussed above, the BSE has approved the listing of the common stock underlying the Warrants and the Placement Agent Warrants, and the Nasdaq has approved such listing subject to stockholder approval of this Proposal 2.

Pursuant to the terms of the Offering and the subscription agreements for units, the Company filed the Registration Statement under the Act for the resale of the common stock included in the units and the common stock issuable upon the exercise of the Warrants and the Placement Agent Warrants. The Company has received comments from the Securities and Exchange Commission ("SEC") as to the Registration Statement, but is unable to finalize the Registration Statement in accordance with the SEC comments until after the meeting. If the stockholders do not approve this Proposal 1, the Company will withdraw the shares of common stock issuable upon exercise of the Warrants and the Placement Agent Warrants from the Registration Statement.

Certain Effects of Exercise of Warrants and the Placement Agent Warrants.

If all or a portion of the Warrants and the Placement Agent Warrants are exercised, the number of outstanding shares of common stock will increase. The increased number of shares of common stock could have a depressive effect on the market price of the common stock. This depressive effect could encourage short sales which could place downward pressure on the price of the common stock. If all or a portion of the Warrants and the Placement Agent Warrants are exercised, the resulting increase in the number of shares of common stock outstanding will dilute the ownership interest and proportionate voting power of the existing holders of common stock.

Principal Effects of Approval.

If this Proposal 1 is approved by the stockholders and if all Warrants and Placement Agent Warrants are exercised, the Company would receive $7,884,741 in proceeds from such exercises. If the stockholders do not approve this Proposal 1, the Company will not be obligated to

issue shares pursuant to the exercise of the Warrants nor the Placement Agent Warrants. Neither the Warrants or the Placement Agent Warrants provide a penalty if the Company is unable to obtain such stockholder approval.

Once the Company stockholders approve Proposal 1 and Proposal 2, the Company will seek to complete the registration under the Form S-3 Registration Statement filed October 1, 2001, of the common stock included in the units and the common stock issuable upon the exercise of the Warrants included in the units and the Placement Agent Warrants. If such registration is completed, all such common stock will be freely tradeable under the Federal securities laws.

Recommendation of the Board of Directors

The Board of Directors Unanimously Recommends that the Stockholders Vote "For" the Future Issuance of Common Stock Upon the Exercise of the Warrants and the Placement Agent Warrants Issued Pursuant to the Offering.

7

Vote Required

Pursuant to Nasdaq Rule 4350(i)(6), this Proposal 2 requires the affirmative vote of a majority of the votes cast, in person or by proxy, by the holders of the common stock.

ACQUISITION OF M&EC

Questions and Answers About the M&EC Acquisition

When was M&EC Acquired?

On June 27, 2000, the Company entered into a letter of intent to acquire M&EC, and on January 18, 2001, the Company, all of the shareholders of M&EC, and Bill Hillis entered into the Stock Purchase Agreement (the "Purchase Agreement") providing for the Company's acquisition of M&EC (the "M&EC Acquisition"). The M&EC Acquisition was completed on June 25, 2001, and the Company now owns all of the issued and outstanding shares of voting stock of M&EC.

What is M&EC?

East Tennessee Materials and Energy Corporation is a Tennessee corporation located in Oak Ridge, Tennessee. M&EC holds both hazardous waste treatment and storage permits and a license to store and treat low-level radioactive waste.

In 1988, M&EC began constructing a treatment and processing facility in Oak Ridge, Tennessee (the "M&EC Facility") to treat and process waste containing both low-level radioactive and hazardous waste ("Mixed Waste") Oak Ridge, Tennessee (the "M&EC Facility"). Construction of the M&EC Facility was still in progress in June 2000, when the Company entered into the letter of intent to acquire M&EC, and the initial phase of construction of the M&EC Facility was completed after the Company acquired M&EC. The M&EC Facility began accepting waste in June 2001 and became operational in the third quarter of 2001. The 125,000 square-foot facility is located on the grounds of the U.S. Department of Energy's (the "DOE") Oak Ridge K-25 Weapons Facility. The M&EC Facility uses the Company's various technologies to treat Mixed Waste coming from governmental, institutional and commercial generators nationwide. M&EC is one of only a few such facilities in the country.

M&EC has three subcontracts with Bechtel Jacobs Company LLC, DOE's site manager, which were awarded to M&EC in 1998 (the "DOE subcontracts"). The DOE Subcontracts cover the treatment of millions of cubic feet of legacy, operational, and remediation nuclear waste. These subcontracts may be canceled with 30 days' notice. See "SPECIAL FACTORS ABOUT THE M&EC ACQUISITION - Risk Factors Applicable to the M&EC Acquisition" on page 13.

M&EC, together with Diversified Scientific Services, Inc. ("DSSI") and Perma-Fix of Florida, Inc. ("PFF"), make up our nuclear services segment. The three facilities perform different treatment functions which, together, are able to process all aspects of the same waste stream, including solids, liquids, and high organic elements, as well as large volume waste streams.

Why did the Company acquire M&EC?

Since 1992, the Company has pursued a strategy of acquiring business operations and facilities that complement the Company's existing businesses. The Company has particularly focused on acquiring businesses which the Company believes can be grown by integrating the businesses into the Company's existing operations and facilities.

The Company entered into the storage and treatment of low-level radioactive waste and Mixed Waste in 1994 with the acquisition of Perma-Fix of Florida, Inc. in Gainesville, Florida. In August 2000, the Company expanded its Mixed Waste activities by acquiring DSSI, in Kingston, Tennessee, a company that (a) transports, stores and treats hazardous and Mixed Waste and (b) disposes or recycles Mixed Waste in a treatment unit located at DSSI's facility.

The Board of Directors identified the Mixed Waste service industry as a potentially profitable line of business and considered the benefits of expanding the Company's nuclear waste business through the expansion of Mixed Waste activities. The Board of Directors determined that the M&EC Acquisition would further the Company's long-term strategy due, in significant respect, to the fact that M&EC operates under both a hazardous waste treatment and storage permit, possesses a license to store and treat low-level radioactive waste, and had obtained the DOE Subcontracts.

Does my vote affect the M&EC Acquisition?

No, your vote will not affect the M&EC Acquisition. The M&EC Acquisition did not require the approval of our stockholders. You are not being asked to vote on the M&EC Acquisition. However, because the M&EC Acquisition was completed utilizing a portion of the proceeds of the Offering, the Company has included certain information about the M&EC Acquisition for your consideration in determining whether to approve the future issuance of common stock upon the exercise of the Warrants issued by the Company in connection with the Offering and to satisfy the requirements of the Securities Exchange Act of 1934, as amended. The Offering is described under Proposal 2 beginning on page 5 of this Proxy Statement. If Proposal 2 is not approved by the stockholders, the prior completion of the M&EC Acquisition will not be limited, restricted, or otherwise affected.

Summary Terms of the M&EC Acquisition

The principal terms of the M&EC Acquisition were as follows:

Purchase Price for M&EC (see page 11).

Pursuant to the terms of the Purchase Agreement, all of the outstanding voting stock of M&EC was acquired by the Company and M&EC with (a) M&EC redeeming 20% of the outstanding shares of M&EC voting stock, and (b) the Company acquiring all of the remaining outstanding shares of M&EC voting stock. This structure resulted in the Company owning all of the outstanding shares of M&EC common stock. The Company paid approximately $2.5 million for the M&EC common stock acquired by the Company by issuing 1,597,576 shares of the Company's common stock to shareholders of M&EC at an agreed value of $1.50 per share.

M&EC Series B Preferred Stock (see page 11).

In connection with the completion of the M&EC Acquisition, M&EC issued to the M&EC shareholders shares of M&EC's newly created non-voting and non-convertible Series B Preferred Stock having a stated value of approximately $1.285 million in redemption of 20% of the M&EC common stock.

IRS Payments (see page 11).

In accordance with the terms of the Purchase Agent, M&EC entered into an Installment Agreement with the Internal Revenue Service (the "IRS") providing for the payment over seven years of various withholding taxes owing by M&EC in the aggregate amount of $923,425.

Payment of Certain M&EC Liabilities (see page 12).

The Company issued 346,666 shares of common stock to certain creditors of M&EC in satisfaction of approximately $520,000 of M&EC's liabilities. In addition, M&EC issued a $3.7 million promissory note to a former affiliate of M&EC in payment of amounts advanced, and services provided, to M&EC.

Benefit Plan Payments (see page 12).

The Company paid $1.77 million in corrective contributions to M&EC's 401(k) Plan and to the 401(k) Plan of a former affiliate of M&EC.

Regulatory Approvals (see page 12).

Prior to completion of the M&EC acquisition, the Tennessee Department of Environmental Quality consented to the change in control of M&EC under M&EC's hazardous waste treatment and storage permits and licenses to store and treat low-level radioactive waste.

No Registration Rights (see page 12).

The shareholders and former creditors of M&EC do not have the right to require the Company to register the shares of Company common stock issued in the M&EC Acquisition for resale with the SEC.

Accounting Treatment (see page 12).

The M&EC Acquisition has been treated as a purchase transaction for accounting and financial reporting purposes.

Summary of Common Stock Issued

The Company issued a total of 1,944,242 shares of Company common stock in connection with the M&EC Acquisition, representing approximately 7.5% of the outstanding shares of common stock on June 25, 2001, the date the M&EC Acquisition closed, and approximately % of the outstanding shares of common stock as of the Record Date.

M&EC Company Information

The name, address, and telephone number of the principal executive offices of M&EC are: East Tennessee Materials and Energy Corporation, 2010 Highway 58, Suite 1020, Building - K - 1005, Oak Ridge, Tennessee 37830, (865) 574-0149.

Certain M&EC Stockholder Matters

We acquired the M&EC voting stock from M&EC's 17 stockholders. None of the former M&EC stockholders own more than 5% of our common stock as a result of the M&EC Acquisition, and all directors and officers of M&EC, as a group, own less than 5% of our common stock. At the time of the M&EC Acquisition, there was no established public trading market for the M&EC voting stock and M&EC historically paid no dividends on the common stock.

SPECIAL FACTORS ABOUT THE M&EC ACQUISITION

Background of the M&EC Acquisition

In May 1998, the Company began providing to M&EC waste treatment, materials recycling technologies, and research and development services under a subcontractor agreement with M&EC. The Company and M&EC agreed to act as a team in the performance of certain contracts that either the Company or M&EC may obtain from contractors of the DOE regarding treatment and disposal of certain types of radioactive,

hazardous, or Mixed Waste at DOE facilities. M&EC and the Company made a joint proposal to DOE, with M&EC to act as the team leader to treat and dispose of Mixed Waste at DOE's Oak Ridge, Tennessee site (the "Oak Ridge Site"), and throughout the DOE network. In June 1998, M&EC, as the team leader, was awarded the three DOE Subcontracts by Bechtel Jacobs Company, LLC, the government-appointed manager of the environmental program for Oak Ridge, to perform certain treatment and disposal services at the Oak Ridge site and throughout the DOE network.

On June 27, 2000, the Company entered into a letter of intent to acquire M&EC. In July 2000, the Company's services to M&EC were expanded to include design and construction management services for the M&EC Facility. On January 18, 2001, the Company, all of the shareholders of M&EC, and Bill Hillis entered into the Purchase Agreement providing for the M&EC Acquisition. After entering into the letter of intent and prior to acquiring M&EC, the Company loaned and/or

advanced to M&EC approximately $2.3 million to provide working capital and billed approximately $9.8 million related to construction of the M&EC facility. The M&EC Acquisition was completed on June 25, 2001.

Purchase Price for M&EC

The M&EC acquisition was structured so that the Company acquired all of the outstanding voting stock of M&EC, with (a) M&EC redeeming 20% of the outstanding voting stock and (b) the Company acquiring all of the remaining outstanding shares of the M&EC voting stock. This structure resulted in the Company owning all of the M&EC voting stock upon completion of the M&EC acquisition.

The Company paid approximately $2.5 million for the M&EC voting stock acquired by the Company by issuing 1,597,576 shares of common stock to the shareholders of M&EC at an agreed value of $1.50 per share, the closing price of the common stock as reported on the Nasdaq on the date of the initial letter of intent relating to the M&EC Acquisition. The voting stock acquired by the Company included shares of M&EC common stock which, as a condition precedent to the M&EC Acquisition, were issued by M&EC prior to the closing of the M&EC Acquisition pursuant to the conversion of all of M&EC's Series A preferred stock.

M&EC's Series B Preferred Stock

In connection with the completion of the M&EC Acquisition, M&EC issued to the shareholders of M&EC shares of its newly created Series B Preferred Stock having a stated value of approximately $1.3 million in redemption of the remaining 20% of M&EC's common stock. The M&EC Series B Preferred Stock is non-voting and non-convertible and may be redeemed at the option of M&EC at any time after June 25, 2002 for the per share price of $1.00. After June 25, 2002, the holders of the M&EC Preferred will be entitled to receive, when, as, and if declared by the Board of Directors 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 are fully cumulative.

IRS Installment Agreements

As a condition to the closing of the M&EC Acquisition, M&EC entered into an installment agreement with the Internal Revenue Service (the "IRS") relating to various withholding taxes owing by M&EC in the aggregate principal amount of $923,495 payable over seven years (the "M&EC IRS Agreement"). As an additional condition to such closing, one of M&EC's affiliated shareholders prior to the acquisition by the Company, Performance Development Corporation, a Tennessee corporation ("PDC"), and two other corporations affiliated with PDC (together with PDC, the "PDC Entities") entered into an installment agreement with the IRS relating to withholding taxes owing by each such corporation ("PDC IRS Agreement"). The PDC IRS Agreement provides for the payment of annual installments over a term of seven years in the aggregate amount of $3,713,721. The installment agreements further provide as follows:

(a) the Company does not have any liability for any taxes, interest or penalty with respect to M&EC or any PDC Entities;

(b) M&EC will be solely liable for paying the obligations of M&EC;

(c) the IRS will not assert any liability against the Company, M&EC or any current or future, related affiliate of the Company for any tax, interest or penalty of the PDC Entities;

(d) as long as the payments of M&EC under its installment agreement are timely made pursuant to the terms of the installment agreement, the IRS will not file a notice of federal tax lien, change or cancel the installment agreement, or take any other type of action against M&EC with respect to the withholding taxes and interest set forth in the installment agreement; and

(e) the IRS agrees not to assert any liability against M&EC, the Company, or any current or future related affiliate of the Company for any tax, interest or penalty of any of the PDC Entities.

Payment of Certain M&EC Liabilities

Prior to the closing of the M&EC Acquisition, PDC had advanced monies to, and performed certain services for M&EC, totaling approximately $3.7 million. In payment of such advances and services, M&EC issued a Promissory Note, dated June 7, 2001, to PDC in the principal amount of approximately $3.7 million. The promissory note is payable over seven years and the payments under the note correspond to the payments due by PDC to the IRS under the PDC IRS Agreement. PDC has directed M&EC to make all payments under the promissory note directly to the IRS to be applied to PDC's obligations under its installment agreement with the IRS. The Company did not acquire any interest in the PDC Entities.

As an additional condition to the closing of the M&EC Acquisition, the Company issued 346,666 shares of common stock to certain other creditors of M&EC in satisfaction of approximately $520,000 of M&EC's liabilities.

Benefit Plan Payments

In connection with the closing of the M&EC Acquisition, the Company made $1.77 million in certain corrective contributions to M&EC's 401(k) Plan and to PDC's 401(k) Plan.

Use of Offering Proceeds

In January 2001, when the Company entered into the Purchase Agreement to acquire M&EC, the Company did not have sufficient funds or financial resources to fully fund the M&EC Acquisition. In April 2001, the Board of Directors agreed to undertake the Offering to raise between $2.6 million and $8.75 million to assist in funding the M&EC Acquisition and for general working capital purposes. As more fully described beginning on page 5 of this Proxy Statement, the final terms of the Offering provided for a private offering of between $2.6 million and $7.7 million, representing a minimum of 1.5 million units and a maximum of 4.4 million units at a purchase price of $1.75 per unit. Each unit consisted of one share of the Company's common stock and a Warrant for the purchase of one share of common stock at an exercise price $1.75 per share. The Company sold 4,397,566 units in the Offering for a total purchase price of $7,695,740 and net proceeds of $6.88 million.

The Company used approximately $2.1 million of the net proceeds of the Offering to assist in completing the M&EC Acquisition. Of this amount, $1.77 million was used to fund the corrective contributions to the M&EC and PDC 401(k) Plans described above, and $50,000 was used to fund the initial payment to the IRS under the Installment Agreements described above, and approximately $263,000 was paid to satisfy certain other liabilities of M&EC. The remaining net proceeds were added to the Company's working capital.

Purchase Accounting

The M&EC Acquisition has been treated as a purchase transaction for accounting and financial reporting purposes.

Regulatory Approvals

The closing of the M&EC Acquisition was conditioned upon receipt of all necessary regulatory approvals. M&EC's hazardous waste treatment and storage permits and license to store and treat low level radioactive waste are issued by the Tennessee Department of Environmental Quality, which consented to the Company's acquisition of M&EC.

In connection with the closing of the M&EC Acquisition, the IRS entered into the M&EC IRS Agreement and the PDC IRS Agreement, and the U.S. Department of Labor agreed to the amount of the corrective contributions to be made to M&EC's 401(k) Plan and PDC's 401(k) Plan.

No Registration Rights

The shareholders and former creditors of M&EC do not have the right to require the Company to register the shares of Company common stock issued in the M&EC Acquisition for resale with the SEC.

Approval of M&EC Acquisition

The Company's Board of Directors unanimously approved the M&EC Acquisition upon the terms and conditions set forth in the Purchase Agreement. The Delaware General Corporation Law did not require the vote of the Company's stockholders to complete the M&EC Acquisition. In reaching its conclusion that the M&EC Acquisition was fair to, and in the best interest of, the Company and its shareholders, the Company's Board of Directors also considered, among other factors:

(1) its knowledge of the business operations, properties, assets, and prospects of the Company and M&EC;

(2) current industry, economic and market conditions;

(3) the terms of the Purchase Agreement;

(4) the uniqueness of the M&EC facility;

(5) the value of M&EC's existing licenses and permits and the DOE Subcontracts; and

(6) the prospect of integrating M&EC into the Company's existing nuclear services segment which would result in the Company owning three of the five Mixed Waste facilities in the United States.

In view of the variety of factors considered in connection with its evaluation of the M&EC Acquisition, the Company's Board did not find it practicable to, and did not quantify or otherwise assign relative weights to, the specific factors considered in reaching its determination. In addition, individual members of the Company's Board may have given different weights to factors in addition to those above.

You are not being asked to vote on the M&EC Acquisition because the Company has already completed the M&EC Acquisition. The information regarding M&EC is being provided only to assist you in your consideration of Proposal 2 and to satisfy the requirements of the Securities Exchange Act of 1934, as amended. If Proposal 2 is not approved by the stockholders, the prior completion of the M&EC Acquisition will not be limited, restricted, or otherwise affected.

Risk Factors Applicable to M&EC Acquisition

M&EC does not have any operating history.

Because M&EC's Facility is newly constructed, M&EC has a limited operating history. If M&EC does not generate sufficient monies we may not be able to recoup our investment in M&EC, M&EC may not be able to operate profitably or we may not recoup the amounts advanced to M&EC. If we are unable to effectively operate M&EC to achieve profitability, the potential growth of our business will be limited and our business, results of operations, and financial condition would materially suffer.

If the DOE Subcontracts are canceled, M&EC will lose its primary revenue source.

Most of M&EC's revenues are expected to be generated pursuant to the DOE Subcontracts issued to M&EC by Bechtel Jacobs Company LLC under contracts that Bechtel Jacobs has received with the DOE. Each of these subcontracts provides that the DOE may terminate the contracts under which the subcontracts were issued on 30 days' notice. If we fail to maintain, renew, or replace these contracts, M&EC's revenues will be materially reduced, and your investment will be materially and adversely affected.

M&EC's substantial debt could adversely affect our operations.

At November 30, 2001, M&EC's aggregate debt was approximately $5.8 million. M&EC's leverage could have material adverse consequences on our ability to operate the business, including the following:

* Funds available for our operations and general corporate purposes or for capital expenditures will be reduced because a substantial portion of M&EC's cash flow from operations will be dedicated to the

payment of the principal and interest on M&EC's indebtedness;

* Our ability to obtain financing in the future for refinancing indebtedness, working capital, capital expenditures, or other purposes may be impaired;

* An event of default, which is not cured or waived, under financial and operating covenants contained in M&EC's debt instruments, could result in, and have, a material adverse effect on us; and

* M&EC's ability to make principal and interest payments, or to refinance indebtedness, will depend upon M&EC's and the Company's future operating performance and cash flow.

If M&EC cannot maintain its government permits, M&EC will not be able to continue its operations.

M&EC 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. M&EC must maintain its current permits, licenses and/or approvals to conduct such activities in compliance with such laws and regulations. Failure to maintain such permits, licenses and/or approvals or to obtain any necessary permits, licenses and/or approvals in the future would have a material adverse effect on our operations and financial condition.

If environmental regulation or enforcement is relaxed, the demand for M&EC's services will decrease.

The demand for M&EC's 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, and low-level radioactive waste. A decrease in the level of public concern, the repeal or modification of such 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 M&EC's operations and financial condition. We are not currently 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 waste regulations that would have a material adverse effect on M&EC.

M&EC's nuclear waste management services subject M&EC to potential environmental liability.

The business of rendering services in connection with certain types of hazardous waste and low-level radioactive waste subjects M&EC to risks of liability for damages.

Changes in Accountants

Prior to the completion of the M&EC Acquisition, M&EC utilized Willard L. Carr, CPA, P.C. as its independent public accountant. In connection with the M&EC Acquisition, M&EC retained Gallogly, Fernandez & Riley, LLP to audit the consolidated financial statements of M&EC for the fiscal years 2000 and 1999. As a result of the M&EC Acquisition, M&EC has become a member of the Company's consolidated group. The Company has retained BDO Seidman as the Company's independent auditors.

SELECTED HISTORICAL FINANCIAL DATA OF THE COMPANY

The financial data included in this table has been derived from our audited consolidated financial statements. Financial statements for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 have been audited by BDO Seidman, LLP. When you read this selected historical financial data, it is important that you also read the historical financial statements and related notes incorporated by reference in this Proxy Statement.

Statement of Operations Data:

(Amounts in Thousands, Except for Share Amounts)	December 31,				
	2000[4]	1999[2]	1998	1997	1996
Revenues[3]	$ 59,139	$ 46,464	$ 30,551	$ 28,413	$ 27,041
Net income (loss) from continuing operations	(556)	1,570	462	192	27
Net loss from discontinued operations	--	--	--	(4,101)	(287)
Preferred Stock dividends	(206)	(308)	(1,160)	(1,260)	(2,145)
Gain on Preferred Stock redemption	--	188	--	--	--
Net income (loss) applicable to Common Stock from continuing operations	(762)	1,450	(698)	(1,068)	(2,118)
Basic net income (loss) per common share from continuing operations[1]	(.04)	.08	(.06)	(.10)	(.24)
Diluted net income (loss) per common share from continuing operations[1]	(.04)	.07	(.06)	(.10)	(.24)
Basic number of shares used in computing net income (loss) per share[1]	21,558	17,488	12,028	10,650	8,761
Diluted number of shares and potential common shares used in computing net income (loss) per share[1]	21,558	21,224	12,028	10,650	8,761

Balance Sheet Data:

	December 31,				
	2000	1999	1998	1997	1996
Working capital (deficit)	(2,829)	(1,400)	372	754	(773)
Total assets	72,771	54,644	28,748	28,570	29,036
Long-term debt	25,490	15,302	3,042	4,981	6,360
Total liabilities	50,751	34,825	12,795	16,376	16,451
Stockholders' equity	22,020	19,819	15,953	12,194	12,585

(1) As of December 31, 1997, the Company applied SFAS 128, the new standard of computing and presenting earnings per share. The adoption of SFAS 128 did not have a material effect on the Company's EPS presentation for prior years, since the effects of potential common shares are antidilutive.

(2) Includes financial data of PFO, PFSG and PFMI as acquired during 1999 and accounted for using the purchase method of accounting from the date of acquisition, June 1, 1999.

(3) Excludes revenues of Perma-Fix of Memphis, Inc., shown elsewhere as a discontinued operation.

(4) Includes financial data of DSSI as acquired during 2000 and accounted for using the purchase method of accounting from the date of acquisition, August 31, 2000.

SELECTED HISTORICAL FINANCIAL DATA OF M&EC

The financial data included in this table has been derived from M&EC's audited consolidated financial statements. Financial statements for the years ended December 31, 2000 and 1999 have been audited by Gallogly, Fernandez and Riley, LLP, and the years ended December 31, 1998 and 1997 have been audited by Willard L. Carr CPA, P.C. When you read this selected historical financial data, it is important that you also read the historical financial statements and related notes incorporated by reference in this Proxy Statement.

Statement of Operations Data:

(Amounts in Thousands, Except for Share Amounts)	December 31,			
	2000	1999	1998	1997(1)
Revenues(2)	$ 905	$ 1,208	$ 175	$ -
Net loss	(1,452)	(1,962)	(930)	(113)
Preferred Stock dividends	(349)	(282)	-	-
Net loss applicable to Common Stock	(1,801)	(2,244)	(930)	(113)
Basic net loss per common share:	(.87)	(1.10)	(.51)	(.08)
Basic number of shares used in computing net loss per share	2,066,700	2,047,950	1,837,000	1,500,000

Balance Sheet Data:

	December 31,			
	2000	1999	1998	1997
Working capital (deficit)	(11,763)	(5,011)	(1,662)	-
Total assets	11,303	6,040	3,277	442
Long-term debt	763	448	1,348	-
Total liabilities	13,108	6,469	3,091	-
Stockholders' equity (deficit)	(3,097)	(1,371)	186	442

(1) M&EC was established effective December 4, 1997.

(2) Revenue during start-up period was due to engineering services.

SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following Selected Unaudited Pro Forma Condensed Combined Financial Data should be referenced in conjunction with the Selected Historical Financial Information and separate Historical Financial Statements of the Company and M&EC included elsewhere or incorporated by reference in this Proxy Statement.

Unaudited Pro Forma Condensed Combined
Statement of Operations
For the six months ended June 30, 2001

(Amounts in Thousands Except for Per Share Data)	Perma-Fix	M&EC	Adjustments	Pro Forma
Revenues	$ 36,552	$ 167	$	$ 36,719
Cost of goods sold	26,257	127		26,384
Gross profit	10,295	40		10,335
Selling, general and administrative	6,905	2,279		9,184
Depreciation and amortization	2,032	130	451 (a),(b)	2,613
Income (loss) from operations	1,358	(2,369)	(451)	(1,462)
Other income (expense):				
Interest income	16	-		16
Interest expense	(2,592)	(14)	10 (c)	(2,596)
Other income (expense)	(18)	-		(18)
Net loss	(1,236)	(2,383)	(441)	(4,060)
Preferred stock dividends	(82)	(1,954)	1,922 (d)	(114)
Net loss applicable to Common Stock	$ (1,318)	$ (4,337)	$ 1,481	$ (4,174)

Basic and diluted net loss per common share	$ (0.06)		$ (0.17)
Weighted average number of common shares outstanding	22,711	1,944 (e)	24,655

Unaudited Pro Forma Condensed Combined
Statement of Operations
For the year ended December 31, 2000

(Amounts in Thousands Except for Per Share Data)	Perma-Fix	DSSI	M&EC	Adjustments		Pro Forma
Revenues	$ 59,139	$ 3,381	$ 906	$		$ 63,426
Cost of goods sold	40,910	1,938	559			43,407
Gross profit	18,229	1,443	347			20,019
Selling, general and administrative	12,765	1,269	1,291			15,325
Depreciation and amortization	3,651	127	452	1,266	(a),(b), (g)	5,496
Income (loss) from operations	1,813	47	(1,396)	(1,266)		(802)
Other income (expense):						
Interest income	41	-	-			41
Interest expense	(2,657)	-	(175)	(384)	(c),(h)	(3,216)
Other income (expense)	247	(196)	119	195	(f)	365
Net income (loss)	(556)	(149)	(1,452)	(1,455)		(3,612)
Preferred stock dividends	(206)	-	(349)	349	(d)	(206)

Net income (loss) applicable to Common Stock	$ (762)	$ (149)	$ (1,801)	$ (1,106)	$ (3,818)
Basic and diluted net loss per common share	$ (0.04)				$ (0.16)
Weighted average number of common shares outstanding	21,558			1,944 (e)	23,502

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Note 1 - Basis of Presentation

The unaudited pro forma statements of operations combine the historical consolidated statements of operations of Perma-Fix Environmental Services, Inc. for the year ended December 31, 2000, and the six months ended June 30, 2001, with the historical statements of income for DSSI for the period from January 1, 2000 through the date of acquisition of August 31, 2000 and the historical statements of income East Tennessee Materials & Energy Corp. ("M&EC") for the year ended December 31, 2000, and the six months ended June 25, 2001. The pro forma balance sheet has been omitted as the amounts for DSSI and M&EC are included in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2001.

The unaudited pro forma financial statements exclude the effect of any operating income improvements which may be achieved upon combining the resources of the companies and exclude costs associated with the integration and consolidation of the companies.

Note 2 - Pro Forma Adjustments

Perma-Fix Environmental Services, Inc. acquired DSSI on August 31, 2000, and acquired M&EC on June 25, 2001, in transactions accounted for as purchases. The pro forma adjustments consist of the following:

(a) The excess of the purchase price over the net assets acquired of approximately $9,149,000 was assigned to permits in accordance with purchase accounting. Amortization expense for acquired permits with an estimated useful life of ten years was recorded in the annual amount of $915,000.

(b) Amortization expense for goodwill on M&EC's statements in the annual amount of $12,000 is reversed as this asset was not recorded in accordance with purchase accounting.

(c) Reduce interest expense to reflect elimination of notes payable settled upon acquisition.

(d) Preferred Stock dividends for Series A were eliminated pursuant to the conversion of Series A to Common Stock prior to acquisition. Recorded Preferred Stock dividends for the six months ended June 30, 2001 on the Preferred Stock Series B issued at closing. Dividends accrue at an annual rate of 5% beginning one year after acquisition.

(e) Adjusted weighted average shares for the1,944,242 shares of Common Stock issued at closing for consideration and extinguishment of certain debt of M&EC.

(f) Eliminate management fees of $195,000 from DSSI parent company for the eight months ended August 31, 2000, prior to DSSI acquisition.

(g)

Increase DSSI depreciation of $183,000 for write up of fixed assets to market value, and increase amortization of $180,000 for permits for DSSI.

(h) Increase interest expense of $552,000 for debt acquired in relation to DSSI acquisition.

Note 3 - Federal Income Tax Consequences of the Mergers

The unaudited pro forma financial statements assume that the mergers qualify as taxable transactions for federal income tax purposes.

COMPARATIVE PER SHARE DATA

The following table presents historical per share data of M&EC and the Company which is derived from the financial statements, audited and unaudited, appearing elsewhere in this Proxy Statement or incorporated by referral. The table also includes unaudited pro forma combined per share data using the purchase method of accounting, assuming the M&EC acquisition had been effective as of the beginning of the periods presented. The unaudited pro forma combined per share data also assumes the conversion of all outstanding M&EC Series A preferred stock into common stock and subsequent exchange of all outstanding M&EC common stock and certain M&EC liabilities extinguished through the issuance of 1,944,242 shares of Perma-Fix common stock as of the beginning of the periods presented. See "ACQUISITION OF M&EC" beginning on page 8 for more information on both of these assumptions.

The pro forma data presented does not purport to be indicative of the results of future operations or the results that would have occurred had the acquisition been consummated at the beginning of the periods presented. The information set forth below should be read in conjunction with the historical financial statements and notes thereto of M&EC and the Company presented elsewhere in this Proxy Statement or incorporated by reference. Neither M&EC nor Perma-Fix has paid cash dividends for any of the periods presented.

	Year ended December 31, 2000	Six Months ended June 30, 2001
HISTORICAL - M&EC COMMON STOCK:		
Basic loss per share attributable to common shareholders.	$ (0.87)	$ (0.80)
Diluted loss per share attributable to common shareholders	$ (0.87)	$ (0.80)
Book value per share (Note 1)	$ (1.08)	$ (0.75)

	Year ended December 31, 2000	Six Months ended June 30, 2001
HISTORICAL - PERMA-FIX COMMON STOCK:		
Basic loss per share attributable to common shareholders.	$ (0.04)	$ (0.06)
Diluted loss per share attributable to common shareholders	$ (0.04)	$ (0.06)
Book value per share (Note 1)	$ 0.87	$ 1.09
PRO FORMA COMBINED:		
Basic loss per share attributable to common shareholders.	$ (0.16)	$ (0.09)
Diluted loss per share attributable to common shareholders	$ (0.16)	$ (0.09)
Book value per share (Note 2)	$ 0.92	$ 1.09

Note 1: The historical book value per share is computed by dividing shareholders' equity by the number of shares of common stock and preferred stock, on an as if converted basis, outstanding at the end of the period.

Note 2: The pro forma combined book value per share is computed by dividing pro forma shareholders' equity by the pro forma number of shares of common stock outstanding at the end of the period, which reflects actual book value per share for Perma-Fix.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF M&EC

M&EC's management's discussion and analysis is based, among other things, upon its audited consolidated financial statements and includes the accounts of M&EC and its wholly owned subsidiary, after elimination of all significant inter-company balances and transactions.

M&EC was formed in December 1997, to build and operate a mixed waste (waste containing both hazardous and low level radioactive waste) treatment facility. During the period of construction, M&EC provided engineering and consulting services to the hazardous mixed waste storage, analysis, treatment and disposal industry. Primary customers of M&EC are currently United States Department of Energy ("DOE") contractors. In June 1999, M&EC obtained the necessary federal and state permits and licenses to operate a facility to store and treat low-level radioactive and hazardous waste and mixed waste.

M&EC completed construction of the treatment facility located in Oak Ridge, Tennessee (the "Oak Ridge Facility") in June 2001, and the Oak Ridge Facility became operational during the third quarter of 2001. M&EC was acquired by Perma-Fix Environmental Services, Inc ("the Company") effective June 25, 2001.

Results of Operations

The following discussion and analysis should be read in conjunction with M&EC's consolidated financial statements and the notes thereto incorporated by reference into this Proxy Statement.

Below are the results of operations for M&EC's years ended December 31, 2000, 1999 and 1998:

(Consolidated)	2000	%	1999	%	1998	%
Net Revenue	$ 905,480	100.0	$ 1,208,226	100.0	$ 175,285	100.0
Cost of goods sold	558,806	61.7	876,779	72.6	107,247	61.2
Gross Profit	346,674	38.3	331,447	27.4	68,038	38.8
Selling, general and administrative	1,290,352	142.5	1,725,784	142.8	753,287	429.7
Depreciation and amortization	452,345	50.0	301,840	25.0	156,377	89.2
Other income (expense):						
Other income	119,005	13.1	-	-	-	-
Interest expense	(175,044)	(19.3)	(266,171)	(22.0)	(88,508)	(50.5)
Net loss	(1,452,062)	(160.4)	(1,962,348)	(162.4)	(930,134)	(530.6)
Preferred Stock dividends	(349,341)	(38.6)	(281,719)	(23.3)	(67,216)	(38.3)
Net loss applicable to common stockholders	$(1,801,403)	(198.9)	$(2,244,067)	(185.7)	$(997,350)	(569.0)

Summary - Years Ended December 31, 2000 and 1999

M&EC's consolidated revenues decreased $303,000 or 25.1% for the year ended December 31, 2000 as compared to the year ended December 31, 1999. The decrease is due to several consulting and engineering contracts that were not renewed with M&EC in 2000, and an emphasis on construction of the Oak Ridge Facility in lieu of pursuing new consulting and engineering contracts.

Cost of goods sold decreased $318,000 or 36.3% for the year ended December 31, 2000, as compared to the corresponding period for 1999. This decrease reflects the decrease in revenues due to the contract losses and the construction of the Oak Ridge Facility for the same period.

Gross profit for the year ended December 31, 2000, increased to $347,000, which as a percentage of revenue is 38.3%, reflecting an increase over the 1999 percentage of revenue of 27.4%. This increase is a result of M&EC retaining higher margin contracts during 2000.

Selling, general and administrative expenses decreased $435,000, or 25.2%, for the year ended December 31, 2000, as compared to the corresponding period for 1999. This decrease is due to reduced costs related to certain terminated personnel and to the construction of the Oak Ridge Facility, as such costs were capitalized to construction in progress. During 2000 and 1999, general and administrative costs capitalized to construction in progress were $1,456,000 and $1,120,000, respectively, which includes payroll, overhead facility costs, procurement costs and subcontractor costs.

Depreciation and amortization expense reflects an increase for the year ended December 31, 2000, of $151,000, or 49.9%, as compared to the year ended December 31, 1999. The increase reflects additional amortization expense of approximately $169,000 from the amortization of permits for the treatment of hazardous and low level radioactive waste. This increase is offset by a decrease of $14,000 for amortization on lease acquisition costs associated with the operating lease on the Oak Ridge Facility, and for depreciation expense on capital leases of $4,000 due to the elimination of several leased assets during 2000.

Interest expense decreased $91,000, or 34.2%, for the year ended December 31, 2000, as compared to the year ended December 31, 1999. This decrease is due to a decrease of approximately $221,000 due to imputed interest capitalized to the

construction in progress of the Oak Ridge Facility. The decrease was partially offset by an increase of $130,000 from new notes payable entered into in 2000 and a full year of interest on notes payable entered into during the second half of 1999.

Preferred stock dividends for the year ended December 31, 2000, increased $68,000, or 24.0%, as compared to the corresponding period in 1999. This increase is due to a full year of dividends in 2000, and only six months of dividends from June 30, 1999 to December 31, 1999(see discussion below on Preferred Stock).

Summary - Years Ended December 31, 1999 and 1998

M&EC's consolidated revenues increased $1,033,000, or 589.3%, for the year ended December 31, 1999, as compared to the year ended December 31, 1998. The increase in revenues was due to engineering and consulting revenues generated from the acquisition of First Choice Technical Services, Inc. ("FCTS") effective January 1, 1999 (see below for discussion on FCTS acquisition).

Cost of goods sold increased $770,000, or 717.5%, for the year ended December 31, 1999, as compared to the corresponding period for 1998. This increase is due to direct costs associated with the additional revenues generated by FCTS, as discussed above.

Gross profit for the year ended December 31, 1999 increased to $331,000, which as a percentage of revenue is 27.4%, reflecting a decrease over the 1998 percentage of revenue of 38.8%. This decrease is due to M&EC performing more engineering jobs, which are lower margin, during 1999 as compared to higher margin jobs performed in 1998.

Selling, general and administrative expenses increased $972,000, or 129.1%, for the year ended December 31, 1999, as compared to the corresponding period for 1998. This increase is due to additional expenses related to the FCTS acquisition, and to the increase in general operating costs associated with a start up business in it's second year of operations.

Depreciation and amortization expense reflects an increase for the year ended December 31, 1999 of $145,000 or 93.0% as compared to the year ended December 31, 1998. This increase reflects amortization expense of approximately $170,000 from the amortization of costs associated with new permits obtained in June 1998 for the treatment of hazardous and low level radioactive waste and an increase in depreciation expense of $11,000 on office equipment purchases and newly leased plant equipment. These increases are offset by a decrease of $36,000 for amortization on lease acquisition costs associated with the operating lease on the Oak Ridge Facility.

Interest expense increased $178,000, or 200.7%, for the year ended December 31, 1999, as compared to the year ended December 31, 1998. This increase is from interest on notes payable entered into during 1999 and a full year of interest on notes payable entered into during the last half of 1998.

Preferred stock dividends for the year ended December 31, 1999, increased $215,000, or 319.1%, as compared to the corresponding period in 1998. This increase is due to six months of dividends beginning on June 30, 1999 for the Series A Preferred Stock of $68,000 and an increase of $107,000 related to the accretion of the of the redemption value to the Series A Preferred Stock (see discussion below on Preferred Stock).

Liquidity and Capital Resources of the Company

At December 31, 2000, M&EC had no cash or cash equivalents. This reflects a net increase in cash and cash equivalents provided by operating activities of $852,000 and an increase in financing activities of $4,849,000 (principally advances from the Company of $3,754,000, advances from Performance Development Corporation ("PDC"), an affiliate of M&EC prior to the acquisition, of $607,000 and net proceeds from notes payable of approximately $488,000). These increases were offset by cash used in investing activities of $5,701,000 for capital expenditures in construction of new facility for approximately $5,533,000 and $168,000 to obtain permits for the Oak Ridge Facility.

Accounts receivable, net of allowances, totaled approximately $213,000, a decrease of $52,000 over the December 31, 1999 balance of $265,000. This decrease corresponds with the decrease in revenues during the year ended December 31, 2000, as discussed above.

As of December 31, 2000, accounts payable was approximately $1,128,000, an increase of $666,000 over the December 31, 1999 balance of $462,000. This increase is a result of the construction of the Oak Ridge Facility and a decreased cash inflow from reduced revenues.

Net purchases of property and equipment for the twelve months ended December 31, 2000, totaled $5,522,000. These capital expenditures were for construction in progress related to the construction of the Oak Ridge Facility.

Effective January 1, 1999, M&EC acquired all of the outstanding common stock of FCTS in exchange for 50,000 shares of M&EC's common stock valued at $200,000 and the assumption of $39,035 of liabilities. The acquisition was recorded using the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired based upon the estimated fair market values. The excess of the purchase price over the estimated fair value of the net assets acquired was approximately $120,000, which has been accounted for as goodwill and is being amortized over its estimated useful life of ten years. The operating results of FCTS are included in M&EC's results of operations from the date of acquisition. FCTS is an engineering and consulting firm that provides services related to hazardous mixed waste storage, analysis, treatment and disposal.

As of December 31, 2000, there were 270,487 shares of Series A Preferred Stock issued and outstanding. Dividends on the Series A preferred stock were cumulative. All outstanding shares of the Series A preferred stock of M&EC were converted to common stock in March 2001 prior to the acquisition of M&EC by the Company.

M&EC recorded preferred stock dividends of $67,622 and $135,244 during 1999 and 2000, respectively. These dividends were unpaid at December 31, 2000 and are included in the carrying value of the Series A preferred stock. The excess of the minimum redemption value of $1,622,922 over the initial carrying value of $553,435 is being accreted and recorded as preferred stock dividends from the issuance date to the redemption date (June 30, 2003). M&EC recorded preferred stock dividends related to the accretion of the redemption value of the Series A preferred stock of $214,097, $214,097 and $107,049 during 2000, 1999 and 1998, respectively.

Prior to being acquired by the Company, M&EC's liquidity to service its debt requirements and to make payroll came primarily from loans and advances from the Company totaling approximately $2.3 million, loans and advances from PDC totaling $3.7 million and payroll withholdings not paid to the federal government of $923,425 and monies owed to M&EC's and PDC's 401-K plan totaling approximately $1.77 million. In addition, prior to the acquisition, the Company financed the construction of M&EC's Oak Ridge Facility under a service agreement between the Company and M&EC, and the Company invoiced M&EC approximately $9.8 million for the cost of the construction prior to the acquisition. See "Acquisition of M&EC" contained in this Proxy Statement.

M&EC's working capital deficit position at December 31, 2000, was $11,763,000, as compared to a working capital deficit of $5,011,000 at December 31, 1999. The increase in the deficit position was due partially to additional advances from PDC and the Company of $4,362,000 and increased current notes payable of $1,200,000. The remaining increase in the deficit position is from increased accounts payable and accruals and decreased receivables related to the construction of the new facility for approximately $1,190,000.

Short-term notes payable of M&EC totaled approximately $928,000 at the end of 2000, and such notes payable were past due as of December 31, 2000. Approximately $888,000 of these notes payable were settled, prior to or pursuant to the acquisition of M&EC by the Company as discussed below.

During 1998 and 1999 M&EC issued long-term notes payable of $1,573,000 to related parties. M&EC issued common stock and preferred stock to the unsecured note payable holders. Common stock issued during 1998 and 1999 totaled 337,000 and 65,500 shares, respectively, valued at $1,610,000, or $4.00 per share. No value was assigned to the Series A cumulative preferred stock issued in connection with these notes. The $1,610,000 was recorded as a debt discount and is being amortized to interest expense over the term of the notes. During 2000 and 1999, $322,000 and $322,000, respectively, of the debt discount was amortized to interest expense. As of December 31, 2000, the unamortized debt discount was

23

$831,200. The above unsecured notes payable to stockholders were settled in June 2001 pursuant to the acquisition of M&EC by the Company.

M&EC entered into an installment agreement with the IRS relating to the withholding taxes owing by M&EC in the amount of $923,496 ("Installment Agreement"). The Installment Agreement provides for the payment of such withholding taxes over a term of approximately eight years. As a further condition to the closing of the acquisition, PDC and two corporations affiliated with PDC, entered into an installment agreement with the IRS relating to their withholding taxes (the "PDC Installment Agreement"). The PDC Installment Agreement provides for the payment of semi-annual installments over a term of eight years in the aggregate amount of approximately $3,714,000.

In connection with M&EC's acquisition by the Company, the following occurred relating to certain of M&EC's liabilities:

* PDC had advanced monies to, and performed certain services for, M&EC aggregating approximately $3,700,000. Amounts due to PDC for such advances and services were $4,489,845 and $3,882,567 at December 31, 2000 and 1999, respectively. In payment of such advances and services, M&EC issued a promissory note, dated June 7, 2001, to PDC in the principal amount of approximately $3,700,000. The promissory note is payable over eight years to correspond to payments due to the IRS under the PDC Installment Agreement. PDC has directed M&EC to make all payments under the promissory note directly to the IRS to be applied to PDC's obligations under the PDC Installment Agreement. PDC was not acquired by the Company;

* The Company advanced $1,820,000 to M&EC, which was used by M&EC to pay to the IRS $50,000, being the first installment under the Installment Agreement, $1,336,000 in contributions required to be made to M&EC's 401-K plan and $434,000 to pay certain of M&EC's long-term debt; and

* $520,000 of M&EC's liabilities were paid by the Company issuing to those creditors, approximately 347,000 shares of the Company's common stock.

M&EC recently completed the construction of its Oak Ridge Facility. The 125,000 square-foot facility, located on the grounds of the Oak Ridge K-25 Weapons Facility of the Department of Energy ("DOE"). M&EC also has three subcontracts with Bechtel-Jacobs Company, LLC, DOE's site manager, which were awarded in 1998 and cover the treatment of legacy, operational and remediation nuclear waste. The facility began accepting waste in June 2001 and became operational during the third quarter of 2001.

See "ACQUISITION OF M&EC" beginning on page 8 for further discussion as to the terms of the acquisition of M&EC by the Company.

PRINCIPAL STOCKHOLDERS

The following table sets forth, as of the Record Date, certain information with respect to the beneficial ownership of the Company's common stock by the following:

* each person known by the Company to beneficially own more than, or own rights to acquire more than, 5% of all common stock outstanding;

* each director;

* the chief executive officer and each other executive officer whose salary and bonus for the last fiscal year exceeds $100,000; and

* all directors and executive officers as a group.

Except as otherwise indicated, the persons named in the table below have sole voting and investment power with respect to all shares of common stock held by them. Beneficial ownership is determined in accordance with the rules and regulations promulgated under Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Shares of common stock which the person has a right to acquire within 60 days after October 11, 2001, are deemed outstanding for purposes of computing the percentage of ownership of that particular person and for all officers and directors as a group, but are not deemed outstanding in computing the percentage of any other person.

Applicable percentage ownership in the following table is based on 33,968,177 shares of common stock outstanding as of October 11, 2001, excluding 988,000 treasury shares. Unless otherwise indicated, the business address of such person, for the purposes of this Proxy Statement, is Perma-Fix Environmental Services, Inc., 1940 N.W. 67th Place, Gainesville, Florida 32653.

Beneficial Owner	Amount and Nature of Ownership	Percent of Common Stock
Dr. Louis F. Centofanti	1,210,197[1]	3.52%
Thomas P. Sullivan and the Ann L. Sullivan Living Trust	1,605,745[2]	4.72%
Capital Bank-Grawe Gruppe AG[3]	15,114,681[3]	38.61%
Mark A. Zwecker	251,828[4]	*
Jon Colin	47,000[5]	*
Richard T. Kelecy	162,065[6]	*
Roger Randall	130,000[7]	*
Larry McNamara	10,000[8]	*
Jack Lahav	581,429[9]	1.71%
Directors and Executive Officers as a Group (8 persons)	4,214,453[10]	12.08%

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

[1] This amount includes (a) 541,434 shares held of record by Dr. Centofanti; (b) 64,763 shares issuable under options granted pursuant to the 1991 Performance Equity Plan and the 1993 Non-qualified Stock Option Plan, which are immediately exercisable; (c) 300,000 shares issuable under options granted pursuant to Dr. Centofanti's Employment Agreement, which are immediately exercisable; and (d) 304,000 shares held by Dr. Centofanti's wife. This amount does not include 160,000 shares issuable under options which are not exercisable within 60 days. Dr. Centofanti shares voting and investment power over the shares held by his wife.

[2] This amount includes (a) 24,841 shares held of record by Mr. Sullivan, (b) 25,000 shares issuable under options granted pursuant to the 1992 Outside Directors Stock Option and Incentive Plan, which are immediately exercisable, and (c) 1,555,904 shares held by the Ann L. Sullivan Living Trust, dated September 6, 1978 ("ALS Trust"). Mr. Sullivan shares beneficial ownership of the shares held by the ALS Trust with his wife, Ann L. Sullivan, who is the trustee and primary beneficiary of the ALS Trust.

(3) This amount includes 9,932,359 shares that Capital Bank owns of record and 3,515,655 shares that Capital Bank has the right to acquire within 60 days under certain warrants. The warrants are exercisable at exercise prices ranging from $1.4219 to $1.9688 per share of common stock. This amount also includes 1,666,667 shares of common stock issuable upon the conversion of 2,500 shares of Series 17 Preferred held by Capital Bank. This amount does not include the shares of common stock which may be issuable for payment of dividends on the Series 17 Preferred. This amount also does not include the 842,995 shares which will be issuable upon approval of Proposal 1 of this Proxy Statement and the exercise of the Warrants acquired by Capital Bank in the Offering. If Proposal 1 is approved by the stockholders, then Capital Bank will beneficially own 15,957,676 shares of common stock, representing 39.9% of the then outstanding common stock, assuming that the Company does not issue any shares of common stock except to Capital Bank, and Capital Bank does not sell or otherwise dispose of any shares of common stock. Capital Bank has also advised the Company that it is holding

these warrants, including the Warrants acquired in the Offering, and shares on behalf of numerous clients, all of which are accredited investors. As a result, Capital Bank may share voting and investment power over such securities. However, Capital Bank 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. Capital Bank's address is Burgring 16, 8010 Graz, Austria. Capital Bank has advised the Company that it is a banking institution regulated by the banking regulations of Austria. Capital Bank is a wholly owned subsidiary of Grazer Wechselseitige Versicherung Aktiengesellschaft. See "POTENTIAL CHANGE IN CONTROL."

(4) This amount includes (a) 191,946 shares held of record by Mr. Zwecker; (b) 14,882 issuable under options granted pursuant to the 1991 Performance Equity Plan, which are immediately exercisable; (c) 5,000 shares issuable under options granted pursuant to the 1993 Non-qualified Stock Option Plan, which are immediately exercisable; and (d) 40,000 shares granted pursuant to the 1992 Outside Directors Stock Option and Incentive Plan, which are immediately exercisable.

(5) This amount includes (a) 7,000 shares held of record by Mr. Colin, and (b) 40,000 shares issuable under options granted pursuant to the 1992 Outside Directors Stock Option and Incentive Plan, which are immediately exercisable.

(6) This amount includes (a) 12,065 shares held of record by Mr. Kelecy and (b) 150,000 shares issuable under options granted pursuant to the 1993 Non-qualified Stock Option Plan. This amount does not include 130,000 shares issuable under options granted pursuant to the 1993 Non-qualified Stock Option Plan, which are not exercisable within 60 days.

(7) This amount includes (a) 130,000 shares issuable under options granted pursuant to the 1993 Non-qualified Stock Option Plan, which are immediately exercisable. This amount does not include 130,000 shares issuable under options granted pursuant to the 1993 Non-qualified Stock Option Plan, which are not exercisable within 60 days.

(8) This amount includes (a) 10,000 shares issuable under options granted pursuant to the 1993 Non-qualified Stock Option Plan, which are immediately exercisable. This amount does not include 160,000 shares issuable under options granted pursuant to the 1993 Non-qualified Stock Option Plan, which are not exercisable within 60 days.

(9) This amount includes (a) 571,429 shares held of record by Mr. Lahav and (b) 10,000 shares issuable under options granted pursuant to the 1992 Outside Directors Stock Option and Incentive Plan, which are immediately exercisable. This amount does not include the 571,429 shares issuable upon approval of Proposal 1 of this Proxy Statement and upon exercise of the Warrants acquired by Mr. Lahav in the Offering. If Proposal 1 is approved by the stockholders, then Mr. Lahav will beneficially own 1,142,858 shares of common stock, representing 3.34% of the then outstanding common stock, assuming that the Company does not issue any other shares of common stock.

(10) This amount includes 919,528 shares that executive officers and directors have the right to acquire within 60 days.

POTENTIAL CHANGE IN CONTROL

As of January 16, 2002, Capital Bank owned of record, as agent for certain accredited investors, 9,532,904 shares of common stock representing 28.02% of the Company's issued and outstanding common stock. Capital Bank has rights to acquire an additional 6,025,317 shares of common stock if Proposal 2 is approved or 5,182,322 shares if Proposal 2 is not approved. The shares which Capital Bank has the right to acquire are the following:

* 842,995 shares of common stock issuable upon exercise of the Warrants included in the units purchased in the Offering by Capital Bank as agent for certain investors assuming the

stockholders approve Proposal 2 of this Proxy Statement;

* 3,515,655 shares of common stock issuable under various other warrants held by Capital Bank; and

* 1,666,667 shares of common stock issuable to Capital Bank upon the conversion of 2,500 shares of the Company's Series 17 Preferred held by Capital Bank. The Series 17 Preferred is not entitled to vote on the proposals included in this Proxy Statement.

26

If Capital Bank were to acquire all of the shares of common stock issuable upon exercise of the various warrants held by Capital Bank and the shares of common stock issuable upon conversion of the Series 17 Preferred, then Capital Bank's record ownership as of the record date would be as follows:

* 15,558,221 shares of common stock, representing 38.85% of the issues and outstanding common stock as of the Record Date; or

* 14,715,226 shares of common stock if Proposal 2 is not approved, representing 37.54% of the issued and outstanding common stock as of the Record Date.

The foregoing estimates assume that no other shares of common stock are issued by the Company, no other warrants or options are exercised, the Company does not acquire additional shares of common stock as treasury stock, and Capital Bank does not dispose of any shares of common stock.

If Capital Bank were to acquire the shares of common stock as described above, the Company may not be able to avoid an actual change in control of the Company if Capital Bank seeks such a change in control. Moreover, if such conversion and exercise results in Capital Bank acquiring more than 50% of the then outstanding Common Stock of the Company, the Company would not be able to avoid a change in control.

If Capital Bank acquires the shares of common stock described above, Capital Bank may be able to cause a change in at least 50% of the members of the Company's Board of Directors. Such a change in Board membership could be an event of default under the Company's $22 million credit facility (the "Credit Facility") and its $5.6 million outstanding Senior Subordinated Notes due July 31, 2006 (the "Notes"). In addition, if Capital Bank were to acquire such shares and cause Dr. Louis Centofanti to be removed from the Board of Directors or as the Company's president and chief executive officer, the removal could be an event of default under the Credit Facility and the Notes.

Capital Bank has advised the Company that it is a banking institution regulated by the banking regulations of Austria which holds the Company's shares of stock on behalf of numerous investors. Capital Bank has advised the Company that it is precluded by Austrian law from disclosing the identities of its investors, but that all of its investors are accredited investors under Rule 501 of Regulation D promulgated under the Act. In addition, Capital Bank has advised the Company that none of its investors beneficially own more than 4.9% of the Company's common stock. Capital Bank has further informed the Company that its clients (and not Capital Bank) maintain full voting and dispositive power over such shares. Consequently, Capital Bank has advised the Company that it believes it is not the beneficial owner, as such term is defined in Rule 13d-3 under the Exchange Act ("Rule 13d-3"), of the shares of 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. As a result, Capital Bank has informed the Company that it does not believe that it is required to file reports under Section 16(a) of the Exchange Act or to file either a Schedule 13D or a Schedule 13G, as required by Rule 13d-1 of the Exchange Act, in connection with the shares of the Company's common stock registered in the name of Capital Bank.

STOCKHOLDER PROPOSALS FOR THE 2002 ANNUAL MEETING OF STOCKHOLDERS

Any stockholder who wishes to present a proposal for consideration at the annual meeting of stockholders to be held in 2002 must submit such proposal in accordance with the rules promulgated by the Securities and Exchange Commission. In order for a proposal to be included in the Company's proxy materials relating to the 2002 Annual Meeting of Stockholders, the stockholder must have submitted such proposal in writing to the Company so that it was received no later than January 4, 2002. Any stockholder proposal submitted with respect to the Company's 2002 Annual Meeting of Stockholders and is received by the Company after January 4, 2002, will be considered untimely for purposes of Rule 14a-4 and 14a-5 under the Exchange Act, and the Company may vote against such proposal using its discretionary voting authority as authorized by proxy. Such proposals should be addressed to Richard T. Kelecy, Perma-Fix Environmental Services, Inc., 1940 N.W. 67th Place, Suite A,

Gainesville, Florida 32653.

OTHER MATTERS

The Board of Directors has no knowledge of any business to be presented for consideration at the Meeting other than as described above. Should any such matters properly come before the Meeting or any adjournment thereof, the persons named in the enclosed Proxy Card will have discretionary authority to vote such proxy in accordance with their best judgment on such matters and with respect to matters incident to the conduct of the Meeting.

Additional copies of the Proxy Statement and accompanying Proxy Card may be obtained from the Company.

BDO Sei