

CLECO CORP
Form 10-Q
October 28, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

Or

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

Commission file number 1-15759

CLECO CORPORATION

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of incorporation or organization)

72-1445282

(I.R.S. Employer Identification No.)

2030 Donahue Ferry Road, Pineville, Louisiana

(Address of principal executive offices)

71360-5226

(Zip Code)

Registrant's telephone number, including area code: (318) 484-7400

Commission file number 1-05663

CLECO POWER LLC

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of incorporation or organization)

72-0244480

(I.R.S. Employer Identification No.)

2030 Donahue Ferry Road, Pineville, Louisiana

(Address of principal executive offices)

71360-5226

(Zip Code)

Registrant's telephone number, including area code: (318) 484-7400

Indicate by check mark whether the Registrants: (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports) and (2) have been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the Registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act) Yes No

Number of shares outstanding of each of Cleco Corporation's classes of Common Stock, as of the latest practicable date.

Registrant	Description of Class	Shares Outstanding October 21, 2015
Cleco Corporation	Common Stock, \$1.00 Par Value	60,482,051

Cleco Power LLC, a wholly owned subsidiary of Cleco Corporation, meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

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This Combined Quarterly Report on Form 10-Q is separately filed by Cleco Corporation and Cleco Power. Information in this filing relating to Cleco Power is filed by Cleco Corporation and separately by Cleco Power on its own behalf. Cleco Power makes no representation as to information relating to Cleco Corporation (except as it may relate to Cleco Power) or any other affiliate or subsidiary of Cleco Corporation. This report should be read in its entirety as it pertains to each respective Registrant. The Notes to the Unaudited Condensed Consolidated Financial Statements are combined.

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GLOSSARY OF TERMS

References in this filing, including all items in Parts I and II, to “Cleco” mean Cleco Corporation and its subsidiaries, including Cleco Power, and references to “Cleco Power” mean Cleco Power LLC and its subsidiaries, unless the context clearly indicates otherwise. Additional abbreviations or acronyms used in this filing, including all items in Parts I and II, are defined below.

ABBREVIATION OR ACRONYM	DEFINITION
401(k) Plan	Cleco Power 401(k) Savings and Investment Plan
ABR	Alternate Base Rate which is the greater of the prime rate, the federal funds effective rate plus 0.50%, or the LIBOR plus 1.0%
Acadia	Acadia Power Partners, LLC, previously a wholly owned subsidiary of Midstream. Acadia Power Partners, LLC was dissolved effective August 29, 2014.
Acadia Unit 1	Cleco Power’s 580-MW, combined cycle, natural gas-fired power plant located at the Acadia Power Station in Eunice, Louisiana
Acadia Unit 2	Entergy Louisiana’s 580-MW, combined cycle, natural gas-fired power plant located at the Acadia Power Station in Eunice, Louisiana, which is operated by Cleco Power
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ARRA	American Recovery and Reinvestment Act of 2009, an economic stimulus package passed by Congress in February 2009
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation
Brame Energy Center	A facility consisting of Nesbitt Unit 1, Rodemacher Unit 2, and Madison Unit 3
CCR	Coal combustion by-products or residual
CERCLA	The Comprehensive Environmental Response, Compensation, and Liability Act of 1980
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
Cleco Partners	Cleco Partners L.P., a Delaware limited partnership that prior to the closing of the Merger will be owned by a consortium of investors, including funds or investment vehicles managed by Macquarie Infrastructure and Real Assets, British Columbia Investment Management Corporation, John Hancock Financial, and other infrastructure investors.
Coughlin	Cleco Power’s 775-MW, combined-cycle, natural gas-fired power plant located in St. Landry, Louisiana. Coughlin was transferred to Cleco Power on March 15, 2014.
CSAPR	The Cross-State Air Pollution Rule
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Corporation
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010
Dolet Hills	A 650-MW lignite/natural gas generating unit at Cleco Power’s plant site in Mansfield, Louisiana. Cleco Power has a 50% ownership interest in the capacity of Dolet Hills.
EAC	Environmental Adjustment Clause
EGU	Electric Generating Unit
Entergy Gulf States	Entergy Gulf States Louisiana, L.L.C.

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Entergy Louisiana	Entergy Louisiana, LLC
Entergy Mississippi	Entergy Mississippi, Inc.
EPA	U.S. Environmental Protection Agency
ESPP	Cleco Corporation Employee Stock Purchase Plan
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTR	Financial Transmission Right
FRP	Formula Rate Plan
GAAP	Generally Accepted Accounting Principles in the U.S.
GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)
Interconnection Agreement	One of two Interconnection and Real Estate Agreements, one between Attala and Entergy Mississippi, and the other between Perryville and Entergy Louisiana
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s)
LIBOR	London Inter-Bank Offer Rate
LMP	Locational Marginal Price
LPSC	Louisiana Public Service Commission
LTICP	Cleco Corporation Long-Term Incentive Compensation Plan
Madison Unit 3	A 600-MW solid-fuel generating unit at Cleco Power's plant site in Boyce, Louisiana
MATS	Mercury and Air Toxics Standards

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ABBREVIATION OR ACRONYM	DEFINITION
Merger	Merger of Merger Sub with and into Cleco Corporation pursuant to the terms of the Merger Agreement
Merger Agreement	Agreement and Plan of Merger, dated as of October 17, 2014, by and among Cleco Partners, Merger Sub, and Cleco Corporation
Merger Sub	Cleco Merger Sub, Inc., a Louisiana corporation and an indirect wholly-owned subsidiary of Cleco Partners
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
MISO	Midcontinent Independent System Operator, Inc.
Moody's	Moody's Investors Service, a credit rating agency
MW	Megawatt(s)
MWh	Megawatt-hour(s)
NERC	North American Electric Reliability Corporation
NMTC	New Markets Tax Credit
NMTC Fund	USB NMTC Fund 2008-1 LLC was formed to invest in projects qualifying for New Markets Tax Credits and Solar Projects
NO _x	Nitrogen oxides
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation
PPA	Power Purchase Agreement
ppb	Parts per billion
PRP	Potentially Responsible Party
Registrant(s)	Cleco Corporation and/or Cleco Power
Rodemacher Unit 2	A 523-MW coal/natural gas generating unit at Cleco Power's plant site in Boyce, Louisiana. Cleco Power has a 30% ownership interest in the capacity of Rodemacher Unit 2.
ROE	Return on Equity
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Services, a credit rating agency
SEC	Securities and Exchange Commission
SERP	Cleco Corporation Supplemental Executive Retirement Plan
SO ₂	Sulfur dioxide
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Corporation
SWEPCO	Southwestern Electric Power Company, an electric utility subsidiary of American Electric Power Company, Inc.
VaR	Value-at-Risk
VIE	Variable Interest Entity

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Combined Quarterly Report on Form 10-Q includes “forward-looking statements” about future events, circumstances, and results. All statements other than statements of historical fact included in this Combined Quarterly Report are forward-looking statements, including, without limitation, results of the Merger; future capital expenditures; projections, including with respect to base revenue; business strategies; goals, beliefs, plans and objectives; competitive strengths; market developments; development and operation of facilities; growth in sales volume; meeting capacity requirements; expansion of service to existing customers and service to new customers; future environmental regulations and remediation liabilities; electric customer credits; and the anticipated outcome of various regulatory and legal proceedings. Although the Registrants believe that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties that could cause the actual results to differ materially from the Registrants’ expectations. In addition to any assumptions and other factors referred to specifically in connection with these forward-looking statements, the following list identifies some of the factors that could cause the Registrants’ actual results to differ materially from those contemplated in any of the Registrants’ forward-looking statements:

- certain risks and uncertainties associated with the merger of an indirect, wholly-owned subsidiary of Cleco Partners with and into Cleco Corporation including, without limitation:
 - the occurrence of any event, change, or other circumstance that could give rise to the termination of the Merger Agreement or could otherwise cause the failure of the Merger to close;
 - the failure to obtain regulatory approvals required for the Merger, or required regulatory approvals delaying the Merger or causing the parties to abandon the Merger;
 - the failure to obtain any financing necessary to complete the Merger;
 - risks related to disruption of management’s attention from Cleco’s ongoing business operations due to the Merger;
 - the outcome of any legal proceeding, regulatory proceeding, or enforcement matter that may be instituted against Cleco and others relating to the Merger;
 - the risk that the pendency of the Merger disrupts current plans and operations and the potential difficulties in employee retention as a result of the pendency of the Merger;
 - the effect of the Merger on Cleco’s relationships with its customers, operating results, and business;
 - the amount of the costs, fees, expenses, and charges related to the Merger;
 - the receipt of an unsolicited offer from another party to acquire assets or capital stock of Cleco Corporation that could interfere with the Merger; and
 - future regulatory or legislative actions that could adversely affect Cleco’s participation in the Merger.

- regulatory factors such as changes in rate-setting practices or policies, the unpredictability in political actions of governmental regulatory bodies, adverse regulatory ratemaking actions, recovery of investments made under traditional regulation, recovery of storm restoration costs, the frequency, timing, and amount of rate increases or decreases, the impact that rate cases or requests for FRP extensions may have on operating decisions of Cleco Power, the results of periodic NERC and LPSC audits, participation in MISO and the related operating challenges and uncertainties, including increased wholesale competition relative to more suppliers, and compliance with the Electric Reliability Organization reliability standards for bulk power systems by Cleco Power,
- the ability to recover fuel costs through the FAC,
- factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage caused by hurricanes and other storms or severe drought conditions; unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs, fuel supply costs, or availability constraints due to higher demand, shortages, transportation problems, or other developments; fuel mix of Cleco’s

generating facilities; decreased customer load; environmental incidents and compliance costs; and power transmission system constraints,

reliance on third parties for determination of Cleco Power's commitments and obligations to markets for generation resources and reliance on third-party transmission services,

global and domestic economic conditions, including the ability of customers to continue paying utility bills, related growth and/or down-sizing of businesses in Cleco's service area, monetary fluctuations, changes in commodity prices, and inflation rates,

the ability of the Dolet Hills lignite reserve to provide sufficient fuel to the Dolet Hills Power Station until at least 2036,

Cleco Power's ability to maintain its right to sell wholesale generation at market-based rates within its control area,

Cleco Power's dependence on energy from sources other than its facilities and future sources of such additional energy,

reliability of Cleco Power's generating facilities,

the imposition of energy efficiency requirements or increased conservation efforts of customers,

the impact of current or future environmental laws and regulations, including those related to CCRs, greenhouse

gases, and energy efficiency that could limit or terminate the operation of certain generating units, increase costs, or reduce customer demand for electricity,

the ability of Cleco Power to recover from its customers the costs of compliance with environmental laws and regulations,

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financial or regulatory accounting principles or policies imposed by FASB, the SEC, FERC, the LPSC, or similar entities with regulatory or accounting oversight, changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks,

•	legal, environmental, and regulatory delays and other obstacles" >3,074		
Long-term debt, less current portion		6,929	6,637
Total long-term liabilities		23,343	23,924
Total liabilities		51,243	46,811
Commitments and Contingencies			
Preferred Stock of subsidiary, \$1.00 par value; 1,467,396 shares authorized, 1,284,730 shares issued and outstanding, liquidation value \$1.00 per share		1,285	1,285
Stockholders' equity:			
Preferred Stock, \$.001 par value; 2,000,000 shares authorized, no shares issued and outstanding		$\frac{3}{4}$	$\frac{3}{4}$
Common Stock, \$.001 par value; 75,000,000 shares authorized, 55,175,897 and 55,106,180 shares issued, respectively; 55,137,687 and 55,067,970 shares outstanding, respectively		55	55
Additional paid-in capital		101,157	100,821
Accumulated deficit		(21,370)	(23,569)
Less Common Stock in treasury at cost; 38,210 shares, respectively		(88)	(88)
Total stockholders' equity		79,754	77,219
Total liabilities and stockholders' equity		\$132,282	\$125,315

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

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

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues	\$28,913	\$25,847	\$52,528	\$49,413
Cost of goods sold	20,864	18,665	41,449	37,288
Gross profit	8,049	7,182	11,079	12,125
Selling, general and administrative expenses	3,436	3,376	6,808	6,818
Research and development	395	179	661	389
Loss on disposal of property and equipment	¾	¾	¾	2
Income from operations	4,218	3,627	3,610	4,916
Other income (expense):				
Interest income	13	16	26	37
Interest expense	(183)	(206)	(359)	(424)
Interest expense-financing fees	(54)	(102)	(156)	(205)
Other	3	¾	3	5
Income from continuing operations before taxes	3,997	3,335	3,124	4,329
Income tax expense	1,445	1,219	1,105	1,638
Income from continuing operations	2,552	2,116	2,019	2,691
(Loss) income from discontinued operations, net of taxes	(32)	(670)	180	(608)
Net income	\$2,520	\$1,446	\$2,199	\$2,083
Net income (loss) per common share – basic:				
Continuing operations	\$.05	\$.04	\$.04	\$.05
Discontinued operations	¾	(.01)	¾	(.01)
Net income per common share	\$.05	\$.03	\$.04	\$.04
Net income (loss) per common share – diluted:				
Continuing operations	\$.05	\$.04	\$.04	\$.05
Discontinued operations	¾	(.01)	¾	(.01)
Net income per common share	\$.05	\$.03	\$.04	\$.04
Number of common shares used in computing net income (loss) per share:				
Basic	55,136	54,991	55,118	54,843
Diluted	55,136	55,124	55,123	55,012

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

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

(Amounts in Thousands)	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$2,199	\$2,083
Less: income (loss) on discontinued operations	180	(608)
Income from continuing operations	2,019	2,691
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	2,332	2,220
Amortization of debt discount	121	167
Deferred taxes	1,227	1,213
(Benefit) provision for bad debt and other reserves	(15)	27
Loss on disposal of plant, property and equipment		2
Issuance of common stock for services	108	120
Share based compensation	192	165
Changes in operating assets and liabilities of continuing operations, net of effect from business acquisitions:		
Accounts receivable	(6,322)	3,137
Unbilled receivables	(322)	1,531
Prepaid expenses, inventories and other assets	667	1,047
Accounts payable, accrued expenses and unearned revenue	4,126	(8,172)
Cash provided by continuing operations	4,133	4,148
Cash used in discontinued operations	(31)	(33)
Cash provided by operating activities	4,102	4,115
Cash flows from investing activities:		
Purchases of property and equipment	(1,689)	(1,085)
Payment to finite risk sinking fund	(1,905)	(1,916)
Cash used in investing activities of continuing operations	(3,594)	(3,001)
Cash used in investing activities of discontinued operations	(135)	(345)
Net cash used in investing activities	(3,729)	(3,346)
Cash flows from financing activities:		
Net borrowing of revolving credit	1,047	2
Principal repayments of long term debt	(2,124)	(1,928)
Proceeds from finite risk financing	685	653
Proceeds from issuance of stock		509
Cash used in financing activities of continuing operations	(392)	(764)
Principal repayments of long term debt for discontinued operations	(55)	(21)
Cash used in financing activities	(447)	(785)
Decrease in cash	(74)	(16)
Cash at beginning of period	101	66
Cash at end of period	\$27	\$50

Supplemental disclosure:

Interest paid	\$409	\$544
Income taxes paid	70	400
Non-cash investing and financing activities:		
Warrants extension for debt modification	36	

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
 CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 (Unaudited, for the six months ended June 30, 2011)

(Amounts in thousands, except for share amounts)	Common Stock		Additional Paid-In Capital	Common Stock Held In Treasury	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2010	55,106,180	\$ 55	\$ 100,821	\$ (88)	\$ (23,569)	77,219
Net income	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	2,199	2,199
Warrant extension for debt modification	$\frac{3}{4}$	$\frac{3}{4}$	36	$\frac{3}{4}$	$\frac{3}{4}$	36
Issuance of Common Stock for services	69,717	$\frac{3}{4}$	108	$\frac{3}{4}$	$\frac{3}{4}$	108
Stock-Based Compensation	$\frac{3}{4}$	$\frac{3}{4}$	192	$\frac{3}{4}$	$\frac{3}{4}$	192
Balance at June 30, 2011	55,175,897	\$ 55	\$ 101,157	\$ (88)	\$ (21,370)	\$ 79,754

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011
(Unaudited)

Reference is made herein to the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

1. B a s i s o f
Presentation

The consolidated financial statements included herein have been prepared by the Company (which may be referred to as we, us or our), without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures which are made are adequate to make the information presented not misleading. Further, the consolidated financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations as of and for the periods indicated. The results of operations for the six months ended June 30, 2011 are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2011.

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

Reclassifications

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

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

2. S u m m a r y o f S i g n i f i c a n t
Accounting Policies

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

Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04 (“ASU 2011-04”), “Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. ASU 2011-04 improves comparability of fair

value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and International Financial Reporting Standards (“IFRSs”). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. The amendments in this guidance are to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. We do not expect ASU 2011-04 to have a material effect on our financial position, results of operations, or cash flow.

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In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220) - Presentation of Comprehensive Income”, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for interim and annual periods beginning after Dec. 15, 2011 with early adoption permitted. We do not expect ASU 2011-05 to have a material impact on our current presentation.

3. S t o c k B a s e d
Compensation

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

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

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

As of June 30, 2011, we had 1,730,833 employee stock options outstanding, of which 1,419,000 are vested. The weighted average exercise price of the 1,419,000 outstanding and fully vested employee stock options is \$2.06 with a remaining weighted contractual life of 2.10 years. Additionally, we had 736,000 outstanding director stock options, all of which are vested. The weighted average exercise price of the 736,000 outstanding and fully vested director stock options is \$2.24 with a remaining weighted contractual life of 5.16 years.