EnergySolutions, Inc.
Form 10-Q
November 06, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

Or

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

For the transition period from to
Commission file number 001-33830

Energy*Solutions*, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**51-0653027** (I.R.S. Employer Identification Number)
423 West 300 South, Suite 200 **Salt Lake City, Utah** (Address of principal executive offices)	**84101** (Zip Code)

Registrant's telephone number, including area code: **(801) 649-2000**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

As of November 6, 2009, 88,333,871 shares of registrant's common stock were outstanding.

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Energy*Solutions*, Inc.

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For the Three and Nine months ended September 30, 2009

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PART I

Item 1. Financial Statements

Energy*Solutions*, Inc.

Condensed Consolidated Balance Sheets

September 30, 2009 and December 31, 2008

(in thousands of dollars)

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 21,392	$ 48,448
Accounts receivable, net of allowance for doubtful accounts	275,239	213,037
Costs and estimated earnings in excess of billings on uncompleted contracts	70,089	59,545
Income tax receivable	7,327	5,537
Inventories	12,618	11,218
Prepaid expenses	8,997	19,109
Other current assets	21,270	34,363
Total current assets	416,932	391,257
Property, plant and equipment, net	115,047	114,021
Goodwill	518,751	528,254
Other intangible assets, net	326,316	357,100
Restricted cash and decontamination and decommissioning deposits	25,621	31,712
Other noncurrent assets	181,891	128,368
Total assets	$ 1,584,558	$ 1,550,712
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	$ 1,392	$ 2,954
Accounts payable	117,917	89,513
Accrued expenses and other current liabilities	178,021	177,439
Deferred income taxes	2,068	2,067
Unearned revenues	20,302	26,734
Total current liabilities	319,700	298,707
Long-term debt, less current portion	517,719	563,803
Pension liability	155,532	104,897
Facility and equipment decontamination and decommissioning liabilities	62,633	65,904
Deferred income taxes	42,426	41,385
Other noncurrent liabilities	6,191	7,197

Total liabilities	1,104,201	1,081,893
Commitments and contingencies		
Energy*Solutions* stockholders' equity:		
Preferred stock, $0.01 par value, 100,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.01 par value, 1,000,000,000 shares authorized; 88,324,073 shares and 88,305,674 shares issued and outstanding	883	883
Additional paid-in capital	486,333	482,042
Accumulated other comprehensive income (loss)	(14,078)	4,895
Retained earnings (capital deficiency)	6,072	(20,034)
Total Energy*Solutions* stockholders' equity	479,210	467,786
Noncontrolling interests	1,147	1,033
Total equity	480,357	468,819
Total liabilities and equity	$ 1,584,558	$ 1,550,712

See accompanying notes to condensed consolidated financial statements.

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Energy*Solutions*, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Three and Nine Months Ended September 30, 2009 and 2008

(in thousands of dollars, except per share information)

(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues	$ 364,853	$ 419,453	$ 1,175,547	$ 1,381,551
Cost of revenues	320,910	362,962	1,034,678	1,189,557
Gross profit	43,943	56,491	140,869	191,994
Selling, general and administrative expenses	25,631	30,705	86,730	88,992
Income from operations	18,312	25,786	54,139	103,002
Interest expense	(6,368)	(9,778)	(21,789)	(34,250)
Other income (expenses), net	2,988	(72)	5,215	(1,891)
Income before income taxes and noncontrolling interests	14,932	15,936	37,565	66,861
Income tax expense	(1,742)	(4,827)	(8,367)	(23,164)
Net income	$ 13,190	$ 11,109	$ 29,198	$ 43,697
Less: Net income attributable to noncontrolling interests	(334)	(207)	(885)	(907)
Net income attributable to Energy*Solutions*	$ 12,856	$ 10,902	$ 28,313	$ 42,790
Net income attributable to Energy*Solutions* per share:				
Basic	$ 0.15	$ 0.12	$ 0.32	$ 0.48
Diluted	$ 0.15	$ 0.12	$ 0.32	$ 0.48
Shares used to calculate net income attributable to Energy*Solutions* per share:				
Basic	88,315,158	88,303,500	88,308,870	88,303,500
Diluted	88,557,831	88,312,311	88,390,569	88,310,791
Cash dividends declared per common share	$ 0.025	$ 0.025	$ 0.075	$ 0.075
Comprehensive income:				
Net income	$ 13,190	$ 11,109	$ 29,198	$ 43,697
Foreign currency translation adjustment	(22,178)	3,863	(21,233)	4,228
Change in unrecognized actuarial gain	77		2,260	336

Comprehensive income (loss)		(8,911)		14,972		10,225		48,261
Comprehensive income attributable to noncontrolling interests		(334)		(207)		(885)		(907)
Comprehensive income (loss) attributable to Energy*Solutions*	$	(9,245)	$	14,765	$	9,340	$	47,354

See accompanying notes to condensed consolidated financial statements.

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Energy*Solutions*, Inc.

Condensed Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2009 and 2008

(in thousands of dollars)

(Unaudited)

	Nine Months Ended September 30,	
	2009	**2008**
Cash flows from operating activities		
Net income attributable to Energy*Solutions*	$ 28,313	$ 42,790
Adjustments to reconcile net income attributable to Energy*Solutions* to net cash provided by operating activities:		
Net income attributable to noncontrolling interests	885	907
Depreciation and amortization	33,896	34,688
Equity-based compensation expense	8,697	7,388
Foreign currency transaction (gain) loss	(650)	5,343
Deferred income taxes	3,832	2,814
Amortization of debt financing fees and debt discount	3,167	2,516
(Gain) loss on disposal of property, plant and equipment	(5)	709
Unrealized loss on derivative contracts	2,746	3,341
Changes in operating assets and liabilities:		
Accounts receivable	(48,884)	107,828
Costs and estimated earnings in excess of billings on uncompleted contracts	(10,470)	(23,878)
Income tax receivable	(1,791)	8,389
Inventories	(1,399)	572
Prepaid expenses and other current assets	25,484	(33,458)
Accounts payable	21,317	(56,167)
Accrued expenses and other current liabilities	(1,480)	(10,996)
Unearned revenues	(6,452)	(3,272)
Facility and equipment decontamination and decommissioning liabilities	1,175	1,202
Restricted cash and decontamination and decommissioning deposits	1,725	2,309
Other noncurrent assets	(42,602)	(43,100)
Other noncurrent liabilities	38,329)	37,048
Net cash provided by operating activities	55,833	86,973
Cash flows from investing activities		
Purchases of property, plant and equipment	(15,059)	(9,731)
Purchases of intangible assets	(558)	(351)
Proceeds from disposition of property, plant and equipment	22	33
Net cash used in investing activities	(15,595)	(10,049)
Cash flows from financing activities		
Repayments of long-term debt	(47,646)	(30,210)
Dividends to stockholders	(6,623)	(6,623)
Distributions to noncontrolling interests partners	(762)	(595)
Settlement of derivative contracts	(5,839)	(1,455)
Repayments of capital lease obligations	(1,078)	(1,165)
Debt financing fees	(4,564)	(6,434)

Net cash used in financing activities	(66,512)	(46,482)
Effect of exchange rate on cash	(782)	(6,908)
Net increase in cash and cash equivalents	(27,056)	23,534
Cash and cash equivalents, beginning of period	48,448	36,366
Cash and cash equivalents, end of period	$ 21,392	$ 59,900

See accompanying notes to condensed consolidated financial statements.

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Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) Description of Business

Energy*Solutions*, Inc. ("we," "our," "Energy*Solutions*" or the "Company") is a leading provider of specialized, technology-based nuclear services to government and commercial customers. Our customers rely on our expertise to address their needs throughout the lifecycle of their nuclear operations. Our broad range of nuclear services includes engineering, operation of nuclear reactors, in-plant support services, spent nuclear fuel management, decontamination and decommissioning ("D&D"), logistics, transportation, processing and disposal. We derive almost 100% of our revenues from the provision of nuclear services.

We provide our services through four segments: Federal Services; Commercial Services; Logistics, Processing and Disposal ("LP&D"), and International. Our Federal Services segment derives revenues from U.S. government customers for the management and operation or clean-up of facilities with radioactive materials. Our U.S. government customers are primarily individual offices, departments and administrations within the U.S. Department of Energy ("DOE") and U.S. Department of Defense ("DOD"). Our Commercial Services segment provides a broad range of on-site services, including D&D, to commercial customers. Our commercial customers include power and utility companies, pharmaceutical companies, research laboratories, universities, industrial facilities and other commercial entities with nuclear materials, as well as state agencies in the United States. Our LP&D segment provides a broad range of logistics, transportation, processing and disposal services to government and commercial customers. This segment also operates our facilities for the safe processing and disposal of radioactive materials, including a facility in Clive, Utah, four facilities in Tennessee and two facilities in Barnwell, South Carolina. Our International segment derives revenues primarily through contracts with the Nuclear Decommissioning Authority ("NDA") in the United Kingdom ("UK") to operate, manage and decommission 10 Magnox sites with 22 nuclear reactors. In addition, our International segment provides turn-key services for the disposal of radioactive sources from non-nuclear power generating facilities such as hospitals, research facilities and other manufacturing and industrial facilities.

(2) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring activities, considered necessary for a fair presentation have been included. We evaluated all subsequent events through the date that we filed these financial statements in our Form 10-Q Report with the Securities and Exchange Commission on November 6, 2009. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission on February 27, 2009.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The results of operations for the three and nine

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Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(2) Basis of Presentation (Continued)

months ended September 30, 2009 are not necessarily indicative of results that can be expected for the full year.

We have majority voting rights for two of our minority-owned joint ventures. Accordingly, we have included their operations in our condensed consolidated financial statements. We recorded the portion of the earnings from operations which is applicable to the noncontrolling partners as net income and comprehensive income attributable to noncontrolling interests.

Certain amounts for prior periods have been reclassified to conform to the current year presentation. Prior to the fourth quarter of 2008, we included letter of credit interest in cost of revenues and selling, general and administrative expenses. During the fourth quarter of 2008, we reclassified these amounts from operating expenses to interest expense in the accompanying condensed consolidated statements of operations. Accordingly, for the three and nine months ended September 30, 2008, gross profit was increased by $0.5 million and $1.9 million, respectively, and income from operations was increased $0.6 million and $2.2 million, respectively as a result of this reclassification. We have also reclassified $6.4 million from unearned revenues to accrued expenses and other current liabilities as of December 31, 2008 to conform to the current year presentation.

(3) Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued guidance on noncontrolling interests which establishes accounting and reporting guidance for the noncontrolling interest in a subsidiary (formerly known as minority interest) and for the deconsolidation of a subsidiary. This guidance clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This guidance also requires presentation on the face of the consolidated statement of income of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest, resulting in an increase to consolidated Net income. Historically, Net income attributable to noncontrolling interests was presented as minority interest expense. Under this new guidance, amounts reported as Net income attributable to noncontrolling interests are now reported net of any applicable taxes. This guidance requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We adopted the statement on January 1, 2009 via retrospective application of the presentation and disclosure requirements.

In March 2008, the FASB issued new disclosure requirements for derivative instruments and hedging activities. The new disclosure requirements will provide users of financial statements with an enhanced understanding of: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for; and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments. This statement applies to all entities and all derivative instruments. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The required disclosures

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Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(3) Recent Accounting Pronouncements (Continued)

are presented in Note 7 on a prospective basis. This guidance does not impact the consolidated financial results as it is disclosure-only in nature.

In April 2009, the FASB issued guidance on fair value measurements and disclosures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. The new guidance requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has been a significant decrease in activity, transactions or quoted prices may not be indicative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant, observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. This guidance, which was adopted by the Company effective April 1, 2009, did not impact the Company's financial position, results of operations or cash flows during the three and nine months ended September 30, 2009.

In May 2009, the FASB issued guidance on subsequent events which establishes general guidance for accounting for and disclosing subsequent events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance requires an entity to disclose the date through which subsequent events were evaluated by management. We adopted this guidance as of April 1, 2009 and the required disclosures are presented in Note 2. This guidance does not impact the Company's financial position or results of operation as it is disclosure-only in nature.

Accounting Pronouncements Issued But Not Yet Adopted

In June 2009, the FASB issued authoritative guidance on accounting for transfers of financial assets, which is effective for reporting periods beginning after November 15, 2009. The new requirement limits the circumstances in which a financial asset may be de-recognized when the transferor has not transferred the entire financial asset or has continuing involvement with the transferred asset. The concept of a qualifying special-purpose entity, which had previously facilitated sale accounting for certain asset transfers, is removed by the new requirement. . The Company is currently evaluating the potential impact of this guidance but does not expect it to have a material impact on the Company's results of operations, financial position or cash flows.

In June 2009, the FASB issued authoritative guidance on accounting for variable interest entities, which is effective for reporting periods beginning after November 15, 2009. The amendments change the process for how an enterprise determines which party consolidates a variable interest entity (VIE) to a primarily qualitative analysis. The party that consolidates the VIE (the primary beneficiary) is defined as the party with (1) the power to direct activities of the VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Upon adoption, reporting enterprises must reconsider their conclusions on whether an entity should be consolidated and should a change result, the effect on net assets will be recorded as a cumulative effect adjustment to retained earnings. . The Company is currently evaluating the potential impact of this guidance but does not expect it to have a material impact on the Company's results of operations, financial position or cash flows.

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Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(3) Recent Accounting Pronouncements (Continued)

In August 2009, the FASB issued additional guidance on the fair value measurement of liabilities. The new guidance provides clarification on circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1) a valuation technique that uses a quoted price of an identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) another valuation technique including one of the following: a) a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer an identical liability or b) a technique based on the amount a reporting entity would receive to enter into an identical liability. It also clarifies that both a quoted price in an active market for an identical liability at the measurement date and a quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This guidance is effective for financial statements issued for interim and annual periods beginning after August 28, 2009. The adoption of this new guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In October 2009, the FASB issued an update to the authoritative guidance for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. This update is effective prospectively for revenue arrangements entered into or materially modified beginning in fiscal years on or after June 15, 2010. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this guidance but we do not expect it to have a material impact on the Company's results of operations, financial position or cash flows.

(4) Inventories

Inventories consist of the following as of September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009	December 31, 2008
Parts and supplies	$ 603	$ 517
Work in process	170	3,050
Finished goods	11,845	7,651
	$ 12,618	$ 11,218

(5) Goodwill and Other Intangible Assets

As of September 30, 2009, we had recorded $518.8 million of goodwill related to the acquisitions of Envirocare, Scientech, Duratek, BNGA, Safeguard, Parallax, RSMC, Nukem and Monserco.

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Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(5) Goodwill and Other Intangible Assets (Continued)

Other intangible assets with finite lives as of September 30, 2009 and December 31, 2008 were as follows (in thousands):

	As of September 30, 2009			As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Useful Life
Permits	$ 239,059	$ (44,382)	20.1 years	$ 239,059	$ (36,995)	20.6 years
Customer relationships	169,820	(48,188)	8.5 years	182,436	(38,157)	9.1 years
Technology and other	15,037	(5,098)	6.3 years	14,479	(3,930)	6.7 years
Non competition	1,030	(962)	0.5 years	1,030	(822)	0.9 years
Total amortizable intangibles	$ 424,946	$ (98,630)	15.3 years	$ 437,004	$ (79,904)	15.5 years

For the three and nine months ended September 30, 2009, amortization expense was $4.8 million and $18.7 million, respectively, as compared to $6.9 million and $21.3 million for the same periods in 2008. We do not have intangible assets that are not subject to amortization other than goodwill.

During the three months ended September 30, 2009, the Company determined that it had inappropriately applied authoritative guidance related to intangible assets and goodwill denominated in foreign currencies. As such, the Company recorded an entry during the three months ended September 30, 2009 for $1.8 million to reduce amortization expense recorded in previous periods.

(6) Senior Credit Facilities

On September 23, 2009, we entered into a Third Amended and Restated Credit Agreement (the "Amended ES Credit Agreement") with Citicorp North America, Inc. ("CNAI") as administrative agent and collateral agent. Concurrently with the entry into the Amended ES Credit Agreement, Duratek, Inc., a wholly-owned subsidiary of the Company, entered into an Amended and Restated Credit Agreement (the "Amended Duratek Credit Agreement" and together with the Amended ES Credit Agreement, the "Amended Credit Agreements") with CNAI. The Amended Credit Agreements amend, restate and supersede the credit agreements dated June 7, 2006 and subsequent amendments with CNAI and the lenders identified therein.

Our credit facilities consist of a $75.0 million revolving credit facility, which matures on June 7, 2011, term-loan facilities totaling $770.0 million, which mature on June 7, 2013, and synthetic letter of credit facilities totaling $100.0 million, which expire on June 7, 2013. The revolving credit facility includes a sublimit of $60.0 million for letters of credit, of which $11.9 million were issued as of September 30, 2009. The synthetic letter of credit facilities had $100.0 million issued as of September 30, 2009.

As amended by the Amended Credit Agreements, borrowings under the credit facilities bear interest as follows:

(1) in the case of the first-lien term loans, (i) the greater of the rate of interest announced by Citicorp, from time to time, as its prime rate in effect at its principal office in the city of New York, and the federal funds rate plus 0.50% per annum (the "base rate"), plus 2.25% (or 1.75%

Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(6) Senior Credit Facilities (Continued)

when the leverage ratio (as defined in the Amended Credit Agreements) as of the most recently completed fiscal quarter is less than 2.0 to 1.0) or (ii) for any portion of the term loans as to which we have elected to pay interest on a Eurodollar basis, LIBOR plus 3.75% (or 3.25% when the leverage ratio (as defined in the Amended Credit Agreements) as of the most recently completed fiscal quarter is less than 2.0 to 1.0);

(2) in the case of the revolving loans, (i) the base rate plus 2.25% or (ii) for any portion of the revolving loans as to which we have elected to pay interest on a Eurodollar basis, LIBOR plus 3.75%; and

(3) in the case of synthetic letters of credit, LIBOR for the period of the loan less the synthetic deposit return paid to the synthetic lenders plus 3.75% (or 3.25% when the leverage ratio (as defined in the Amended ES Credit Agreement) as of the most recently completed fiscal quarter is less than 2.0 to 1.0).

As of September 30, 2009 and December 31, 2008, the interest rate of borrowings under our term loan facilities was 4.05% and 4.14%, respectively.

The repayment schedule for the credit facilities was not altered by the Amended Credit Agreements. As before, commencing September 30, 2006 and at the end of each calendar quarter for the next 26 quarters, the first-lien term loans under the credit facilities amortize in quarterly installments of 0.25% of the outstanding principal balance on September 30, 2006, adjusted for optional prepayments. The scheduled repayments of the term loans are approximately $1.4 million per quarter. In addition, we may be required to make mandatory principal repayments quarterly depending on our excess cash flow for the quarter and our leverage ratio as defined in the Amended Credit Agreements. Due to optional prepayments of $30.0 million made during the quarter ended September 30, 2009, we were not required to make any mandatory principal repayments as of September 30, 2009.

As amended, the credit facilities require us to maintain certain financial ratios, including a maximum leverage ratio (based upon the ratio of total consolidated indebtedness to consolidated operating cash flow), a maximum first-lien leverage ratio (based upon the ratio of first-lien indebtedness to consolidated operating cash flow) and a minimum cash interest coverage ratio (based upon the ratio of consolidated operating cash flow to consolidated cash interest expense), which are tested quarterly. Based on the revised formulas set forth in the Amended Credit Agreements, we are required to maintain a maximum leverage ratio of 4.0 from the quarter ended September 30, 2009 through the quarter ending December 31, 2010 and 3.5 from the quarter ending March 31, 2011 until maturity. We are required to maintain a maximum first-lien leverage ratio of 3.75 through the quarter ending December 31, 2009, 3.5 for the quarters ending March 31, 2010 through December 31, 2010, 3.25 for the quarter ending March 31, 2011 and 3.0 for quarters ending June 30, 2011 through the maturity date. We are required to maintain a minimum cash interest coverage ratio of 2.75 through the quarter ending December 31, 2009 and 3.0 from the quarter ending March 31, 2010 through the maturity date. Failure to comply with these financial ratio covenants would result in a default under our credit facilities and, absent a waiver or an amendment from the lenders, preclude us from making further borrowings under our credit facilities and permit the lenders to accelerate all outstanding borrowings under the credit facilities. As of September 30, 2009, our total leverage, first-lien leverage and interest coverage ratios were 3.31, 3.31 and 4.23, respectively.

Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(6) Senior Credit Facilities (Continued)

The credit facilities also contain a number of affirmative and restrictive covenants including limitations on mergers, consolidations and dissolutions; sales of assets; investments and acquisitions; indebtedness; liens; affiliate transactions; and dividends and restricted payments. Under the credit facilities, we are permitted maximum annual capital expenditures of $30.0 million for 2009 and $40.0 million for 2010 and each year thereafter, plus for each year the lesser of (1) a one year carry-forward of the unused amount from the previous fiscal year and (2) 50% of the amount permitted for capital expenditures in the previous fiscal year. The credit facilities contain events of default for non-payment of principal and interest when due, a cross-default provision with respect to other indebtedness having an aggregate principal amount of at least $5.0 million and an event of default that would be triggered by a change of control, as defined in the credit facilities. Capital expenditures for the nine months ended September 30, 2009 were $14.6 million. As of September 30, 2009, we were in compliance with all of the covenants under our credit agreements.

Under the terms of the Amended Credit Agreements, we will be permitted to obtain credit support in an aggregate amount of up to $50.0 million in connection with our agreement with Exelon Generation Company LLC (the "Exelon Agreement") to dismantle Exelon's Zion nuclear facility located in Zion, Illinois, which ceased operation in 1998. Such credit support may take the form of (i) new incremental commitments under the Amended Credit Agreements with respect to a letter of credit facility (the "Zion Letter of Credit Facility") and/or (ii) a letter of credit, performance or fidelity bond or related obligation by a third party support provider (the "Zion Credit Support Obligation"). Each of the Zion Letter of Credit Facility and Zion Credit Support Obligation may be secured pari passu on the same collateral securing the obligations under the Amended Credit Agreements and shall have a one year term (with auto-renewal extension provisions) but, if secured, expire prior to the term loan maturity date. The Amended Credit Agreements also include additional loan covenants and exceptions related to the Exelon Agreement and the disposition of related assets. See note 16 for further discussion of the Exelon agreement.

Our obligations under the credit facilities continue to be guaranteed by the Company and, subject to certain exceptions, each of the Company's direct or indirect domestic subsidiaries and are secured by a lien on substantially all of the assets of the Company and each direct or indirect domestic subsidiary. In the event of default, the lenders have standard creditor remedies, including the right to foreclose on pledged assets.

During the nine months ended September 30, 2009 and 2008, we made principal repayments totaling $47.6 million and $30.2 million, respectively, on the outstanding term loan facilities. During the nine months ended September 30, 2009 and 2008, we made cash interest payments of $18.5 million and $24.4 million, respectively. During the nine months ended September 30, 2009, we paid fees of approximately $4.6 million to the lenders to obtain the Amended Credit Agreements, which are being amortized over the remaining term of the credit facilities.

(7) Fair Value Measurements

In 2008, the Company implemented the accounting requirements for financial assets and financial liabilities reported at fair value and related disclosures. Effective January 1, 2009, the Company prospectively implemented the accounting requirements for non-financial assets and non-financial liabilities reported or disclosed at fair value. The requirement defines fair value, establishes a three

Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(7) Fair Value Measurements (Continued)

level hierarchy for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. As of September 30, 2009 and December 31, 2008, we had no assets or liabilities considered to be Level 1 or Level 3.

The carrying value of accounts receivable, inventories, prepaid assets, accounts payable, accrued expenses and unearned revenues approximate their fair value principally because of the short-term nature of these assets and liabilities.

The fair market value of our debt is based on quoted market prices from the over-the-counter restricted market. As of September 30, 2009 and December 31, 2008, we had outstanding term loans with carrying amounts of $519.1 million and $566.8 million and with fair values of approximately $513.9 million and $430.7 million, respectively.

The fair value of our derivative instruments is determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies. As of September 30, 2009, the carrying amount of our foreign currency derivative and interest rate swap approximates fair value. These instruments are included in accrued expenses and other current liabilities and other noncurrent liabilities in the accompanying balance sheets and are classified as Level 2 under the fair value hierarchy. As of September 30, 2009 and December 31, 2008 the fair value of our interest rate and foreign currency derivative contracts outstanding was (in thousands):

	September 30, 2009	December 31, 2008
Assets		
Fair value of derivative contracts short term	$ 250	$
Liabilities		
Fair value of derivative contracts short term	$ 153	521
Fair value of interest rate swap long term	1,974	261

(8) Derivative Financial Instruments

We have entered into derivative contracts to help offset our exposure to movements in interest rates in relation to our variable rate debt. As of September 30, 2009 and December 31, 2008, the fair value liability of the interest rate swap contracts was $2.0 million and $0.3 million, respectively. These contracts are not designated as accounting hedges. Unrealized gains and losses resulting from adjustments to the fair value of the contracts are included in other income (expenses), net. We recognized losses of $0.5 million and $1.7 million for the three and nine months ended September 30, 2009, respectively. We recognized losses of $9,713 and $2.2 million for the three and nine months ended September 30, 2008, respectively. We do not use interest rate derivatives for trading or speculative purposes.

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Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(8) Derivative Financial Instruments (Continued)

In addition, we have foreign currency exposure related to our operations in the UK as well as other foreign locations. Exchange gains and losses resulting from this exposure are included in other income (expenses), net, in the accompanying consolidated statements of operations. During the three and nine months ended September 30, 2009, we recognized losses of $0.7 million and gains of $5.1 million, respectively. During the three and nine months ended September 30, 2008, we recognized losses of $6.4 million and $7.2 million, respectively.

We have entered into derivative contracts to help offset our exposure to movements in foreign currency rates in relation to our U.S. dollar denominated intercompany loan with our UK subsidiary. This foreign currency derivative contract is not designated as an accounting hedge. As of September 30, 2009, the fair value of the derivatives was a $0.3 million asset and a $0.2 million liability, which were included in other current assets and other current liabilities, respectively, in the accompanying balance sheets. Realized and unrealized gains and losses resulting from adjustments to the fair value of the contracts are included in other income (expenses), net and resulted in a gain of $0.4 million and a loss of $5.2 million for the three and nine months ended September 30, 2009, respectively, and gains of $5.9 million and $4.1 million for the three and nine months ended September 30, 2008, respectively.

(9) Net Income Per Share

Basic net income per share is computed by dividing net income attributable to Energy*Solutions* by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income attributable to Energy*Solutions* by the weighted-average number of common shares outstanding during the period and potentially dilutive common stock equivalents. Potentially dilutive common stock equivalents that have been issued by us relate to outstanding stock options and non-vested restricted stock awards and are determined using the treasury stock method.

The following table sets forth the computation of the common shares outstanding in determining basic and diluted net income per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted average common shares basic	88,315,158	88,303,500	88,308,870	88,303,500
Dilutive effect of restricted stock and stock options	242,673	8,811	81,699	7,291
Weighted average common shares diluted	88,557,831	88,312,311	88,390,569	88,310,791
Anti-dilutive securities not included above	5,847,979	5,691,882	5,858,879	5,737,388

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(10) Equity-Based Compensation

Profit Interests

In prior years, certain members of our management were granted profit interest units in ENV Holdings LLC ("ENV Holdings"), formerly our parent, in consideration for services rendered during the vesting period. These units did not represent ownership in ENV Holdings but rather these units entitled the holders to distributions from ENV Holdings if a distribution was paid. There were several classes of units granted and each successive class carried a lower priority on distributions. Certain units vested immediately upon grant and others vested over periods up to three years. We estimated the fair value at grant date of the units issued using both a market and an income approach and recorded compensation expense of $0.3 million for the nine months ended September 30, 2009 and $0.1 million and $0.5 million for the three and nine months ended September 30, 2008, respectively. There was no compensation expense recorded for the three months ended September 30, 2009 and there is no remaining unrecognized compensation expense associated with these units.

Stock Options and Restricted Stock

In November 2007, we adopted the Energy*Solutions*, Inc. 2007 Equity Incentive Plan (the "Plan"). The Plan authorizes our Board of Directors to grant equity awards to directors, officers, employees and consultants. The aggregate number of shares of common stock that may be issued pursuant to awards granted under the Plan is 10,440,000. We recorded non-cash compensation expense related to our stock option and restricted stock grants of $3.2 million and $8.4 million during the three and nine months ended September 30, 2009, respectively, and $2.3 million and $6.9 million during the three and six months ended September 30, 2008, respectively. As of September 30, 2009, we had $18.0 million of unrecognized compensation expense related to outstanding stock options, which will be recognized over a weighted-average period of 2.3 years. As of September 30, 2009, there was $2.6 million of unrecognized compensation cost related to non-vested restricted stock which is expected to be recognized over a weighted-average period of 2.7 years.

(11) Pension Plans

Net periodic benefit costs for the three and nine months ended September 30, 2009 and 2008 consisted of the following (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Service cost	$ 8,865	$ 12,137	$ 24,991	$ 37,420
Interest cost	39,361	44,753	110,957	137,985
Expected return on plan assets	(33,245)	(49,778)	(93,718)	(153,479)
	$ 14,981	$ 7,112	$ 42,230	$ 21,926

The preceding information does not include amounts related to benefit plans applicable to employees associated with certain contracts with the U.S. Department of Energy because we are not responsible for the current or future funded status of these plans.

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Energy*Solutions*, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(12) Income Taxes

We recognized income tax expense of $1.7 million and $8.4 million for the three and nine months ended September 30, 2009, respectively, based on an estimated annual effective tax rate on our consolidated operations of 22.8%. We recognized $4.8 million and $23.2 million for the three and nine months ended September 30, 2008, respectively, based on an estimated annual effective tax rate on our consolidated operations of 35.1%. During the three and nine months ended September 30, 2009, we recognized discrete income tax benefits, including adjustments to unrecognized tax benefits, of $1.6 million and $2.2 million, respectively, primarily related to research and development activities in the UK and in the U.S. During the nine months ended September 30, 2009 and 2008, we made income tax payments of $7.8 million and $20.5 million, respectively.

As of September 30, 2009 and December 31, 2008, we had $2.9 million and $0.9 million, respectively, of gross unrecognized tax benefits, which may impact our annual effective tax rate in future years. These tax benefits were accounted for under guidance for accounting for uncertainty in income taxes. The Company and its U.S. subsidiaries are subject to U.S. federal and state income tax. The Company is currently in various stages of multiple year examinations by Federal taxing authorities. The Company does not anticipate a significant impact to the unrecognized tax benefits balance with respect to current tax examinations in the next 12 months, although the timing of the resolution and/or the closure on audits is highly uncertain.

(13) Segment Reporting and Business Concentrations

We provide our services through four segments: Federal Services ("FS"), Commercial Services ("CS"), Logistics, Processing and Disposal ("LP&D"), and International.

The following table presents segment information as of and for the three and nine months ended September 30, 2009 and 2008 (in thousands):

	As of and for the Three Months Ended September 30, 2009					
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
Revenues from external customers(1)	$ 77,007	$ 21,254	$ 52,681	$ 213,911	$	$ 364,853
Income (loss) from operations	5,871	4,699	18,189	3,631	(14,078)	18,312
Depreciation and amortization expense	475	459	6,069	226	3,072	10,301
Purchases of property, plant and equipment		1,633	2,242	170	2,359	6,404

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(13) Segment Reporting and Business Concentrations (Continued)