

EnergySolutions, Inc.
Form 10-Q
November 13, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

Or

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

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

EnergySolutions, 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 ☒ No ☐

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 ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller
reporting company)

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

As of October 31, 2008, 88,303,500 shares of registrant's common stock were outstanding.

ENERGYSOLUTIONS, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Three and Nine Months Ended September 30, 2008

	Page
<u>PART I.</u>	
<u>Item 1. Financial Statements</u>	1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Qualitative and Quantitative Disclosures about Market Risk</u>	31
<u>Item 4. Controls and Procedures</u>	32
<u>PART II.</u>	
<u>Item 1. Legal Proceedings</u>	33
<u>Item 1A. Risk Factors</u>	33
<u>Item 6. Exhibits</u>	52
<u>Signatures</u>	52

PART I**Item 1. Financial Statements****EnergySolutions, Inc.****Condensed Consolidated Balance Sheets****September 30, 2008 and December 31, 2007****(in thousands of dollars)**

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 59,900	\$ 36,366
Restricted cash		3,995
Accounts receivable, net of allowance for doubtful accounts	241,182	366,083
Costs and estimated earnings in excess of billings on uncompleted contracts	65,228	41,243
Income tax receivable	17,773	26,163
Inventories	9,998	10,851
Prepaid expenses and other current assets	48,818	20,981
Total current assets	442,899	505,682
Property, plant and equipment, net	102,571	110,688
Goodwill	526,532	526,040
Other intangible assets, net	363,714	383,812
Restricted cash and decontamination and decommissioning deposits	34,517	30,559
Other noncurrent assets	107,846	68,169
Total assets	\$ 1,578,079	\$ 1,624,950
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 11,329	\$ 1,557
Accounts payable	91,283	155,663
Accrued expenses and other current liabilities	204,701	233,588
Deferred income taxes	1,402	1,402
Unearned revenues	40,408	43,733
Total current liabilities	349,123	435,943
Long-term debt, less current portion	565,427	605,410
Pension liability	78,249	44,540
Facility and equipment decontamination and decommissioning liabilities	68,369	69,543
Deferred income taxes	56,169	53,504
Other noncurrent liabilities	6,493	10,619
Total liabilities	1,123,830	1,219,559
Minority interests	852	68

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Commitments and contingencies

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;

88,303,500 shares issued and outstanding

883

883

Additional paid-in capital

471,794

471,075

Accumulated other comprehensive income (loss)

3,135

(1,429)

Capital deficiency

(22,415)

(65,206)

Total stockholders' equity

453,397

405,323

Total liabilities and stockholders' equity

\$ 1,578,079

\$ 1,624,950

See accompanying notes to condensed consolidated financial statements.

EnergySolutions, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
Three and Nine Months Ended September 30, 2008 and 2007
(in thousands of dollars, except per share information)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$ 419,453	\$ 388,895	\$ 1,381,551	\$ 664,753
Cost of revenues	363,462	332,758	1,191,466	532,127
Gross profit	55,991	56,137	190,085	132,626
Selling, general and administrative expenses	30,779	29,092	89,290	80,432
Income from operations	25,212	27,045	100,795	52,194
Interest expense	(9,204)	(21,074)	(32,043)	(51,785)
Other income (expenses), net	(72)	(1,961)	(1,891)	(1,403)
Income (loss) before income taxes and minority interests	15,936	4,010	66,861	(994)
Minority interests	207		907	
Income tax expense	4,827	3,786	23,164	3,134
Net income (loss)	\$ 10,902	\$ 224	\$ 42,790	\$ (4,128)
Net income per share see note 8:				
Basic	\$ 0.12		\$ 0.48	
Diluted	\$ 0.12		\$ 0.48	
Shares used to calculate net income per share:				
Basic	88,303,500		88,303,500	
Diluted	88,312,311		88,310,791	
Pro forma net income (loss) per share see note 8:				
Basic	\$ 0.03		\$ (0.01)	
Diluted	\$ 0.03		\$ (0.01)	
Shares used to calculate pro forma net income (loss) per share:				
Basic	75,150,000		75,150,000	
Diluted	75,150,000		75,150,000	
Cash dividends declared per common share	\$ 0.025	\$	\$ 0.075	\$
Comprehensive income (loss):				
Net income (loss)	\$ 10,902	\$ 224	\$ 42,790	\$ (4,128)
Foreign currency translation adjustment	3,863	(1,686)	4,228	(1,409)
Change in unrecognized actuarial loss			336	
Comprehensive income (loss)	\$ 14,765	\$ (1,462)	\$ 47,354	\$ (5,537)

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

EnergySolutions, Inc.
Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2008 and 2007
(in thousands of dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities		
Net income (loss)	\$ 42,790	\$ (4,128)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Minority interests	907	
Depreciation and amortization	34,688	31,632
Equity-based compensation expense	7,388	2,121
Deferred income taxes	2,814	
Amortization of debt financing fees and debt discount	2,516	2,773
Loss on disposal of property, plant and equipment	709	4
Unrealized loss on derivative contracts	3,341	3,927
Changes in operating assets and liabilities:		
Accounts receivable	107,828	65,084
Costs and estimated earnings in excess of billings on uncompleted contracts	(23,878)	19,152
Income tax receivable	8,389	
Inventories	572	163
Prepaid expenses and other current assets	(33,458)	11,492
Accounts payable	(56,167)	(13,001)
Accrued expenses and other current liabilities	(10,996)	(34,791)
Unearned revenues	(3,272)	(12,885)
Facility and equipment decontamination and decommissioning liabilities	1,202	2,205
Restricted cash and decontamination and decommissioning deposits	2,309	38,184
Other noncurrent assets	(43,100)	(1,801)
Other noncurrent liabilities	37,048	2,707
Net cash provided by operating activities	81,630	112,838
Cash flows from investing activities		
Purchases of businesses, net of cash acquired		(196,400)
Purchases of property, plant and equipment	(9,731)	(5,642)
Purchases of intangible assets	(351)	
Proceeds from disposition of property, plant and equipment	33	
Net cash used in investing activities	(10,049)	(202,042)
Cash flows from financing activities		
Repayments of long-term debt	(30,210)	(84,000)
Borrowings of long-term debt		200,000
Net borrowings (repayments) under revolving credit facility		(3,000)
Dividends/distributions to stockholders	(6,623)	(8,918)
Distributions to minority interests partners	(595)	
Settlement of interest rate derivative contract	(1,455)	
Repayments of capital lease obligations	(1,165)	(919)
Debt financing fees	(6,434)	(6,701)
Net cash provided by (used in) financing activities	(46,482)	96,462
Effect of exchange rate on cash	(1,565)	(787)
Net increase in cash and cash equivalents	23,534	6,471
Cash and cash equivalents, beginning of period	36,366	4,641

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Cash and cash equivalents, end of period	\$ 59,900	\$ 11,112
--	-----------	-----------

See accompanying notes to condensed consolidated financial statements.

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) Description of Business

Envirocare of Utah, Inc., our predecessor, was formed in 1988 to operate a disposal facility for mixed waste, uranium mill tailings and Class A low-level radioactive waste in Clive, Utah. In January 2005, our predecessor converted to a limited liability company, Envirocare of Utah, LLC ("Envirocare"). Immediately thereafter, the sole member of Envirocare sold all of its member interest to ENV Holdings LLC ("ENV Holdings"), our former parent. In 2006, we changed our name from Envirocare of Utah, LLC to EnergySolutions, LLC. Since 2005, we have expanded and diversified our operations through a series of strategic acquisitions, including the Decontamination and Decommissioning ("D&D") division of Sciencetech, LLC ("Sciencetech") in October 2005, BNG America, LLC ("BNGA") in February 2006, Duratek, Inc. ("Duratek") in June 2006, Safeguard International Solutions, Ltd. ("Safeguard") in December 2006, Parallax, Inc. ("Parallax") in January 2007, Reactor Sites Management Company Limited ("RSMC") in June 2007, NUKEM Corporation ("NUKEM") in July 2007, and Monserco Limited ("Monserco") in December 2007. The operations of such acquisitions are included in our results of operations from the dates of acquisitions.

On November 20, 2007, the date of the completion of our initial public offering, we completed our conversion from a limited liability company, EnergySolutions, LLC, to a "C" corporation, EnergySolutions, Inc ("we," "our," "EnergySolutions" or the "Company"). As a result, the sole member of EnergySolutions, LLC contributed its membership equity interest for 75.2 million shares, par value \$0.01 per share, of the common stock of EnergySolutions, Inc. EnergySolutions, Inc. is now organized and existing under the General Corporation Law of the State of Delaware.

On July 30, 2008, we completed a secondary public offering of 35 million shares of common stock offered by ENV Holdings, as selling stockholder. The underwriters of the offering subsequently exercised their over-allotment option and purchased 5,250,000 additional shares of common stock from ENV Holdings. Following completion of these transactions, ENV Holdings LLC remains the owner of approximately 16.7% of our outstanding shares of common stock. We did not receive any proceeds from the sale of shares by ENV Holdings and recognized expenses of \$1.3 million and \$1.8 million for the three and nine months ended September 30, 2008, respectively.

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 UK. RSMC, through its subsidiary Magnox Electric Ltd., holds the contracts and licenses to operate and decommission 10 nuclear sites with 22

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) Description of Business (Continued)

reactors in the UK on behalf of the NDA, the government body responsible for the clean up and decommissioning of the UK nuclear sites.

(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 accruals, considered necessary for a fair presentation have been included. 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, 2007 filed with the Securities and Exchange Commission on March 28, 2008.

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 months ended September 30, 2008 are not necessarily indicative of results that can be expected for the full year.

Effective March 14, 2008, we obtained majority voting rights for one of our minority-owned joint ventures. Accordingly, we have consolidated its operations in our consolidated financial statements from March 14, 2008. We recorded minority interests which reflect the portion of the earnings of operations which are applicable to other minority interest partners.

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

(3) Inventories

Inventories consist of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	(in thousands of dollars)	
Parts and supplies	\$ 521	\$ 892
Work in process	1,826	2,904
Finished goods	7,651	7,055
	\$ 9,998	\$ 10,851

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(4) Goodwill

Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment annually.

Goodwill is tested at the reporting unit level at least annually for impairment and is reviewed for impairment more frequently if events and circumstances indicate that the asset might be impaired. Statement of Financial Accounting Standard ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, requires a two-step impairment test. In the first step, we determine the fair value of the reporting unit using a discounted cash flow valuation model and compare the fair value to the reporting unit's carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired and no further testing is required. If the fair value does not exceed the carrying value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. We completed the first step of the impairment test for our reporting units with goodwill as of our annual impairment testing date of March 31, 2008. Based on our valuation procedures, we determined that the fair value of each reporting unit exceeded its carrying value. As such, we were not required to complete the second step of the impairment test and no impairment was recognized. In addition, due to possible indicators of impairment, we performed an interim impairment test as of September 30, 2008 and concluded the fair value of each reporting unit exceeded its carrying value; thus, no impairment was recognized.

(5) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. 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. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 14, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Partial Deferral of the Effective Date of Statement 157*, which delays the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The FSP defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008. In accordance with this staff position, we adopted the provisions of SFAS No. 157 that became effective at the beginning of fiscal year 2008 with respect to financial assets and liabilities, which did not have an impact on our financial position, results of operations or cash flows. We will adopt the provisions of SFAS No. 157 for non-financial assets and liabilities in the first quarter of 2009, which is not expected to have a material impact on our financial position, results of operations or cash flows.

EnergySolutions, Inc.**Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****(5) Fair Value Measurements (Continued)**

As of September 30, 2008, we had no assets or liabilities considered to be Level 1 or Level 3. The following table discloses the Level 2 fair value of our interest rate and foreign currency derivative contracts outstanding at September 30, 2008:

	September 30, 2008 (in thousands of dollars)
Assets	
Fair value of derivative contracts short term	\$ 4,380
Liabilities	
Fair value of derivative contracts short term	1,636

(6) Senior Credit Facilities

On June 7, 2006, we entered into a five-year, \$75.0 million revolving credit facility, seven-year, \$770.0 million term loan facilities and a seven-year, \$25.0 million synthetic letter of credit facility. The revolving credit facility includes a sublimit of \$60.0 million for letters of credit, of which \$17.0 million were issued as of September 30, 2008. The credit agreements governing these facilities were amended on February 9, 2007 to increase the size of the synthetic letter of credit facility from \$25.0 million to \$100.0 million, of which \$99.9 million were issued as of September 30, 2008. The credit facilities are secured by substantially all of our assets. As of September 30, 2008, we were in compliance with all of our covenants and other obligations under the credit facilities.

Borrowings under the credit facilities bear interest at a base rate (the greater of the Prime Rate or 0.5% higher than the Federal Funds Rate) plus an applicable margin or, at our option, the London Interbank Offered Rates ("LIBOR"), adjusted for the Eurodollar reserve percentage, plus an applicable margin. The applicable margin for base rate and LIBOR loans is 2.25%. As of September 30, 2008, the interest rate of borrowings under the term loan facility is 5.47%.

During the nine months ended September 30, 2008 and 2007, we made principal repayments totaling \$30.2 million and \$84.0 million, respectively, on the outstanding term loans. During the nine months ended September 30, 2008 and 2007, we made cash interest payments of \$24.4 million and \$49.6 million, respectively. As of September 30, 2008, we had mandatory principal repayments based on our excess cash flow and scheduled repayments of \$11.3 million due within the next 12 months, of which \$10.0 million was paid on November 7, 2008.

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, 2008, the interest rate derivative had a notional amount of \$457.0 million and a fair value liability of \$1.4 million. As of December 31, 2007, the interest rate derivative had a notional amount of \$491.0 million and a fair value liability of \$600,000. The interest rate derivative fair value liability is included in accrued expenses and other current liabilities in our condensed consolidated balance sheets.

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(6) Senior Credit Facilities (Continued)

Amendment Agreements

On December 11, 2007, we, through our subsidiary ZionSolutions, LLC ("ZionSolutions"), entered into an agreement (the "Zion Agreement") with Exelon Generation Company, LLC ("Generation") to dismantle Generation's Zion nuclear facility located in Zion, Illinois ("Zion Station"), which ceased operation in 1998.

Pursuant to the Zion Agreement, Generation will transfer to ZionSolutions substantially all of the assets (other than land) associated with Zion Station, including assets held in nuclear decommissioning trusts. In consideration for Generation's transfer of those assets, ZionSolutions will assume decommissioning and other liabilities associated with the Zion Station. ZionSolutions will take possession and control of the land associated with the Zion Station pursuant to a lease agreement with Generation, to be executed at the closing. Under the lease agreement, ZionSolutions will commit to complete the required decommissioning work according to an established schedule and will construct a dry cask storage facility on the land for spent nuclear fuel currently held in spent fuel pools at the Zion Station.

Pursuant to the Zion Agreement and in connection with the lease of the land and the transfer of the Zion Station assets to ZionSolutions at the closing of the transaction, the parties will enter into various other agreements to ensure the performance of the obligations of ZionSolutions under its contracts to complete the required decommissioning and other work. In particular, we have agreed to execute a Credit Support Agreement pursuant to which we will deliver a letter of credit in the face amount of \$200.0 million, which will be held by Generation. The occurrence of specified events of default would allow Generation to draw upon the letter of credit.

On July 16, 2008, we entered into an Amendment Agreement (the "ES Amendment Agreement") with Citigroup Global Markets Inc., Citicorp North America, Inc., Credit Suisse Securities (USA) LLC, Credit Suisse, J.P. Morgan Securities Inc., JP Morgan Chase Bank, N.A. and certain lenders party to the Second Amended and Restated Credit Agreement, dated as of June 7, 2006 (as subsequently amended, the "Existing ES Credit Agreement"), among ES LLC, as the borrower, Citicorp North America, Inc., as the administrative agent, and other parties party thereto. The ES Amendment Agreement provides that the Existing ES Credit Agreement shall be amended and restated in its entirety upon satisfaction of certain conditions.

On July 16, 2008, Duratek, Inc. ("Duratek"), our wholly owned subsidiary entered into an Amendment Agreement (the "Duratek Amendment Agreement" and, together with the ES Amendment Agreement, the "Amendment Agreements") with Citigroup Global Markets Inc., Citicorp North America, Inc., and certain lenders party to the Credit Agreement, dated as of June 7, 2006 (as subsequently amended, the "Existing Duratek Credit Agreement"), among Duratek, as the borrower, Citicorp North America, Inc., as the administrative agent, and other parties party thereto. The Duratek Amendment Agreement provides that the Existing Duratek Credit Agreement shall be amended and restated in its entirety upon satisfaction of certain conditions.

The Existing ES Credit Agreement and the Existing Duratek Credit Agreement are collectively referred to herein as the "credit facilities."

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(6) Senior Credit Facilities (Continued)

The amended and restated credit facilities were sought (a) to allow us to provide for a new letter of credit facility in the aggregate principal amount of \$200.0 million (the "Zion letter of credit facility") pursuant to the Zion Agreement and (b) to return the existing synthetic letters of credit facility deposits and make term letter of credit facility loans in the aggregate principal amount of \$100.0 million for which we will maintain restricted cash equal to the amount of the facility. The new term letter of credit facility and the restricted cash amount will be reflected on our consolidated balance sheet.

The Amendment Agreements provide that the amended and restated credit facilities will include letter of credit fees of 2.50% with respect to letters of credit issued under each of the revolving loan facility and the Zion letter of credit facility. In addition, the Amendment Agreements provide that the amended and restated credit facilities will provide for interest rates on loans as follows: (i) with respect to any term loan, (x) LIBOR plus 2.50% (or LIBOR plus 2.00% when the leverage ratio is less than 2.0 to 1.0) or (y) the base rate plus 1.25% (or the base rate plus 1.00% when the leverage ratio is less than 2.0 to 1.0), (ii) with respect to any revolving loan, (x) LIBOR plus 2.50% or (y) the base rate plus 1.25%, and (iii) with respect to any term letter of credit facility loan, LIBOR plus 2.50% (or LIBOR plus 2.00% when the leverage ratio is less than 2.0 to 1.0).

The Amendment Agreements provide that the amended and restated credit facilities are subject to the satisfaction of certain conditions precedent to closing, including those related to approval for the transactions contemplated by the Zion Agreement. During the nine months ended September 30, 2008, we have paid fees of approximately \$6.4 million to the lenders to obtain the Amendment Agreements, which will be amortized over the remaining term of the credit facilities. In addition, once we have closed the Zion agreement and the Zion letter of credit is issued, we anticipate paying the providers of the Zion letter of credit facility approximately \$7.5 million, which will be amortized over the twelve-month term of the Zion letter of credit facility.

(7) Income Taxes

We recognized income tax expense of \$4.8 million and \$23.2 million for the three and nine months ended September 30, 2008 based on an estimated annual effective tax rate on our consolidated operations of 35.1%. Prior to our reorganization on November 20, 2007, EnergySolutions, LLC operated as a limited liability company and was treated as a disregarded entity owned by a partnership for federal income tax purposes. Under applicable regulations, members of a limited liability company treated as a partnership are responsible for their individual income tax liabilities related to the limited liability company's results of operations. Accordingly, we have not previously provided for federal income taxes related to our results of operations, except to the extent of operations in our subsidiaries that are corporations. As a result, we recognized an income tax expense of \$3.8 million and \$3.1 million for the three and nine months ended September 30, 2007, respectively. During the nine months ended September 30, 2008 and 2007, we made income tax payments of \$20.5 million and \$1.8 million, respectively.

For the nine months ended September 30, 2008, we had an increase in our unrecognized tax benefits under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* of \$0.1 million. As of September 30, 2008, we had \$1.0 million of

EnergySolutions, Inc.**Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****(7) Income Taxes (Continued)**

unrecognized tax benefits, which are not expected to affect our annual effective tax rate in future years because they relate to acquired entities.

(8) Income (Loss) Per Share

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

Following our corporate reorganization, which occurred in connection with the completion of our initial public offering on November 20, 2007, we began conducting our business through EnergySolutions, Inc., a newly formed corporation and holding company. Historical net loss per share was not presented for the three or nine months ended September 30, 2007 since we were structured as a limited liability company, had only one member and there were no ownership interests that were convertible into common stock or a common stock equivalent.

The pro forma net loss per share reflects the effects related to our reorganization from a limited liability company to a "C" corporation and an assumed effective tax rate of 38%.

The following table sets forth the calculations of basic and diluted net income (loss) per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	Historical	Pro forma(1)	Historical	Pro forma(1)
(in thousands of dollars, except per share information)				
Basic:				
Net income (loss)	\$ 10,902	\$ 2,486	\$ 42,790	\$ (616)
Weighted average common shares	88,303,500	75,150,000	88,303,500	75,150,000
Basic net income (loss) per share	\$ 0.12	\$ 0.03	\$ 0.48	\$ (0.01)
Diluted:				
Net income (loss)	\$ 10,902	\$ 2,486	\$ 42,790	\$ (616)
Weighted average common shares	88,303,500	75,150,000	88,303,500	75,150,000
Shares issuable upon vesting of restricted stock	8,811		7,291	
Weighted average common shares diluted	88,312,311	75,150,000	88,310,791	75,150,000
Diluted net income (loss) per share diluted	\$ 0.12	\$ 0.03	\$ 0.48	\$ (0.01)

(1)

Pro forma net loss per share for the three and nine months ended September 30, 2007 is adjusted to reflect (i) income tax expense of \$1.5 million and income tax benefit of \$378,000, respectively, on our operations assuming our conversion to a "C" corporation had occurred on January 1, 2007 and assumes an effective annual tax rate of 38% and (ii) common stock outstanding assuming our reorganization from a limited liability company to a "C"

corporation occurred on January 1, 2007.

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(9) Equity-Based Compensation

Profit Interests

In prior years, certain members of our management were granted profit interest units in our former parent in consideration for services rendered during the vesting period. These units do not represent ownership in our former parent but rather these units entitle the holders to distributions from our former parent if a distribution is paid. There were several classes of units granted and each successive class carries a lower priority on distributions. Certain units vest immediately upon grant and others vest over periods up to three years. During the three months ended September 30, 2008 and 2007, we recognized \$122,000 and \$634,000, respectively, of compensation expense related to these profit interests. During the nine months ended September 30, 2008 and 2007, we recognized \$526,000 and \$2.1 million, respectively. At September 30, 2008 there was unrecognized compensation expense related to these profit interests of \$431,000 with \$123,000 expected to be recognized in the remainder of 2008 and \$308,000 expected to be recognized in 2009.

Stock Options and Restricted Stock

In connection with our initial public offering, we adopted the EnergySolutions, 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 \$2.3 million and \$6.9 million, respectively, during the three and nine months ended September 30, 2008. As of September 30, 2008, we had \$28.8 million of unrecognized compensation expense related to outstanding stock options, which will be recognized over a weighted-average period of 3.1 years. As of September 30, 2008, there was \$177,000 of unrecognized compensation cost related to non-vested restricted stock which is expected to be recognized over a weighted-average period of 2.4 years.

(10) Segment Reporting and Business Concentrations

We provide our services through four segments: Federal Services ("FS"), Commercial Services ("CS"), LP&D, and International. Prior to our acquisition of RSMC in 2007, we derived less than 3% of our revenues from our international operations. Accordingly, through the first quarter of 2007, we reported results from our international operations in our Commercial Services segment. Beginning with the second quarter of 2007, we began reporting results from our operations outside North America in a new International segment; goodwill and long-lived assets that were previously reported in other segments were reclassified to this new segment as appropriate.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(10) Segment Reporting and Business Concentrations (Continued)

The following table presents segment information as of and for the three and nine months ended September 30, 2008 and 2007:

For the Three Months Ended September 30, 2008						
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
(in thousands of dollars)						
Revenues from external customers(1)	\$ 84,346	\$ 19,175	\$ 66,159	\$ 249,773	\$	\$ 419,453
Income (loss) from operations	10,851	4,688	25,033	3,330	(18,690)	25,212
Depreciation and amortization expense	102	394	5,289	2,367	3,101	11,253
Purchases of property, plant and equipment	695	72	3,043	(29)	270	4,051

For the Three Months Ended September 30, 2007						
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
(in thousands of dollars)						
Revenues from external customers(1)	\$ 39,162	\$ 33,569	\$ 64,036	\$ 252,128	\$	\$ 388,895
Income (loss) from operations	10,916	5,754	22,661	5,083	(17,369)	27,045
Depreciation and amortization expense	93	339	6,782	2,454	3,037	12,705
Purchases of property, plant and equipment	22	892	(151)	167	1,180	2,110

As of and for the Nine Months Ended September 30, 2008						
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
(in thousands of dollars)						
Revenues from external customers(1)	\$ 202,057	\$ 75,995	\$ 183,318	\$ 920,181	\$	\$ 1,381,551
Income (loss) from operations	23,469	20,562	64,022	47,258	(54,516)	100,795
Depreciation and amortization expense	261	1,373	16,130	7,076	9,848	34,688
Goodwill	143,144	91,199	233,073	59,116		526,532
Other long-lived assets(2)	31,089	24,107	236,914	99,019	75,156	466,285
Purchases of property, plant and equipment	872	461	3,829	154	4,415	9,731
Total assets(3)	266,837	148,693	573,447	440,112	148,990	1,578,079

As of and for the Nine Months Ended September 30, 2007						
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
(in thousands of dollars)						

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Revenues from external customers(1)	\$ 111,254	\$ 97,516	\$ 187,182	\$ 268,801	\$	\$ 664,753
Income (loss) from operations	24,701	11,378	63,721	3,124	(50,730)	52,194
Depreciation and amortization expense	282	620	18,529	2,509	9,692	31,632
Goodwill	143,264	90,673	231,662	56,155		521,754
Other long-lived assets(2)	34,325	34,799	261,022	108,023	78,145	516,314
Purchases of property, plant and equipment	22	835	1,464	291	3,030	5,642
Total assets(3)	199,744	173,133	590,398	480,797	156,798	1,600,870

(1) Intersegment revenues have been eliminated and are not material for the three and nine months ended September 30, 2008 and 2007. Revenues by segment represent revenues earned based on third-party billing to customers.

(2) Other long-lived assets include property, plant and equipment and other intangible assets.

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(10) Segment Reporting and Business Concentrations (Continued)

- (3) Corporate unallocated assets relate primarily to income tax receivables, deferred tax assets, deferred financing costs, prepaid expenses, property, plant and equipment that benefit the entire company and cash.

(11) Commitments and Contingencies

We may become subject to various claims and legal proceedings covering matters that may arise in the ordinary course of our business activities. As of September 30, 2008, we are not involved in any legal proceedings that we believe would have a materially adverse effect on our consolidated financial position, operating results and cash flows.

(12) Pension Plans

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

	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2008
Service cost	\$ 12,137	\$ 37,420
Interest cost	44,753	137,985
Expected return on plan assets	(49,778)	(153,479)
	\$ 7,112	\$ 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.

(13) Related Party Transactions

LLC Agreement

Prior to our initial public offering, our parent entered into a limited liability company operating agreement (the "LLC Agreement"), which governed our operations. Under the LLC Agreement, ENV Holdings LLC was our sole member and owned all of the outstanding membership interests. Our parent created a board of managers of six persons to manage our company and our business affairs, and our parent had sole authority to designate each of the members of the board of managers. This agreement was terminated on November 20, 2007 in connection with the completion of our initial public offering.

Distributions were made by us to our parent at such times and in such amounts as were determined at our parent's sole discretion. During the nine months ended September 30, 2007 we made distributions of \$8.9 million to ENV Holdings LLC.

Advisory Services Agreements

On January 31, 2005, we entered into three separate advisory service agreements with Goldberg Lindsay & Co. LLC ("Goldberg Lindsay"), an affiliate of Lindsay Goldberg & Bessemer, L.P., Peterson

EnergySolutions, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(13) Related Party Transactions (Continued)

Capital Inc. ("Peterson Capital"), an affiliate of Peterson Partners, L.P., and Creamer Investments, Inc. ("Creamer Investments"), an affiliate of our Chief Executive Officer, R Steve Creamer, and our Vice Chairman, J.I. Everest, II. Each advisory services agreement included indemnification provisions by us in favor of ENV Holdings LLC and its affiliates. Pursuant to these respective advisory services agreements, Goldberg Lindsay, Peterson Capital and Creamer Investments each agreed to provide us with financial advisory, monitoring and oversight services.

We incurred fees to Goldberg Lindsay, Peterson Capital and Creamer Investments of \$500,000, \$88,000 and \$25,000, respectively, for management advisory services for the three months ended September 30, 2007. We incurred fees to Goldberg Lindsay, Peterson Capital and Creamer Investments of \$1.5 million, \$263,000 and \$75,000, respectively, for management advisory services for the nine months ended September 30, 2007. These advisory service agreements were terminated on November 20, 2007 in connection with the completion of our initial public offering.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the financial condition and results of our operations should be read together with the condensed consolidated financial statements and the related notes of EnergySolutions included elsewhere in this Form 10-Q.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements made herein, including statements regarding our projected revenues, expenses and income and the implementation of strategic initiatives are forward-looking in nature. These forward-looking statements reflect current analysis of existing information and are subject to various risks and uncertainties. As a result, caution must be exercised in relying on forward-looking statements. Due to known and unknown risks, our actual results may differ materially from our expectations or projections.

While most risks affect only future revenues or expenses, some risks may relate to accruals that have already been reflected in earnings. Our failure to receive payments of accrued amounts or incurrence of liabilities in excess of amounts previously recognized could result in a charge against future earnings.

Additional information concerning these and other factors can be found in our periodic filings with the Securities and Exchange Commission (the "SEC"), including our Form 10-K filed March 28, 2008 and this report under "Item 1A Risk Factors." Our SEC filings are available publicly on the SEC's website at www.sec.gov, on EnergySolutions' website at www.energysolutions.com or upon request from EnergySolutions' Investor Relations Department at ir@energysolutions.com. We disclaim any obligation to update the forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a leading provider of specialized, technology-based nuclear services to governmental 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 governmental 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 UK. RSMC, through its subsidiary Magnox Electric Ltd., holds the contracts and licenses to operate and decommission 10 nuclear sites with 22 reactors in the UK on behalf of the NDA, the governmental body responsible for the clean up and decommissioning of the UK nuclear sites.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

On July 30, 2008, we completed a secondary public offering of 35 million shares of common stock offered by ENV Holdings LLC as selling stockholder. The underwriters of the offering subsequently exercised their over-allotment option and purchased 5,250,000 additional shares of common stock from ENV Holdings LLC. Following completion of these transactions, ENV Holdings LLC remains the owner of approximately 16.7% of our outstanding shares of common stock. We did not receive any proceeds from the sale of shares by ENV Holdings LLC and incurred fees of \$1.3 million and \$1.8 million for the three and nine months ended September 30, 2008, respectively.

Recent Developments

On December 11, 2007, we, through our subsidiary ZionSolutions, LLC ("ZionSolutions"), entered into an agreement with Exelon Generation Company, LLC ("Generation") to dismantle Generation's Zion nuclear facility located in Zion, Illinois ("Zion Station"), which ceased operation in 1998. Upon completion of the transaction, Generation agreed to transfer to ZionSolutions substantially all of the assets (other than land) associated with Zion Station, including assets held in nuclear decommissioning trusts. In consideration for Generation's transfer of those assets, ZionSolutions agreed to assume decommissioning and other liabilities associated with the Zion Station. ZionSolutions agreed to take possession and control of the land associated with the Zion Station pursuant to a lease agreement with Generation, to be executed at the closing. Under the lease agreement, ZionSolutions agreed to commit to complete the required decommissioning work according to an established schedule and to construct a dry cask storage facility on the land for spent nuclear fuel currently held in spent fuel pools at the Zion Station. Closing of this transaction is subject to the satisfaction of a number of closing conditions, including approval by the Nuclear Regulatory Commission (the "NRC") of the license transfer from Generation to ZionSolutions. A decision by the NRC is expected by mid-December.

Due to the financial crisis that has impacted the United States and world markets over the past several months, the Zion Station decommissioning trust fund balance, a significant portion of which is invested in the stock market, has declined. On October 14, 2008, we announced that we intend to defer the transfer of the Zion Station assets until after the financial markets stabilize and we reaffirm that there is sufficient value in the Zion decommissioning trust funds to ensure adequate funds for the accelerated decommissioning of the plant. Pursuant to the agreement, we have until December 31, 2009, to close the transaction.

Prior to our announcement to defer the transfer of the Zion Station assets, we had anticipated that the closing of this transaction would occur in late third quarter or during the fourth quarter of 2008. Accordingly, we hired employees, entered into subcontracts and performed services for Generation under a planning contract. Invoicing for some of these services provided is subject to the closing of the transaction. As of September 30, 2008, we have incurred costs of \$9.4 million that have been deferred until the closing of the transaction. Since we believe that the closing of this transaction before December 31, 2009 is still probable, we will continue to defer these costs until we close the transaction, at which time we will recognize the costs and related revenues. If we determine that it is not probable that we will close this transaction, we will expense these costs in the period of such determination.

Since our announcement on October 14, 2008 to defer the closing of this transaction, we have taken steps to reduce the monthly project costs including terminating of certain employees, transferring employees to other projects and terminating certain subcontracts and lease agreements. Any costs relating to the termination of employees, subcontractors and lease or other agreements are expensed in the period terminated. We expect these termination expenses will be between \$0.5 million and \$1.0 million in the quarter ending December 31, 2008.

Also, on October 14, 2008, we announced that the NRC, which maintains oversight over the use of decommissioning trust funds, denied our petition for a rulemaking change that would allow the use of decommissioning trust funds for the processing and disposal of major radioactive components ("large

components") that have been removed from operating nuclear reactors. The NRC indicated, however, that it would continue to consider, on a case-by-case basis, exemptions from its guidance against using decommissioning trust funds for disposing of large components.

We will continue to work with the NRC and its nuclear utility customers to seek appropriate exemptions and pursue NRC rulemaking changes. The NRC has indicated that it believes that the early removal and disposal of large components is important and it will continue to work on alternative methods to accomplish this objective. We also continue to explore other funding options with a number of utilities to secure the decommissioning of these large components in the near future. This decision by the NRC does not affect our current financial position or results of operations; however, unless we can determine alternative methods to fund the early removal of these large components, the growth prospects of our Commercial Services and LP&D segments could be adversely impacted.

Results of Operations

The following table shows certain items from our income statements for the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands of dollars)			
Revenues:				
Federal Services Segment	\$ 84,346	\$ 39,162	\$ 202,057	\$ 111,254
Commercial Services Segment	19,175	33,569	75,995	97,516
LP&D Segment	66,159	64,036	183,318	187,182
International Segment	249,773	252,128	920,181	268,801
Total revenues	419,453	388,895	1,381,551	664,753
Cost of revenues:				
Federal Services Segment	71,077	24,898	171,566	77,640
Commercial Services Segment	12,663	24,644	49,918	77,826
LP&D Segment	38,484	39,449	111,381	117,198
International Segment	241,238	243,767	858,601	259,463
Total cost of revenues	363,462	332,758	1,191,466	532,127
Gross profit:				
Federal Services Segment	13,269	14,264	30,491	33,614
Commercial Services Segment	6,512	8,925	26,077	19,690
LP&D Segment	27,675	24,587	71,937	69,984
International Segment	8,535	8,361	61,580	9,338
Total gross profit	55,991	56,137	190,085	132,626
Segment selling, general and administrative expenses:				
Federal Services Segment	2,418	3,348	7,022	8,913
Commercial Services Segment	1,824	3,171	5,515	8,312
LP&D Segment	2,642	1,926	7,915	6,263
International Segment	5,205	3,278	14,322	6,214
Total segment selling, general and administrative expenses	12,089	11,723	34,774	29,702
Segment operating income:				
Federal Services Segment	10,851	10,916	23,469	24,701
Commercial Services Segment	4,688	5,754	20,562	11,378
LP&D Segment	25,033	22,661	64,022	63,721
International Segment	3,330	5,083	47,258	3,124
Total segment operating income	43,902	44,414	155,311	102,924
Corporate selling, general and administrative expenses	18,690	17,369	54,516	50,730
Total income from operations	25,212	27,045	100,795	52,194
Interest expense	(9,204)	(21,074)	(32,043)	(51,785)
Other income (expenses), net	(72)	(1,961)	(1,891)	(1,403)
Income (loss) before income taxes	15,936	4,010	66,861	(994)
Minority interest	207		907	
Income tax expense	4,827	3,786	23,164	3,134
Net income (loss)	\$ 10,902	\$ 224	\$ 42,790	\$ (4,128)

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Revenues

Revenues increased \$30.6 million, or 7.9%, to \$419.5 million for the three months ended September 30, 2008 from \$388.9 million for the three months ended September 30, 2007. This increase is primarily attributable to increased revenues from the clean up of the Atlas mill tailings near Moab, Utah of \$9.6 million and the consolidation of our Isotek, LLC and UDS, LLC joint venture interests, which collectively increased revenues by \$36.1 million. These increases were partly offset by decreased revenues in our Commercial Services segment operations of \$14.4 million.

Revenues in our Federal Services segment increased \$45.1 million, or 115.1%, to \$84.3 million for the three months ended September 30, 2008 from \$39.2 million for the three months ended September 30, 2007. This increase is primarily attributable to revenues earned from the clean up of the Atlas mill tailings near Moab, Utah during the three months ended September 30, 2008 and the consolidation of two of our joint venture interests, Isotek, LLC and UDS, LLC. The joint venture interests are now consolidated because we obtained majority voting rights for Isotek, LLC in November 2007 and for UDS, LLC in March 2008. During the three months ended September 30, 2007, income from these joint venture interests was reported using the equity method in other income, net, in our consolidated statements of operations. This increase was partially offset by decreased revenues from work we performed at the Savannah River site.

Revenues in our Commercial Services segment decreased \$14.4 million, or 42.9%, to \$19.2 million for the three months ended September 30, 2008 from \$33.6 million for the three months ended September 30, 2007. The decrease is primarily attributable to decreased revenues from utility services and engineering and technology projects due to the completion of several projects.

Revenues in our LP&D segment increased \$2.2 million, or 3.4%, to \$66.2 million for the three months ended September 30, 2008 from \$64.0 million for the three months ended September 30, 2007. This increase is mostly due to revenues of Monserco, which was acquired in December 2007, and increased revenues of our Manufacturing Sciences Corporation ("MSC") subsidiary as a result of increased volumes of waste storage containers shipped. These increases are offset, in part, by decreased revenues at our Bear Creek, Tennessee; Clive, Utah; and Barnwell, South Carolina facilities as a result of decreased volumes of materials processed and disposed at these facilities.

Revenues in our International segment decreased \$2.3 million to \$249.8 million for the three months ended September 30, 2008 from \$252.1 million for the three months ended September 30, 2007. The majority of revenues in our International segment are denominated in pound sterling. Our revenues, prior to considering the effects of fluctuations in currency rates of the pound sterling, increased \$16.3 million. This increase is mostly due to the acceleration of decommissioning projects in our RSMC operations. However, this increase was offset by an \$18.6 million decrease due to a decline in pound sterling rates during the three months ended September 30, 2008 compared to the same period in 2007.

Cost of revenues

Cost of revenues increased \$30.7 million, or 9.2%, to \$363.5 million for the three months ended September 30, 2008 from \$332.8 million for the three months ended September 30, 2007. This increase was primarily the result of increased costs incurred for the clean up of the Atlas mill tailings near Moab, Utah of \$7.8 million and the consolidation of our Isotek, LLC and UDS, LLC joint venture interests, which collectively increased cost of revenues by \$35.6 million. These increases are offset by decreased cost of revenues in our Commercial Services and International segment operations of \$11.9 million and \$2.6 million, respectively.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Cost of revenues in our Federal Services segment increased \$46.2 million, or 185.5%, to \$71.1 million for the three months ended September 30, 2008 from \$24.9 million for the three months ended September 30, 2007. This increase is attributable to costs incurred for the clean up of the Atlas mill tailings near Moab, Utah and the consolidation of two of our joint venture interests, Isotek, LLC and UDS, LLC, during the three months ended September 30, 2008. During the three months ended September 30, 2007, cost of revenues from these joint venture interests was reported using the equity method in other income, net, in our consolidated statements of operations.

Cost of revenues in our Commercial Services segment decreased \$11.9 million, or 48.4%, to \$12.7 million for the three months ended September 30, 2008 from \$24.6 million for the three months ended September 30, 2007. This decrease is primarily the result of decreased costs of utility services and engineering and technology projects due to completion of several projects.

Cost of revenues in our LP&D segment decreased \$0.9 million, or 2.3%, to \$38.5 million for the three months ended September 30, 2008 from \$39.4 million for the three months ended September 30, 2007. This decrease is primarily attributable to decreased equipment maintenance, demurrage costs and labor expenses due to decreased volumes of materials disposed at our Clive, Utah facility offset by increased costs at our MSC facility as a result of increased product shipments and at Monserco, which was acquired in December 2007.

Cost of revenues in our International segment decreased \$2.6 million, or 1.1%, to \$241.2 million for the three months ended September 30, 2008 from \$243.8 million for the three months ended September 30, 2007. The majority of our International segment cost of revenues are denominated in pound sterling. Our cost of revenues, prior to considering the effects of fluctuations in currency rates of the pound sterling, increased \$15.0 million. This increase is mostly due to increased costs incurred as a result of the acceleration of decommissioning projects in our RSMC operations. However, this increase was offset by a \$17.6 million decrease due to a decline in pound sterling rates during the three months ended September 30, 2008 compared to the same period in 2007.

Gross profit

Gross profit decreased \$0.1 million to \$56.0 million for the three months ended September 30, 2008 from \$56.1 million for the three months ended September 30, 2007. Our gross margin decreased to 13.3% in the 2008 period from 14.4% in the corresponding 2007 period. The decrease in gross profit is a result in decreased gross profit from our Federal Services and Commercial Services segment operations offset by increased gross profit in our LP&D segment operations.

Gross profit in our Federal Services segment decreased \$1.0 million, or 7.0%, to \$13.3 million for the three months ended September 30, 2008 from \$14.3 million for the three months ended September 30, 2007. This decrease is primarily attributable to decreased gross profit from work we performed at the Savannah River site offset by increased gross profit from work we performed as a subcontractor on two contracts at the Hanford site and the clean up of the Atlas mill tailings near Moab, Utah.

Gross profit in our Commercial Services segment decreased \$2.4 million, or 27.0%, to \$6.5 million for the three months ended September 30, 2008 from \$8.9 million for the three months ended September 30, 2007. The decrease is primarily attributable to decreased revenues from utility services and engineering and technology projects due to the completion of several projects.

Gross profit in our LP&D segment increased \$3.1 million, or 12.6%, to \$27.7 million for the three months ended September 30, 2008 from \$24.6 million for the three months ended September 30, 2007. This increase is primarily the result of decreased costs at our Clive, Utah facility and increased revenues at our MSC facility.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Gross profit in our International segment increased \$0.1 million to \$8.5 million for the three months ended September 30, 2008 from \$8.4 million for the three months ended September 30, 2007. This increase is primarily due to the acceleration of decommissioning projects in our RSMC operations. Our gross profit, prior to considering the effects of fluctuations in pound sterling rates, increased \$1.2 million. However, the increase was offset by a \$1.1 million decrease due to a decline in pound sterling rates during the three months ended September 30, 2008 compared to the same period in 2007.

Segment selling, general and administrative expenses

Segment selling, general and administrative expenses in our Federal Services segment decreased \$0.9 million to \$2.4 million for the three months ended September 30, 2008 from \$3.3 million for the three months ended September 30, 2007. The decrease is primarily attributable to decreased consulting and business development costs.

Segment selling, general and administrative expenses in our Commercial Services segment decreased \$1.4 million to \$1.8 million for the three months ended September 30, 2008 from \$3.2 million for the three months ended September 30, 2007. The decrease is primarily attributable to lower business development costs.

Segment selling, general and administrative expenses in our LP&D segment increased \$0.7 million to \$2.6 million for the three months ended September 30, 2008 from \$1.9 million for the three months ended September 30, 2007 mostly due to increased labor costs related to business development activities.

Segment selling, general and administrative expenses in our International segment increased \$1.9 million to \$5.2 million for the three months ended September 30, 2008 from \$3.3 million for the three months ended September 30, 2007 primarily due to bid and proposal expenses relating to potential contracts in the United Kingdom and other administrative expenses.

Total segment selling, general and administrative expenses as a percentage of revenues decreased to 2.9% for the three months ended September 30, 2008 from 3.0% for the same period for 2007 primarily due to increased revenues primarily related to our Federal Services segment without a corresponding percentage increase in selling, general and administrative expenses.

Corporate selling, general and administrative expenses

Corporate selling, general and administrative expenses increased \$1.3 million, or 7.5%, to \$18.7 million for the three months ended September 30, 2008 from \$17.4 million for the three months ended September 30, 2007. This increase is attributable to professional fees related to Sarbanes-Oxley compliance, stock-based compensation expense as a result of the options issued in connection with our initial public offering, fees related to our secondary public offering, insurance costs and investor relations costs offset by decreases related to the termination of management advisory fees previously paid to our equity sponsors in connection with our initial public offering and decreased business development and marketing costs. As a percentage of revenues, corporate selling, general and administrative expenses were 4.5% for the three months ended September 30, 2008 and 2007.

Interest expense

Interest expense decreased \$11.9 million, or 56.4%, to \$9.2 million for the three months ended September 30, 2008 from \$21.1 million for the three months ended September 30, 2007. The decrease is primarily attributable to a decline in both our average borrowings outstanding and interest rates related to our credit facilities.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Other income (expense), net

Other expense, net, decreased \$1.9 million, or 95.0%, to \$0.1 million for the three months ended September 30, 2008 from \$2.0 million for the three months ended September 30, 2007. This amount primarily reflects losses attributable to foreign currency transactions and loss on the disposal of assets. These losses are offset by increases in the fair value of our derivative contracts and our proportional share of income from five joint ventures in which we have a non-controlling interest.

Income taxes

We recognized income tax expense of \$4.8 million for the three months ended September 30, 2008 based on an estimated annual effective tax rate on our consolidated operations of 35.1%. Prior to our reorganization on November 20, 2007, EnergySolutions, LLC operated as a limited liability company and was treated as a disregarded entity owned by a partnership for federal income tax purposes. As such, during the three months ended September 30, 2007, we recognized an income tax expense of \$3.8 million attributable to net taxable income from our taxable subsidiaries acquired in 2006, primarily BNGA and Duratek.

Nine months Ended September 30, 2008 Compared to Nine months Ended September 30, 2007

Revenues

Revenues increased \$716.8 million, or 107.8%, to \$1.4 billion for the nine months ended September 30, 2008 from \$664.8 million for the nine months ended September 30, 2007. This increase is primarily the result of our acquisition of RSMC in June 2007, which increased revenues by \$653.9 million, and the consolidation of our Isotek, LLC and UDS, LLC joint venture interests, which collectively increased revenues by \$84.9 million. These increases are partially offset by decreased revenues in our Commercial Services and LP&D segment operations of \$21.5 million and \$3.9 million, respectively.

Revenues in our Federal Services segment increased \$90.8 million, or 81.6%, to \$202.1 million for the nine months ended September 30, 2008 from \$111.3 million for the nine months ended September 30, 2007. This increase is primarily attributable to revenues earned from the clean up of the Atlas mill tailings near Moab, Utah during the nine months ended September 30, 2008 and the consolidation of two of our joint venture interests, Isotek, LLC and UDS, LLC. This increase was partially offset by decreased revenues from work we performed as a subcontractor on two contracts at the Hanford site.

Revenues in our Commercial Services segment decreased \$21.5 million, or 22.1%, to \$76.0 million for the nine months ended September 30, 2008 from \$97.5 million for the nine months ended September 30, 2007. This is primarily the result of decreased revenues from our utility services and engineering and technology projects due to completion of several projects. These decreases are offset by increased revenues of our liquid waste processing and fuel pool operations.

Revenues in our LP&D segment decreased \$3.9 million, or 2.1%, to \$183.3 million for the nine months ended September 30, 2008 from \$187.2 million for the nine months ended September 30, 2007. This decrease is mostly due to decreased revenues at our Bear Creek, Tennessee and Clive, Utah facilities as a result of decreased volumes of materials processed and disposed at these facilities. These decreases are offset, in part, by our acquisition of Monserco in December 2007 and increases in our transportation services.

Revenues in our International segment increased \$651.4 million to \$920.2 million for the nine months ended September 30, 2008 from \$268.8 million for the nine months ended September 30, 2007. Our revenues, prior to considering the effects of fluctuations in pound sterling rates, increased \$685.4 million, primarily as a result of our acquisition of RSMC in June 2007. However, this increase

was offset by a \$34.0 million decrease due to a decline in pound sterling rates during the nine months ended September 30, 2008 compared to the same period in 2007.

Cost of revenues

Cost of revenues increased \$659.4 million, or 123.9%, to \$1.2 billion for the nine months ended September 30, 2008 from \$532.1 million for the nine months ended September 30, 2007. This increase was primarily the result of our acquisition of RSMC, which increased cost of revenues by \$601.4 million, the consolidation of our Isotek, LLC and UDS, LLC joint venture interests, which collectively increased cost of revenues by \$83.3 million and increased costs incurred for the clean up of the Atlas mill tailings near Moab, Utah of \$15.6 million. These increases are offset by decreased cost of revenues in our Commercial Services and LP&D segment operations of \$27.9 million and \$5.8 million, respectively.

Cost of revenues in our Federal Services segment increased \$94.0 million, or 121.1%, to \$171.6 million for the nine months ended September 30, 2008 from \$77.6 million for the nine months ended September 30, 2007. This increase is attributable to costs incurred for the clean up of the Atlas mill tailings near Moab, Utah and the consolidation of two of our joint venture interests, Isotek, LLC and UDS, LLC, during the nine months ended September 30, 2008. This increase was partially offset by decreased cost of revenues from work we performed as a subcontractor on two contracts at the Hanford site.

Cost of revenues in our Commercial Services segment decreased \$27.9 million, or 35.9%, to \$49.9 million for the nine months ended September 30, 2008 from \$77.8 million for the nine months ended September 30, 2007. This decrease is primarily attributable to decreased costs of utility services and engineering and technology projects due to completion of several projects offset by increased costs in our liquid waste processing and fuel pool operations due to increased volumes.

Cost of revenues in our LP&D segment decreased \$5.8 million, or 4.9%, to \$111.4 million for the nine months ended September 30, 2008 from \$117.2 million for the nine months ended September 30, 2007. This decrease is primarily attributable to decreased equipment maintenance, demurrage costs and labor expenses due to decreased volumes of materials processed and disposed at our Bear Creek, Tennessee and our Clive, Utah facilities. This decrease is offset, in part, by our acquisition of Monserco in December 2007 and increases in our transportation services.

Cost of revenues in our International segment increased \$599.1 million to \$858.6 million for the nine months ended September 30, 2008 from \$259.5 million for the nine months ended September 30, 2007. Our cost of revenues, prior to considering the effects of fluctuations in pound sterling rates, increased \$630.8 million, primarily as a result of our acquisition of RSMC in June 2007. However, this increase was offset by a \$31.7 million decrease due to a decline in pound sterling rates during the nine months ended September 30, 2008 compared to the same period in 2007.

Cost of revenues as a percentage of total revenues increased to 86.2% for the nine months ended September 30, 2008 from 80.0% for the nine months ended September 30, 2007. The acquisition of RSMC, for which cost of revenues as a percentage of revenues were 93.3% for the nine months ended September 30, 2008, had a significant impact on our revenue mix when compared to our historical operations. As a result, a greater portion of our revenues in 2008 have significantly lower contribution margins.

Gross profit

Gross profit increased \$57.5 million, or 43.4%, to \$190.1 million for the nine months ended September 30, 2008 from \$132.6 million for the nine months ended September 30, 2007. Our gross margin decreased to 13.8% in the 2008 period from 20.0% in the corresponding 2007 period. The

increase in gross profit and the corresponding reduction in gross margin are primarily the result of our acquisition of RSMC, which significantly changed our revenue mix and contribution margin.

Gross profit in our Federal Services segment decreased \$3.1 million, or 9.2%, to \$30.5 million for the nine months ended September 30, 2008 from \$33.6 million for the nine months ended September 30, 2007. This decrease is primarily attributable to decreased gross profit from work we performed as a subcontractor on two contracts at the Hanford site and work performed at the Savannah River site. These decreases are partially offset by increased gross profit on the Isotek and Moab operations.

Gross profit in our Commercial Services segment increased \$6.4 million, or 32.5%, to \$26.1 million for the nine months ended September 30, 2008 from \$19.7 million for the nine months ended September 30, 2007. The increase is primarily attributable to increased revenues from our liquid waste processing and fuel pool operations mostly due to increased volumes and performance of large decontamination and decommissioning projects with higher margins.

Gross profit in our LP&D segment increased \$1.9 million, or 2.7%, to \$71.9 million for the nine months ended September 30, 2008 from \$70.0 million for the nine months ended September 30, 2007. This increase is primarily attributable to decreased equipment maintenance, demurrage costs and labor expenses due to decreased volumes of materials processed and disposed at our facilities.

Gross profit in our International segment increased \$52.3 million to \$61.6 million for the nine months ended September 30, 2008 from \$9.3 million for the nine months ended September 30, 2007. Our gross profit, prior to considering the effects of fluctuations in pound sterling rates, increased \$54.6 million, primarily as a result of our acquisition of RSMC in June 2007. However, this increase was offset by a \$2.3 million decrease due to a decline in pound sterling rates during the nine months ended September 30, 2008 compared to the same period in 2007. Gross profit margin in our International segment was 6.7% for the nine months ended September 30, 2008.

Segment selling, general and administrative expenses

Segment selling, general and administrative expenses in our Federal Services segment decreased \$1.9 million to \$7.0 million for the nine months ended September 30, 2008 from \$8.9 million for the nine months ended September 30, 2007. The decrease is primarily due to decreased labor and severance expenses related to the termination of a key employee during the first quarter of 2007 and decreased consulting and business development costs.

Segment selling, general and administrative expenses in our Commercial Services segment decreased \$2.8 million to \$5.5 million for the nine months ended September 30, 2008 from \$8.3 million for the nine months ended September 30, 2007. The decrease is primarily attributable to lower business development costs. During the nine months ended September 30, 2007, Commercial Services incurred significant expenses related to our license stewardship contract with Exelon Generation Company, LLC.

Segment selling, general and administrative expenses in our LP&D segment increased \$1.6 million to \$7.9 million for the nine months ended September 30, 2008 from \$6.3 million for the nine months ended September 30, 2007 mostly due to increased labor costs related business development activities.

Segment selling, general and administrative expenses in our International segment increased \$8.1 million to \$14.3 million for the nine months ended September 30, 2008 from \$6.2 million for the nine months ended September 30, 2007. The increase is primarily due to amortization expense associated with intangible assets of RSMC, which we acquired in June 2007, bid and proposal expenses relating to potential contracts in the United Kingdom and other administrative expenses of our UK operations.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Total segment selling, general and administrative expenses as a percentage of revenues decreased to 2.5% for the nine months ended September 30, 2008 from 4.5% for the same period for 2007 primarily due to increased revenues primarily related to our International segment without a corresponding percentage increase in selling, general and administrative expenses.

Corporate selling, general and administrative expenses

Corporate selling, general and administrative expenses increased \$3.8 million, or 7.5%, to \$54.5 million for the nine months ended September 30, 2008 from \$50.7 million for the nine months ended September 30, 2007. This increase is attributable to professional fees related to Sarbanes-Oxley compliance, stock-based compensation expense as a result of the options issued in connection with our initial public offering, fees related to our secondary public offering, insurance costs and investor relations costs offset by decreases related to the termination of management advisory fees previously paid to our equity sponsors in connection with our initial public offering and decreased business development and marketing costs. As a percentage of revenue, corporate selling, general and administrative expenses decreased to 3.9% for the nine months ended September 30, 2008 from 7.6% for the same period for 2007. The decrease in expenses as a percentage of revenues is primarily due to the significant increase in revenues primarily related to our International segment without a corresponding increase in corporate selling, general and administrative expenses.

Interest expense

Interest expense decreased \$19.8 million, or 38.2%, to \$32.0 million for the nine months ended September 30, 2008 from \$51.8 million for the nine months ended September 30, 2007. The decrease is primarily attributable to a decline in both our average borrowings outstanding and interest rates related to our credit facilities.

Other income (expense), net

Other expense, net, increased \$0.5 million, or 35.7%, to \$1.9 million for the nine months ended September 30, 2008 from \$1.4 million for the nine months ended September 30, 2007. This amount primarily reflects losses attributable to foreign currency transactions, losses on disposal of assets and a decline in the fair value of our interest rate derivative contract. These decreases are offset by increases in the fair value of our foreign currency derivative contracts and our proportional share of income from five joint ventures in which we have a non-controlling interest.

Income taxes

We recognized income tax expense of \$23.2 million for the nine months ended September 30, 2008 based on an estimated annual effective tax rate on our consolidated operations of 35.1%. Prior to our reorganization on November 20, 2007, EnergySolutions, LLC operated as a limited liability company and was treated as a disregarded entity owned by a partnership for federal income tax purposes. As such, during the nine months ended September 30, 2007, we recognized an income tax expense of \$3.1 million attributable to net taxable income from our taxable subsidiaries acquired in 2006, primarily BNGA and Duratek.

Liquidity and Capital Resources

As of September 30, 2008, our principal sources of liquidity consisted of \$59.9 million of cash and cash equivalents and \$58.0 million of availability under the \$75.0 million revolving portion of our credit facilities, which is net of \$17.0 million of outstanding letters of credit. We also have a synthetic letter of credit facility of \$100.0 million, from which \$99.9 million of letters of credit were issued as of September 30, 2008.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

During the nine months ended September 30, 2008, our cash and cash equivalents increased \$23.5 million, to \$59.9 million. This compares to an increase in cash and cash equivalents of \$6.5 million for the nine months ended September 30, 2007. During the nine months ended September 30, 2008, we had net cash inflows from operating activities of \$81.6 million primarily due to net income adjusted for depreciation and amortization expense, collections of accounts receivable and increased other noncurrent liabilities partially offset by increased costs and estimated earnings in excess of billings on uncompleted contracts, prepaid expenses and other current assets and other noncurrent assets and decreased accounts payable and accrued liabilities and other current liabilities. This was offset by net cash outflows from investing and financing activities of \$10.0 million and \$46.5 million, respectively, related primarily to purchases of property, plant and equipment, the repayment of long-term debt, dividends paid to stockholders and payment of debt financing fees.

Our principal need for liquidity has been, and will continue to be, for working capital, to pay down debt and for capital expenditures. We also expect to use cash flow from operations to pay quarterly dividends. However, the declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including our results of operations, financial condition, liquidity requirements, restrictions that may be imposed by applicable law and our contracts and other factors deemed relevant by our board of directors. To the extent we maintain an annual dividend of \$0.10 per share, our annual cash requirements for this dividend would be \$8.8 million, based on the number of shares currently outstanding. We believe that our cash flow from operations, available cash and cash equivalents and available borrowings under the revolving portion of our credit facilities will be sufficient to meet our future liquidity needs, including the payment of such dividend, through at least the next twelve months.

Although we have no specific current plans to do so, if we decide to pursue one or more significant strategic acquisitions, we may incur additional debt or sell additional equity to finance the purchase of those businesses.

Capital Expenditures

We had capital expenditures of \$9.7 million and \$5.6 million for the nine months ended September 30, 2008 and 2007, respectively. We expect capital expenditures for the year ending December 31, 2008 will be approximately \$30.0 million, relating primarily to required equipment for the Atlas mill tailings contract awarded to us in September 2007 and maintenance at our facilities.

Credit Facilities

We have entered into credit facilities with Citicorp North America, Inc., or CNAI, as administrative agent and collateral agent, which we refer to collectively in this Form 10-Q as our "credit facilities." The credit facilities consist of a \$75.0 million revolving credit facility, which matures on June 7, 2011; \$770.0 million first lien term loan facilities, which mature on June 7, 2013 and a \$100.0 million synthetic letter of credit facility, which matures on June 7, 2013.

The obligations under the credit facilities are unconditional and irrevocably guaranteed by us and each of our existing and subsequently acquired or organized domestic subsidiaries. In addition, the credit facilities and such guarantees are secured on a first- and second-priority basis by security interests (subject to permitted liens as defined in the credit agreements governing the credit facilities) in substantially all tangible and intangible assets owned by us, the obligors under the credit facilities, and each of our other domestic subsidiaries, subject to certain exceptions, including limiting pledges of voting stock of foreign subsidiaries to 65% of voting stock of first-tier foreign subsidiaries.

Borrowings under the credit facilities bear interest at a rate equal to (1) in the case of the first lien term loans, (i) the greater of the rate of interest announced by CNAI, 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 0.75% (or 0.50% when the leverage ratio (as defined in the 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 2.25% (or 2.00% when the leverage ratio (as defined in the 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 0.75% or (ii) for any portion of the revolving loans as to which we have elected to pay interest on a Eurodollar basis, LIBOR plus 2.25% (3) in the case of synthetic letters of credit under the first lien credit facilities, 2.25% (or 2.00% when the leverage ratio (as defined in the related credit agreement) as of the most recently completed fiscal quarter is less than 2.0 to 1.0).

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 made, provided that the final installment shall be equal to the amount outstanding in respect of the term loans.

We are generally required to prepay borrowings under the credit facilities with (1) 100% of the net proceeds we receive from non-ordinary course asset sales or as a result of a casualty or condemnation, subject to reinvestment provisions, (2) 100% of the net proceeds we receive from the issuance of debt obligations other than specified debt obligations and (3) the excess, if any, of 50% (or, if our leverage ratio is less than 3.0 and greater than 1.0, 25%) of excess cash flow (as defined in the credit agreements) reduced by the aggregate amount of term loans optionally prepaid during the applicable fiscal year. Under the credit facilities, we are not required to prepay borrowings with excess cash flow if our leverage ratio is less than or equal to 1.0. As of September 30, 2008, we were required to make a mandatory prepayment of approximately \$8.4 million, which we made on November 7, 2008.

As of September 30, 2008, the weighted average interest rate under our credit facilities was 5.47%. At this rate and assuming an outstanding balance of \$576.8 million as of September 30, 2008, our annual debt service obligations would be \$37.6 million, consisting of \$31.6 million of interest and \$6.0 million of scheduled principal payments. However, due to optional prepayments made through September 30, 2008, only \$3.0 million of our scheduled payments are currently due within the next year.

The credit facilities require us to maintain certain financial ratios, including maximum leverage ratios (based upon the ratios of consolidated funded debt, 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 formulas set forth in the credit agreements as of September 30, 2008, we are required to maintain a maximum leverage ratio and a first lien leverage ratio of 4.75 and 4.25, respectively, and minimum cash interest coverage ratio of 2.50. 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, 2008, we performed the calculations associated with these financial covenants and determined that we were in compliance with them.

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 up to \$30.0 million under the first lien credit facilities in the fiscal year ending December 31, 2007 and in any fiscal year thereafter, plus 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 prior fiscal year. Our permitted

maximum annual capital expenditures for 2008 is \$45.0 million. 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. As of September 30, 2008, we were in compliance with all of our covenants and other obligations under the credit facilities.

Amendment Agreements

On December 11, 2007, we, through our subsidiary ZionSolutions, entered into an agreement with Generation (the "Zion Agreement") to dismantle Generation's Zion nuclear facility located in Zion, Illinois ("Zion Station"), which ceased operation in 1998.

Pursuant to the Zion Agreement, Generation agreed to transfer to ZionSolutions substantially all of the assets (other than land) associated with Zion Station, including assets held in nuclear decommissioning trusts. In consideration for Generation's transfer of those assets, ZionSolutions agreed to assume decommissioning and other liabilities associated with the Zion Station. ZionSolutions agreed to take possession and control of the land associated with the Zion Station pursuant to a lease agreement with Generation, to be executed at the closing. Under the lease agreement, ZionSolutions agreed to commit to complete the required decommissioning work according to an established schedule and to construct a dry cask storage facility on the land for spent nuclear fuel currently held in spent fuel pools at the Zion Station.

Pursuant to the Zion Agreement and in connection with the lease of the land and the transfer of the Zion Station assets to ZionSolutions at the closing of the transaction, the parties agreed to enter into various other agreements to ensure the performance of the obligations of ZionSolutions under its contracts to complete the required decommissioning and other work. In particular, we have agreed to execute a Credit Support Agreement pursuant to which we will deliver a letter of credit in the face amount of \$200.0 million, which will be held by Generation. The occurrence of specified events of default would allow Generation to draw upon the letter of credit.

On July 16, 2008, we entered into an Amendment Agreement (the "ES Amendment Agreement") with Citigroup Global Markets Inc., Citicorp North America, Inc., Credit Suisse Securities (USA) LLC, Credit Suisse, J.P. Morgan Securities Inc., JP Morgan Chase Bank, N.A. and certain lenders party to the Second Amended and Restated Credit Agreement, dated as of June 7, 2006 (as subsequently amended, the "Existing ES Credit Agreement"), among ES LLC, as the borrower, Citicorp North America, Inc., as the administrative agent, and other parties party thereto. The ES Amendment Agreement provides that the Existing ES Credit Agreement shall be amended and restated in its entirety upon satisfaction of certain conditions.

On July 16, 2008, Duratek, Inc. ("Duratek"), our wholly owned subsidiary entered into an Amendment Agreement (the "Duratek Amendment Agreement" and, together with the ES Amendment Agreement, the "Amendment Agreements") with Citigroup Global Markets Inc., Citicorp North America, Inc., and certain lenders party to the Credit Agreement, dated as of June 7, 2006 (as subsequently amended, the "Existing Duratek Credit Agreement"), among Duratek, as the borrower, Citicorp North America, Inc., as the administrative agent, and other parties party thereto. The Duratek Amendment Agreement provides that the Existing Duratek Credit Agreement shall be amended and restated in its entirety upon satisfaction of certain conditions.

The Existing ES Credit Agreement and the Existing Duratek Credit Agreement are collectively referred to herein as the "credit facilities."

The amended and restated credit facilities were sought (a) to allow us to provide for a new letter of credit facility in the aggregate principal amount of \$200.0 million (the "Zion letter of credit facility")

pursuant to the Zion Agreement and (b) to return the existing synthetic letters of credit facility deposits and make term letter of credit facility loans in the aggregate principal amount of \$100.0 million for which we agreed to maintain restricted cash equal to the amount of the facility. The new term letter of credit facility and the restricted cash amount will be reflected on our consolidated balance sheet.

The Amendment Agreements provide that the amended and restated credit facilities will include letter of credit fees of 2.50% with respect to letters of credit issued under each of the revolving loan facility and the Zion letter of credit facility. In addition, the Amendment Agreements provide that the amended and restated credit facilities will provide for interest rates on loans as follows: (i) with respect to any term loan, (x) LIBOR plus 2.50% (or LIBOR plus 2.00% when the leverage ratio is less than 2.0 to 1.0) or (y) the base rate plus 1.25% (or the base rate plus 1.00% when the leverage ratio is less than 2.0 to 1.0), (ii) with respect to any revolving loan, (x) LIBOR plus 2.50% or (y) the base rate plus 1.25%, and (iii) with respect to any term letter of credit facility loan, LIBOR plus 2.50% (or LIBOR plus 2.00% when the leverage ratio is less than 2.0 to 1.0).

The Amendment Agreements provide that the amended and restated credit facilities are subject to the satisfaction of certain conditions precedent to closing, including those related to approval for the transactions contemplated by the Zion Agreement. During the nine months ended September 30, 2008, we have paid fees of approximately \$6.4 million to the lenders to obtain the Amendment Agreements, which will be amortized over the remaining term of the credit facilities. In addition, once we have closed the Zion agreement and the Zion letter of credit is issued, we anticipate paying the providers of the Zion letter of credit facility approximately \$7.5 million, which will be amortized over one year, which is the term of the Zion letter of credit facility.

Off Balance Sheet Arrangements

We have routine operating leases, primarily related to real estate and rail equipment, and investments in joint ventures at September 30, 2008.

As of September 30, 2008, we had outstanding floating-rate term loans of \$576.8 million. Under our credit facilities, we are required to maintain one or more interest rate swap agreements for the aggregate notional amount of at least 33% of the outstanding aggregate principal amount of the term loans to mitigate our exposure to fluctuations in interest rate changes. Accordingly, we entered into a swap agreement effective July 1, 2005. As of September 30, 2008, the swap agreement had a notional amount of \$457.0 million and a fair value liability of approximately \$1.4 million. The swap agreement expired on October 1, 2008 and we paid \$1.4 million to settle our liability. We are currently negotiating the terms of a new interest rate swap agreement and expect to have it in place by December 31, 2008.

We are required to post, from time to time, standby letters of credit and surety bonds to support contractual obligations to customers, self-insurance programs, closure and post-closure financial assurance and other obligations. As of September 30, 2008, we had \$99.9 million in letters of credit which are issued under our synthetic letter of credit facilities and \$17.0 million in letters of credit which are issued under the revolving portion of our credit facility. As of September 30, 2008, we had \$2.6 million in surety bonds outstanding. With respect to the surety bonds, we have entered into certain indemnification agreements with the providers of the surety bonds, which would require funding by us only if we fail to perform under the contracts being insured and the surety bond issuer was obligated to make payment to the insured parties.

Our processing and disposal facilities operate under licenses and permits that require financial assurance for closure and post-closure costs. We provide for these requirements through a combination of restricted cash, cash deposits, letters of credit and insurance policies. As of September 30, 2008, the closure and post-closure state regulatory requirements for our facilities were \$150.1 million, which

amount is not determined on the same basis as the asset retirement obligation calculated under SFAS No. 143, *Accounting for Asset Retirement Obligations*.

Critical Accounting Policies

This management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions about matters that are uncertain. These estimates and assumptions are often based on judgments that we believe to be reasonable under the circumstances, but all such estimates and assumptions are inherently uncertain and unpredictable. Actual results may differ from those estimates and assumptions, and it is possible that other professionals, applying their own judgment to the same facts and circumstances, could develop and support alternative estimates and assumptions that would result in material changes to our operating results and financial condition. For a further discussion of our critical accounting policies, see our Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 28, 2008.

Disclosure of Impact of Recently Issued Accounting Standards

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements for fiscal years beginning on or after November 15, 2008, with early adoption encouraged. While SFAS No. 161 will have no impact on our financial condition, results of operations and cash flows, management is currently evaluating the changes in disclosure requirements.

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS No. 141(R) replaces SFAS No. 141, *Business Combinations*, but retains the requirement that the purchase method of accounting for acquisitions be used for all business combinations. SFAS No. 141(R) expands on the disclosures previously required by SFAS No. 141, further defines the acquirer and the acquisition date in a business combination, and establishes principles for recognizing and measuring the assets acquired (including goodwill), the liabilities assumed and any noncontrolling interests in the acquired business. SFAS No. 141(R) also requires an acquirer to record an adjustment to income tax expense for changes in valuation allowances or uncertain tax positions related to acquired businesses. SFAS No. 141(R) is effective for all business combinations with an acquisition date in the first annual period following December 15, 2008; early adoption is not permitted. We will adopt this statement as of January 1, 2009. Management is currently evaluating the impact SFAS No. 141(R) will have on our financial condition, results of operations and cash flows; however, in general, this standard will only impact the accounting for future acquisitions.

Noncontrolling Interest in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. SFAS No. 160 requires that noncontrolling (or minority) interests in subsidiaries be reported in the equity section of a company's balance sheet, rather

than in a mezzanine section of the balance sheet between liabilities and equity. SFAS No. 160 also changes the manner in which the net income of a subsidiary is reported and disclosed in the controlling company's income statement. SFAS No. 160 also establishes guidelines for accounting for changes in ownership percentages and for deconsolidation. SFAS No. 160 is effective for financial statements for fiscal years beginning on or after December 1, 2008 and interim periods within those years. The adoption of SFAS No. 160 is not expected to have a material impact on our financial position, results of operations or cash flows.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 14, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Partial Deferral of the Effective Date of Statement 157*, which delays the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The FSP defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008. In accordance with this staff position, effective at the beginning of fiscal year 2008, we adopted the provisions of SFAS No. 157 with respect to financial assets and liabilities, which did not have an impact on our financial position, results of operations or cash flows. We will adopt the provisions of SFAS No. 157 for non-financial assets and liabilities in the first quarter of 2009 and are currently evaluating the impact of the provisions of the standard.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Our primary market risk relates to changing interest rates. As of September 30, 2008, we had outstanding floating-rate term loan debt of \$576.8 million, of which \$11.3 million is currently due within the next year. Under our credit facilities, we are required to maintain one or more interest rate swap agreements for the aggregate notional amount of at least 33% of the outstanding aggregate principal amount of the term loans. Accordingly, we entered into a swap agreement effective July 1, 2005. As of September 30, 2008, the swap agreement had a notional amount of \$457.0 million and a fair value liability of approximately \$1.4 million.

We have foreign currency exposure related to our operations in the United Kingdom as well as other foreign locations. This foreign currency exposure arises primarily from the translation or re-measurement of our foreign subsidiaries' financial statements into U.S. dollars. For example, a substantial portion of our annual sales and operating costs are denominated in GBP and we have exposure related to sales and operating costs increasing or decreasing based on changes in currency exchange rates. If the U.S. dollar increases in value against these foreign currencies, the value in U.S. dollars of the assets and liabilities originally recorded in these foreign currencies will decrease. Conversely, if the U.S. dollar decreases in value against these foreign currencies, the value in U.S. dollars of the assets and liabilities originally recorded in these foreign currencies will increase. Thus, increases and decreases in the value of the U.S. dollar relative to these foreign currencies have a direct impact on the value in U.S. dollars of our foreign currency denominated assets and liabilities, even if the value of these items has not changed in their original currency. As such, a 10% change in the U.S. dollar exchange rates in effect as of September 30, 2008, would cause a change in consolidated net assets of approximately \$3.7 million and a change in gross profit of approximately \$6.4 million, primarily due to GBP-denominated exposures. We attempt to mitigate the impact of this exchange rate risk by utilizing financial instruments, including derivative transactions pursuant to our policies. As of September 30, 2008, our foreign currency derivatives had a fair value of approximately \$4.4 million.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (together, our "certifying officers"), of the effectiveness of the design and operation of our disclosure controls and procedures. Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed by us in our periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and SEC reports, and that the information is accumulated and communicated to our management, including the certifying officers, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, our certifying officers concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes to our control over financial reporting that occurred during the nine months ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

As previously reported, we have engaged in discussions with Sogin, SpA, the Italian state-owned utility company, to provide D&D and radioactive materials management services in support of the clean-up of Sogin's nuclear facilities. Our pending license application with the Nuclear Regulatory Commission (NRC) to import material from Italy, to process it at our facility in Tennessee and to dispose of the residual material at our Clive facility in Utah has generated local and national expressions of opposition. We believe our license application is consistent with all applicable laws and regulations and with past practices. Moreover, the Italian material metals, paper and clothing is the same type of material that we handle every day from the domestic nuclear industry.

The NRC has issued numerous licenses over the past ten years allowing the importation of LLRW to be processed and ultimately disposed at our Clive facility. Under these licenses, our Clive Facility has received Class A LLRW originating in Germany, Canada, France, Taiwan, and the United Kingdom.

The States of Tennessee and Utah have confirmed to the NRC that the proposed Italian project is consistent with the licenses and permits issued by those States. However, the Governor of the State of Utah announced on April 23, 2008, that he would send his representative to the May 8, 2008 meeting of the Northwest Interstate Compact on Low-Level Radioactive Waste Management (the "Northwest Compact") to vote against any proposal that would allow us to receive international waste at our Clive facility.

On May 5, 2008, we filed a declaratory judgment action in the U.S. District Court of Utah asking the court to declare that (i) the Northwest Compact does not have regulatory authority over our Clive facility, which is a private commercial facility rather than a regional facility created by the Compact, (ii) the U.S. Constitution does not allow the Northwest Compact to discriminate between identical domestic and foreign materials handled at our Clive facility, and (iii) any effort by the Northwest Compact to restrict our receipt of foreign LLRW is pre-empted by federal statutes and regulations. The State of Utah and the Rocky Mountain Interstate Compact on Low-level Radioactive Waste have intervened as defendants in the declaratory judgment action.

At the Northwest Compact meeting on May 8, 2008, the representatives of the eight member States of the Northwest Compact, despite our commitment to restrict our receipt of international waste to 5% of the remaining capacity at our Clive facility, unanimously adopted a clarifying resolution proposed by the Utah committee member, clarifying that the Northwest Compact has never adopted a resolution permitting us to receive international waste at our Clive facility. We continue to believe that the Northwest Compact does not have regulatory authority over our Clive facility, and that neither the U.S. Constitution nor Federal law permits the Northwest Compact, to prohibit us from receiving international waste at our Clive facility.

On October 6, 2008, the NRC approved an order holding in abeyance its decision with respect to our pending import license application until the U. S. District Court of Utah issues its ruling in the Company's declaratory judgment action.

We intend to vigorously prosecute our declaratory judgment action, but we do not believe we will be able to process and dispose of any radioactive materials contemplated by the Italian initiative during fiscal 2008.

Item 1A. Risk Factors.

These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

We and our customers operate in a highly regulated industry that requires us and them to obtain, and to comply with, national, state and local government permits and approvals.

We and our customers operate in a highly regulated environment. Our facilities are required to obtain, and to comply with, national, state and local government permits and approvals. Any of these permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals may adversely affect our operations by temporarily suspending our activities or curtailing our work and may subject us to penalties and other sanctions. Although existing licenses are routinely renewed by various regulators, renewal could be denied or jeopardized by various factors, including:

failure to provide adequate financial assurance for decommissioning or closure;

failure to comply with environmental and safety laws and regulations or permit conditions;

local community, political or other opposition;

executive action; and

legislative action.

In addition, if new environmental legislation or regulations are enacted or existing laws or regulations are amended or are interpreted or enforced differently, we or our customers may be required to obtain additional operating permits or approvals. Changes in requirements imposed by our environmental or other permits may lead us to incur additional expenses by requiring us to change or improve our waste management technologies and services to achieve and maintain compliance. There can be no assurance that we will be able to meet all potential regulatory changes.

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

We and our customers operate in a politically sensitive environment. The risks associated with radioactive materials and the public perception of those risks can affect our business. Various public interest groups frequently oppose the operation of disposal sites for radioactive materials such as our Clive, Utah and Barnwell, South Carolina facilities. For example, public interest groups and the governor of Utah recently have made public statements regarding their desire to limit the source and volume of radioactive materials that we process and dispose at our Clive facility. If any efforts to limit our operations at these or any of our other current or future facilities were successful, then our business would suffer.

Opposition by third parties to particular projects can delay or prohibit the construction of new nuclear power plants and can limit the operation of nuclear reactors or the handling and disposal of radioactive materials. Adverse public reaction to developments in the use of nuclear power or the disposal of radioactive materials, including any high profile incident involving the discharge of radioactive materials, could directly affect our customers and indirectly affect our business. In the past, adverse public reaction, increased regulatory scrutiny and litigation have contributed to extended construction periods for new nuclear reactors, sometimes extending construction schedules by decades or more, contributing to the result that no new reactor has been ordered since the 1970s. Adverse public reaction also could lead to increased regulation or outright prohibition, limitations on the activities of our customers, more onerous operating requirements or other conditions that could have a material adverse impact on our customers and our business.

In addition, we may seek to address public and political opposition to our business activities through voluntary limitations on our operations. For example, as part of our response to public statements made by public interest groups and the governor of Utah regarding their desire to limit the source and volume of radioactive materials that we process and dispose at our Clive facility, we

voluntarily agreed with the governor to withdraw a request for a license amendment to increase our capacity at our Clive facility. We are also experiencing both local and national expressions of opposition to the importation of LLRW from international sources, including opposition articulated in U.S. congressional proposals and from the Northwest Interstate Compact on Low-Level Radioactive Waste Management, or the Northwest Compact. The Northwest Compact, which consists of Alaska, Hawaii, Idaho, Montana, Oregon, Utah, Washington, and Wyoming, was created pursuant to a federal statute that enables states to enter into interstate compacts for the purposes of managing LLRW. In response to this opposition, we have volunteered to limit the amount of foreign LLRW accepted at our Clive facility to a maximum of 5% of the total remaining facility capacity. We also have filed a declaratory judgment action in the U.S. District Court in Utah seeking an order that the Northwest Compact does not have jurisdictional or regulatory authority over our Clive facility and that the Northwest Compact may not discriminate between domestic and foreign materials. Our actions to diffuse public and political opposition to our business can divert time and resources away from our core business operations and strategies, and failure to achieve the intended results of our actions may have a material adverse effect on our business, financial condition and results of operations.

Our business depends on the continued operation of our Clive, Utah facility.

Our disposal facility in Clive, Utah is a strategic asset and is vital to our business. This facility is the largest privately owned commercial facility for the disposal of LLRW in the United States, and contributed 14.2% and 7.4% of our revenues for the year ended December 31, 2007 and the nine months ended September 30, 2008, respectively. Because of the greater profitability of the Clive facility in comparison with the rest of our business, a loss of revenue from Clive would have a disproportionate impact on our gross profit and gross margin. The Clive facility is subject to the normal hazards of operating any disposal facility, including accidents and natural disasters. In addition, access to the facility is limited, and any interruption in rail or other transportation services to and from the facility will affect our ability to operate the facility. Our Clive facility is highly regulated and subject to extensive licensing and permitting requirements and continuous air and ground water monitoring. Changes in federal, state or local regulations, including changes in the interpretation of those regulations, can affect our ability to operate the facility. Actions by states or the federal government may affect facility capacity, expansion or extension of the Clive facility. The Northwest Compact also has asserted authority over our Clive facility and restrictions over our ability to import foreign LLRW for disposal at the facility. Such actions may hinder, delay or stop shipments to the facility, which could seriously impair our ability to execute disposal projects and significantly reduce future revenues. We believe that we have sufficient capacity for more than 30 years of operations based on our estimate of future disposal volumes, our ability to optimize disposal capacity utilization and our assumption that we will obtain a license amendment to convert a disposal cell originally intended for 11e(2) waste to Class A LLRW. If we are unable to obtain the license amendment, our projected capacity to dispose of Class A LLRW would be materially reduced. If future disposal volumes increase beyond our expectations or if our other assumptions prove to be incorrect, then the remaining capacity at Clive would be exhausted more quickly than projected.

Any interruption in our operation of the Clive facility or decrease in the effective capacity of the facility would adversely affect our business, and any prolonged disruption in the operation of the facility or reduction in the capacity or useful life of the facility would have a material adverse effect on our business, financial condition and results of operations.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Our quarterly operating results may fluctuate significantly and may not meet our financial guidance or published analyst forecasts, which could have a negative effect on the price of our common stock.

Our quarterly operating results may fluctuate significantly because of a number of factors, many of which are outside our control, including:

the seasonality of our contracts, the spending cycle of our government customers and the spending patterns of our commercial customers;

the number and significance of projects commenced and completed during a quarter;

uncertainty in timing for receiving government contract awards;

our contract with the NDA, under which we generally recognize most efficiency fees in the first calendar quarter of each year;

unanticipated changes in contract performance, particularly with contracts that have funding limits;

the timing of resolutions of change orders, requests for equitable adjustments and other contract adjustments;

decisions by customers to terminate our contracts;

delays incurred in connection with a project;

seasonal variations in shipments of radioactive materials;

weather conditions that delay work at project sites;

the timing of expenses incurred in connection with acquisitions or other corporate initiatives;

staff levels and utilization rates;

changes in the prices of services offered by our competitors; and

general economic or political conditions.

Fluctuations in quarterly results, lower than anticipated revenues or our failure to meet financial guidance or published analysts' forecasts could have a negative effect on the price of our common stock.

Our international operations involve risks that could have a material adverse effect on our results of operations.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

For the year ended December 31, 2007, we derived 49.5% and 4.1% of our revenues and operating income, respectively, and for the nine months ended September 30, 2008, we derived 66.6% and 30.4% of our revenues and operating income, respectively, from our operations outside of North America. Our business is dependent on the success of our international operations, and we expect that our international operations will continue to account for a significant portion of our total revenues. Our international operations are subject to a variety of risks, including:

recessions in foreign economies and the impact on our costs of doing business in those countries;

difficulties in staffing and managing foreign operations;

unexpected changes in regulatory requirements;

foreign currency fluctuations;

the adoption of new, and the expansion of existing, trade restrictions;

acts of war and terrorism;

the ability to finance efficiently our foreign operations;

social, political and economic instability;

increases in taxes;

limitations on the ability to repatriate foreign earnings; and

natural disasters or other crises.

Changes in existing environmental and other laws, regulations and programs could affect our business.

A significant amount of our business processing and disposing of radioactive materials derives directly or indirectly as a result of existing national and state laws, regulations and programs related to pollution and environmental protection. National, state and local environmental legislation and regulations require substantial expenditures and impose liabilities for noncompliance. Accordingly, a real or perceived relaxation or repeal of these laws and regulations, or changes in government policies regarding the funding, implementation or enforcement of these programs, could result in a material decline in demand for nuclear services. The ultimate impact of the proposed changes will depend upon a number of factors, including the overall strength of the economy and the industry's views on the cost-effectiveness of remedies available under the changed laws and regulations.

Our operations are subject to taxation by the U.S. and U.K. governments, the State of Utah, Tooele County, Utah and other foreign governments. In the event of a material increase in our taxes resulting from an increase in our effective tax rate or change in our scheme of taxation, we may not have the ability to pass on the effect of such increase to our customers and, as a result, our stockholders could bear the burden of any such tax increase. The risk of a material tax increase may be exacerbated by political pressure to limit our operations. See " We and our customers operate in a politically sensitive environment, and the public perception of nuclear power and radioactive materials can affect our customers and us."

Our facilities are also subject to political actions by government entities which can reduce or completely curtail their operations. For example, the State of South Carolina closed the Barnwell disposal site on July 1, 2008 to customers outside of the Atlantic Compact States of South Carolina, New Jersey and Connecticut. Although we do not expect the Barnwell closure to be significant to our revenues or net income, political pressures to reduce or curtail other operations could have a material adverse effect on our results of operations.

Our life-of-plant contracts may not remain effective through a nuclear power plant's decontamination and decommissioning.

Although our life-of-plant contracts are intended to provide us with revenue streams from the processing and disposal of substantially all LLRW and MLLW generated over the remaining lives of nuclear power plants operated by our commercial power and utility customers, and ultimately waste disposal revenue streams when the plants are shut down, these contracts may not actually remain effective for that entire period. A typical "life-of-plant" contract may terminate before D&D because the contract may:

have a shorter initial term than the useful life of the plant and the contract may not be extended by the utility;

include a provision that allows the customer to terminate the contract after a certain period of time or upon certain events;

allow for renegotiation of pricing terms if market conditions change; and

allow for renegotiation of pricing terms based on increases in taxes and pass-through or other costs.

The early termination or renegotiation of a life-of-plant contract may reduce our revenues and profits. In addition, life-of-plant contracts may expose us to liability in the event that government bodies limit our ability to accept radioactive materials by capping the capacity of one or more of our disposal facilities or taking other actions.

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

We must be successful in winning new business mandates from our government and commercial customers to replace revenues from projects that are nearing completion and to increase our revenues. Our business and operating results can be adversely affected by the size and timing of a single material contract. For example, during 2005, we were the primary subcontractor to Kaiser-Hill Company, LLC for the transportation and disposal of LLRW, MLLW and other contaminated materials from the DOE's Rocky Flats Environmental Technology site near Denver, Colorado. Pursuant to this contract, we generated \$105.4 million of revenues during 2005. The DOE declared the clean-up complete in October 2005, and we have not generated significant revenues from Rocky Flats since 2005.

Our business strategy includes bidding on government contracts as a lead prime contractor in a consortium. We expect to bid on a significant portion of the approximately \$25.8 billion of federal nuclear services contracts that we estimate will be awarded within the next five years. In the past, we have operated primarily as a subcontractor or in a minority position on a prime contractor team. In pursuing a lead prime contractor role, we will be competing directly with a number of large national and regional nuclear services firms that may possess or develop technologies superior to our technologies and have greater financial, management and marketing resources than we do. Many of these companies also have long-established customer relationships and reputations. As a result, we may not be successful in being awarded the lead prime contractor role for any of these contracts.

We may fail to win re-bids in the United Kingdom for the Southern and Northern Region decommissioning contracts currently held by our subsidiary RSMC.

The current NDA contracts held by RSMC through its subsidiary, Magnox Electric, in relation to the Southern Region sites and Northern Region sites may be put out for re-bid ahead of their termination dates, currently expected to be within the next two years. During the contract year ended March 31, 2008, RSMC recognized revenues of \$1.1 billion from these contracts. We expect the competition for these contracts to be intense, and our failure to win the re-bid of either or both contracts would have a material adverse effect on our results of operations. Furthermore, we intend to pursue these re-bids in partnership with other contractors. For instance, we have entered into an agreement to team with Jacobs Engineering Corporation to re-bid on the Southern Region pursuant to which Jacobs would be a 35% partner. Our failure to win the re-bids could have an adverse effect on our business and results of operations. Even if we win the re-bid, the participation of a partner could reduce our profits from these contracts. In addition, any limitations on our ability to import international waste to our Clive facility could reduce one of our competitive advantages in competing for these contracts. See " We and our customers operate in a politically sensitive environment, and the public perception of nuclear power and radioactive materials can affect our customers and us."

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

One or a few government and commercial customers have in the past and may in the future account for a significant portion of our revenues in any one year or over a period of several consecutive years. For example, the NDA accounts for virtually all of our revenue in the International segment (which is our largest segment based on 2007 revenues). For the year ended December 31, 2007 and the nine months ended September 30, 2008, 48.6% and 66.3%, respectively, of our revenues were from contracts funded by the NDA. In addition, in 2007, we had contracts with various offices within the DOE, including with the Office of Environmental Management, the Office of Civilian Radioactive Waste Management, the National Nuclear Security Administration and the Office of Nuclear Energy. For the year ended December 31, 2007 and the nine months ended September 30, 2008, 16.7% and 10.5%, respectively, of our revenues were from contracts funded by the DOE. Because customers generally contract with us for specific projects, we may lose these significant customers from year to year as their projects with us are completed. Our inability to replace this business with other projects could have an adverse effect on our business and results of operations.

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

In the United States, the Atomic Energy Act of 1954, as amended, or the AEA, comprehensively regulates the manufacture, use and storage of radioactive materials. Section 170 of the AEA, which is known as the Price-Anderson Act, supports the nuclear services industry by offering broad indemnification to commercial nuclear power plant operators and DOE contractors for liabilities arising out of nuclear incidents at power plants licensed by the NRC and at DOE nuclear facilities. That indemnification protects not only the NRC licensee or DOE prime contractor, but also companies like us that work under contract or subcontract for a licensed power plant or under a DOE prime contract or transporting radioactive material to or from a site. The indemnification authority of the NRC and DOE under the Price-Anderson Act was extended through 2025 by the Energy Policy Act of 2005.

The Price-Anderson Act's indemnification provisions generally do not apply to our processing and disposal facilities, and do not apply to all liabilities that we might incur while performing services as a contractor for the DOE and the nuclear energy industry. If an incident or evacuation is not covered under Price-Anderson Act indemnification, we could be held liable for damages, regardless of fault, which could have an adverse effect on our results of operations and financial condition. In connection with international transportation of toxic, hazardous and radioactive materials, it is possible for a claim to be asserted which may not fall within the indemnification provided by the Price-Anderson Act. If such indemnification authority is not applicable in the future, our business could be adversely affected if the owners and operators of new facilities fail to retain our services in the absence of commercially adequate insurance and indemnification.

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

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

accidents, terrorism, natural disasters or other incidents occurring at nuclear facilities or involving shipments of nuclear materials;

disruptions in the nuclear fuel cycle, such as insufficient uranium supply or conversion;

the financial condition and strategy of the owners and operators of nuclear reactors;

civic opposition to or changes in government policies regarding nuclear operations; or

a reduction in demand for nuclear generating capacity.

These events also could adversely affect us to the extent that they result in the reduction or elimination of contractual requirements, the suspension or reduction of nuclear reactor operations, the reduction of supplies of nuclear raw materials, lower demand for nuclear services, burdensome regulation, disruptions of shipments or production, increased operational costs or difficulties or increased liability for actual or threatened property damage or personal injury.

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

Demand for our services has been, and we expect that demand will continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including economic and industry conditions. The stress experienced by global capital markets that began in the second half of 2007 continued and substantially increased during the third quarter of 2008. Recently, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining real estate market have contributed to increased volatility and diminished expectations for the global economy and expectations of slower global economic growth going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and fears of a recession.

During economic downturns, the ability of private and government entities to make expenditures on nuclear services may decline significantly. We cannot be certain that economic or political conditions will be generally favorable or that there will not be significant fluctuations adversely affecting our industry as a whole. In addition, our operations depend, in part, upon government funding, particularly funding levels at the NDA or DOE. Significant changes in the level of government funding (for example, the annual budget of the NDA or DOE) or specifically mandated levels for different programs that are important to our business could have an unfavorable impact on our business, financial position, results of operations and cash flows. For example, the U.K. government reduced funding to the NDA in 2007 compared to 2006. The NDA has stated that the Magnox North and Magnox South sites, for which we are currently a prime contractor, may receive reduced funding allocations in the future so that the NDA may address other sites that contain more hazardous materials that pose a greater degree of risk. In addition, it is likely that Congress will not pass a fiscal year 2009 appropriations bill until a new administration takes office, which may delay spending on new government contracts.

In addition, current market conditions have exerted downward pressure on the price of our common stock, which could limit our ability to raise capital, if necessary, through borrowings or the issuance of additional securities. A protracted economic downturn could exacerbate these adverse conditions. Although numerous governments have taken steps to mitigate the disruption to financial markets, there can be no assurances that government responses will restore consumer confidence for the foreseeable future.

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

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

Government contracts are often subject to specific procurement regulations, contract provisions and a variety of other requirements relating to the formation, administration, performance and

accounting of these contracts. Many of these contracts include express or implied certifications of compliance with applicable regulations and contractual provisions. We may be subject to qui tam litigation brought by private individuals on behalf of the government under the Federal Civil False Claims Act, which could include claims for up to treble damages. Additionally, we may be subject to the Truth in Negotiations Act, which requires certification and disclosure of all factual costs and pricing data in connection with contract negotiations. If we fail to comply with any regulations, requirements or statutes, our existing government contracts could be terminated or we could be suspended from government contracting or subcontracting. If one or more of our government contracts are terminated for any reason, or if we are suspended or debarred from government work, we could suffer a significant reduction in expected revenues and profits. Furthermore, as a result of our government contracting, claims for civil or criminal fraud may be brought by the government for violations of these regulations, requirements or statutes.

Our commercial customers may decide to store radioactive materials on-site rather than contract with us to transport, process and dispose of the radioactive materials at one of our off-site facilities.

Our LP&D segment's results of operations may be affected by the decisions of our commercial customers to store radioactive materials on-site. There has been little regulatory, political or economic pressure for commercial utilities and power companies to dispose of radioactive materials at off-site facilities. Some of these commercial entities have the ability to store radioactive materials generated by their operations on-site, instead of contracting with an outside service provider, such as us, to transport, process and dispose of the radioactive materials at an off-site location, such as our Clive facility. The decision to store radioactive materials on-site rather than contracting to dispose of them at an off-site facility may be influenced by the accounting treatment for radioactive materials. Currently, the liability for the disposal of radioactive materials stored on-site may be capitalized on the owner's balance sheet and amortized over the expected on-site storage period. In contrast, radioactive materials shipped off-site for disposal are expensed during the period in which the materials are shipped off-site. The NRC has rejected our proposal to undertake an amendment of current NRC rules to permit operators of nuclear reactors to access decommissioning funds for transportation and disposal of retired large components of currently operating nuclear power plants. We will continue to work with the NRC to request, on a case-by-case basis, that operators of these nuclear reactors be permitted to access decommissioning funds for transportation and disposal of retired large components. The NRC's refusal to grant such requests could have an adverse impact on the prospects for our Commercial and LP&D segments.

We may not be successful in entering into license stewardship arrangements with owners and operators of shut-down nuclear reactors.

We are marketing our license stewardship solution to the owners and operators of shut-down nuclear reactors in SAFSTOR or monitored storage. Although we believe that our license stewardship initiative is an attractive alternative to deferring decommissioning and related risks to the reactor owner, including future cost increases and the future availability of disposal capacity, the following factors may adversely affect our license stewardship initiative:

owners and operators of shut-down nuclear reactors have the option of maintaining their reactors in SAFSTOR or monitored storage, allowing their decommissioning trust funds to grow and eventually pursue a D&D program in the future;

uncertainty regarding the appropriate tax and regulatory treatment of aspects of our license stewardship initiative may prevent owners and operators of nuclear power plants from entering into these kinds of arrangements with us;

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

if a plant's decommissioning trust fund has decreased or failed to grow, the fund may not be large enough to make license stewardship economically feasible;

we may fail to obtain the necessary approvals and licenses from the NRC and the applicable state public utility commission on terms we find acceptable;

these contracts may require us to post letters of credit or surety bonds that we may be unable to obtain on reasonable terms, or at all;

as the owner of the reactor assets and the holder of the NRC license, we may be subject to unforeseen environmental liabilities, including fines for non-compliance with environmental requirements and costs associated with the clean-up of unanticipated contamination; and

if we underestimate the costs or timing of D&D activities at a particular site, the project may not be profitable for us.

As discussed elsewhere in this report, we have entered into an agreement with Exelon to dismantle Exelon's nuclear facility located in Zion, Illinois, which ceased operation in 1998. We expect that the NRC will grant approval for the transfer of the license to operate this facility from Exelon to us before the end of 2008. However, because of the current market downturn, the nuclear decommissioning trust fund balance for the Zion Station, a significant portion of which is invested in the stock market, has declined in value. As a result, we intend to defer the completion of this transaction until after the financial markets stabilize and we reaffirm that there is sufficient value in the decommissioning trust funds to ensure adequate funds for the accelerated decommissioning of the plant. As of September 30, 2008, we have incurred costs of \$9.4 million that have been deferred until the closing of the transaction. We will continue to defer these costs until we close the transaction, at which time we will recognize the costs and related revenues. If we determine that it is not probable that we will close this transaction, we will expense these costs in the period of such determination.

Our inability to successfully complete the transaction with Exelon or to enter into other license stewardship arrangements may have an unfavorable impact on our business, financial position, results of operations and cash flows.

We are subject to liability under environmental laws and regulations.

We are subject to a variety of environmental, health and safety laws and regulations governing, among other things, discharges to air and water, the handling, storage and disposal of hazardous or radioactive materials and wastes, the remediation of contamination associated with releases of hazardous substances and human health and safety. These laws and regulations and the risk of attendant litigation can cause significant delays to a project and add significantly to its cost. Our projects often involve highly regulated materials, including hazardous and radioactive materials and wastes. Environmental laws and regulations generally impose limitations and standards for regulated materials and require us to obtain permits and licenses and comply with various other requirements. Fees associated with such environmental permits and licenses can be costly. In addition, the improper characterization, handling, testing, transportation or disposal of regulated materials or any other failure to comply with these environmental, health and safety laws, regulations, permits or licenses have resulted in fines or penalties from time to time and could subject us and our management to civil and criminal penalties, the imposition of investigatory or remedial obligations or the issuance of injunctions that could restrict or prevent our operations. These laws and regulations may also become more stringent, or be more stringently enforced, in the future.

Various national, state and local environmental laws and regulations, as well as common law, may impose liability for property damage and costs of investigation and clean-up of hazardous or toxic substances on property currently or previously owned by us or arising out of our waste management, environmental remediation or nuclear D&D activities. These laws may impose responsibility and

liability without regard to knowledge of or causation of the presence of contaminants. The liability under these laws can be joint and several, meaning liability for the entire cost of clean-up can be imposed upon any responsible party. We have potential liabilities associated with our past radioactive materials management activities and with our current and prior ownership of various properties. The discovery of additional contaminants or the imposition of unforeseen clean-up obligations at these or other sites could have an adverse effect on our results of operations and financial condition.

When we perform our services, our personnel and equipment may be exposed to radioactive and hazardous materials and conditions. We may be subject to liability claims by employees, customers and third parties as a result of such exposures. In addition, we may be subject to fines, penalties or other liabilities arising under environmental or safety laws. Although to date we have been able to obtain liability insurance for the operation of our business, there can be no assurance that our existing liability insurance is adequate or that it will be able to be maintained or that all possible claims that may be asserted against us will be covered by insurance. A partially or completely uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on our results of operations and financial condition.

Our operations involve the handling, transportation and disposal of radioactive and hazardous materials and could result in liability without regard to our fault or negligence.

Our operations involve the handling, transportation and disposal of radioactive and hazardous materials. Failure to properly handle these materials could pose a health risk to humans or animals and could cause personal injury and property damage (including environmental contamination). If an accident were to occur, its severity could be significantly affected by the volume of the materials and the speed of corrective action taken by emergency response personnel, as well as other factors beyond our control, such as weather and wind conditions. Actions taken in response to an accident could result in significant costs.

In our contracts, we seek to protect ourselves from liability associated with accidents, but there is no assurance that such contractual limitations on liability will be effective in all cases or that our, or our customers', insurance will cover all the liabilities we have assumed under those contracts. The costs of defending against a claim arising out of a nuclear incident or precautionary evacuation, and any damages awarded as a result of such a claim, could adversely affect our results of operations and financial condition.

We maintain insurance coverage as part of our overall risk management strategy and due to requirements to maintain specific coverage in our financing agreements and in many of our contracts. These policies do not protect us against all liabilities associated with accidents or for unrelated claims. In addition, comparable insurance may not continue to be available to us in the future at acceptable prices, or at all.

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

We are engaged in highly competitive businesses in which most of our government contracts and some of our commercial contracts are awarded through competitive bidding processes. We compete with national and regional firms with nuclear services practices, as well as small or local contractors. Some of our competitors have greater financial and other resources than we do, which can give them a competitive advantage. In addition, even if we are qualified to work on a new government contract, we might not be awarded the contract because of existing government policies designed to protect small businesses and underrepresented minority contractors. Competition also places downward pressure on our contract prices and profit margins. Intense competition is expected to continue for nuclear service contracts, challenging our ability to maintain strong growth rates and acceptable profit margins. If we

are unable to meet these competitive challenges, we could lose market share and experience an overall reduction in our profits. In the event that a competitor is able to obtain the necessary permits, licenses and approvals to operate a new commercial LLRW disposal site, our business could be adversely affected. For example, Waste Control Specialists LLC, or WCS, filed a license application in August 2004 for an LLRW disposal facility in Andrews County, Texas. In late 2007, the State of Texas issued a draft LLRW license to WCS. Under the terms of the draft license, WCS is prohibited from accepting more than 20% of the volume shipped to the WCS site from outside the Texas Interstate Compact on Low-Level Radioactive Waste Management, which includes only Texas and Vermont. This license contained several contingencies that must be resolved prior to the issuance of the final license, including a requirement that the DOE assume all rights, title, and interest in the land, buildings and waste located at the facility that would be used to dispose of waste received from federal government sites. We cannot predict whether WCS will successfully resolve the contingencies related to the draft LLRW license, or whether the State of Texas will issue a final license to WCS. In addition, WCS recently received a separate license to permanently dispose of 11e(2) materials at its facility.

Our historical financial statements do not fully reflect our results of operations as a newly combined company.

Our business today consists of a combination of recently acquired businesses. However, the historical financial statements included in this report only reflect the results of the acquired businesses from the dates of their acquisition. Therefore, these financial statements do not fully reflect our operations as a combined business.

Our business and operating results could be adversely affected by losses under fixed-price contracts.

Fixed-price contracts require us to perform all work under the contract for a specified lump-sum. Fixed-price contracts expose us to a number of risks not inherent in cost-reimbursable contracts, including underestimation of costs, ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond our control, failures of subcontractors to perform and economic or other changes that may occur during the contract period.

If we guarantee the timely completion or performance standards of a project, we could incur additional costs to cover our guarantee obligations.

In some instances, we guarantee a customer that we will complete a project by a scheduled date. For example, in connection with our license stewardship initiative, we guarantee that we will complete the decommissioning of a nuclear power plant that is currently shut down within both a particular time frame and budget. We also sometimes guarantee that a project, when completed, will achieve certain performance standards. If we fail to complete the project as scheduled or if the project fails to meet guaranteed performance standards, we may be held responsible for the impact to the customer resulting from any delay or for the cost of further work to achieve the performance standards, generally in the form of contractually agreed-upon penalty provisions. As a result, the project costs could exceed our original estimate, leading to reduced profits or a loss for that project.

Our use of proportional performance accounting could result in a reduction or elimination of previously reported profits.

A significant portion of our revenues are recognized using the proportional performance method of accounting. Generally, the proportional performance accounting practices we use result in recognizing contract revenues and earnings based on output measures, where estimable, or on other measures such as the proportion of costs incurred to total estimated contract costs. For some of our long-term contracts, completion is measured on estimated physical completion or units of production. The cumulative effect of revisions to contract revenues and estimated completion costs, including incentive awards, penalties, change orders, claims and anticipated losses, is recorded in the accounting period in which the amounts are known or can be reasonably estimated. Due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates. A significant downward revision to our estimates could result in a material charge to our results of operations in the period of such a revision.

Acquisitions that we pursue may present unforeseen integration obstacles and costs, increase our debt and negatively impact our performance.

Our growth strategy includes selective acquisitions of other nuclear services businesses, both domestic and international, that enhance our existing portfolio of services and strengthen our relationships with our government and commercial customers. In 2007, we completed the acquisitions of RSMC, Parallax, NUKEM and Monserco. From time to time, we may consider additional acquisitions, which, if consummated, could be material. We cannot give any assurance as to whether any such transaction could be completed or as to the price, terms or timetable on which we may do so. If we are able to consummate any such acquisition, it could result in dilution of our earnings, an increase in indebtedness or other consequences that could be adverse.

The expense incurred in consummating acquisitions, or our failure to integrate such businesses successfully into our existing businesses, could result in our incurring unanticipated expenses and losses. Furthermore, we may not be able to realize anticipated benefits from acquisitions. The process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with our acquisition strategy include:

potential disruption of our ongoing business and distraction of management;

unexpected loss of key employees or customers of the acquired company;

conforming the acquired company's standards, processes, procedures and controls with our operations;

hiring additional management and other critical personnel; and

increasing the scope, geographic diversity and complexity of our operations.

We may not be able to identify suitable acquisition targets or negotiate attractive terms in the future. In addition, our ability to complete acquisitions is limited by covenants in our credit facilities and our financial resources, including available cash and borrowing capacity. If we are unable to make successful acquisitions, our ability to grow our business could be adversely affected.

Our success depends on attracting and retaining qualified personnel in a competitive environment.

Our operations require the services of highly qualified managerial and business development personnel, skilled technology specialists and experts in a wide range of scientific, engineering and health and safety fields. Partly because no new nuclear reactors have commenced construction since the

mid-1970s, there has been a limited number of qualified students graduating from universities with specialized nuclear engineering or nuclear science-based degrees. As a result, the nuclear services industry is experiencing a shortage of qualified personnel. We face increasing competition and expense to attract and retain such personnel. Loss of key personnel or failure to attract personnel to expand our operations could have an adverse effect on our ability to operate our business and execute our business strategy.

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

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

An impairment charge could have a material adverse effect on our financial condition and results of operations.

Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, we are required to test acquired goodwill for impairment on an annual basis based upon a fair value approach, rather than amortizing it over time. Goodwill represents the excess of the amount we paid to acquire our subsidiaries and other businesses over the fair value of their net assets at the date of the acquisition. We have chosen to perform our annual impairment reviews of goodwill as of the end of the first quarter of each fiscal year. We also are required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. In addition, we are required to test our finite-lived intangible assets for impairment if events occur or circumstances change that would indicate the remaining net book value of the finite-lived intangible assets might not be recoverable. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of our business, potential government actions towards our facilities and other factors. If the fair market value of our reporting units is less than their book value, we could be required to record an impairment charge. The valuation of reporting units requires judgment in estimating future cash flows, discount rates and other factors. In making these judgments, we evaluate the financial health of our business, including such factors as industry performance, changes in technology and operating cash flows. The amount of any impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

In June 2006, we acquired Duratek for an aggregate purchase price of \$440.8 million. Goodwill recognized for this acquisition was \$309.6 million. We paid a premium in excess of the fair value of \$216.9 million. We were willing to pay this premium as a result of our identification of significant synergies that we expect to realize through the acquisition. However, if we determine that we are not able to realize these expected synergies and determine that the fair value of the assets acquired is less than the book value of those assets, then we would have to recognize an impairment to goodwill as a current-period expense. Because of the significant amount of goodwill recognized in the Duratek acquisition, an impairment of that goodwill could result in a material expense and could result in a decrease in the market price of our common stock.

As of September 30, 2008, we had \$526.5 million of goodwill and \$363.7 million of finite-lived intangible assets. Our goodwill and other intangible assets collectively represented 56.4% of our total assets of \$1.6 billion as of September 30, 2008.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

We have substantial debt, which could adversely affect our financial condition and otherwise adversely affect our business and growth prospects.

As of September 30, 2008, the outstanding balance under our credit facilities was \$576.8 million. Our substantial debt could have important consequences to us, including the following:

we must use a substantial portion of our cash flow from operations to pay interest on our debt, which reduces the funds available to us for other purposes;

our ability to obtain additional debt financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be limited;

our flexibility in reacting to changes in the industry may be limited and we could be more vulnerable to adverse changes in our business or economic conditions in general; and

we may be at a competitive disadvantage to competitors that have less debt.

Borrowings under our credit facilities bear interest at variable rates. As of September 30, 2008, the weighted average interest rate under our credit facilities was 5.47%. At this rate and assuming an outstanding balance of \$576.8 million as of September 30, 2008, our annual debt service obligations would be \$37.6 million. Based on the amount of debt outstanding and the interest rate at September 30, 2008, a hypothetical 1% increase in interest rates would increase our annual interest expense by approximately \$5.8 million. If interest rates were to increase significantly, our ability to borrow additional funds may be reduced, our interest expense would significantly increase and the risks related to our substantial debt would intensify.

The agreements governing our debt restrict our ability to engage in certain business transactions.

The agreements governing the credit facilities restrict our ability to, among other things, engage in the following actions, subject to limited exceptions:

incur or guarantee additional debt;

declare or pay dividends to holders of our common stock;

make investments;

incur or permit to exist liens;

enter into transactions with affiliates;

make material changes in the nature or conduct of our business;

merge or consolidate with, or sell substantially all of our assets to, other companies;

make capital expenditures; and

transfer or sell assets.

Our credit facilities also contain other covenants that are typical for credit facilities of this size, type and tenor, such as requirements that we meet specified maximum leverage and minimum cash interest coverage ratios. Our ability to make additional borrowings under our credit facilities depends upon satisfaction of these covenants. Our ability to comply with these covenants and requirements may be affected by events beyond our control.

Our failure to comply with obligations under our credit facilities could result in an event of default under the facilities. A default, if not cured or waived, could prohibit us from obtaining further loans under our credit facilities and permit the lenders thereunder to accelerate payment of their loans. If our debt is accelerated, we cannot be certain that we will have funds available to pay the accelerated debt or that we will have the ability to refinance the accelerated debt on terms favorable to us or at all.

If we could not repay or refinance the accelerated debt, we could be insolvent and could seek to file for bankruptcy protection. Any such default, acceleration or insolvency would likely have a material adverse effect on the market value of our common stock.

We rely on intellectual property law and confidentiality agreements to protect our intellectual property. Our failure to protect our intellectual property rights could adversely affect our future performance and growth.

Protection of our proprietary processes, methods and other technology is important to our business. Failure to protect our existing intellectual property rights may result in the loss of valuable technologies. We rely on patent, trade secret, trademark and copyright law as well as judicial enforcement to protect such technologies. A majority of our patents relate to the development of new products and processes for the processing and disposal of radioactive materials. Our intellectual property could be challenged, invalidated, circumvented or rendered unenforceable.

We also rely upon unpatented proprietary nuclear expertise, continuing technological innovation and other trade secrets to develop and maintain our competitive position. We generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, but these agreements are limited in duration and could be breached, and therefore they may not provide meaningful protection for our trade secrets or proprietary nuclear expertise. Adequate remedies may not be available in the event of an unauthorized use or disclosure of our trade secrets and nuclear expertise. Others may obtain knowledge of our trade secrets through independent development or other access by legal means. The failure of our intellectual property or confidentiality agreements to protect our processes, technology, trade secrets and proprietary nuclear expertise and methods could have an adverse effect on our business by jeopardizing our rights to use critical intellectual property.

In addition, effective intellectual property protection may be limited or unavailable in some foreign countries where we may pursue operations.

If our partners fail to perform their contractual obligations on a project or if we fail to coordinate effectively with our partners, we could be exposed to legal liability, loss of reputation and reduced profit on the project.

We often perform projects jointly with contractual partners. For example, we enter into contracting consortia and other contractual arrangements to bid and perform jointly on large projects. Success on these joint projects depends in part on whether our partners fulfill their contractual obligations satisfactorily. If any of our partners fails to perform its contractual obligations satisfactorily, we may be required to make additional investments and provide additional services in order to compensate for that partner's failure. If we are unable to adequately address our partner's performance issues, then our customer may exercise its right to terminate a joint project, exposing us to legal liability, loss of reputation and reduced profit.

Our collaborative arrangements also involve risks that participating parties may disagree on business decisions and strategies. These disagreements could result in delays, additional costs and risks of litigation. Our inability to successfully maintain existing collaborative relationships or enter into new collaborative arrangements could have a material adverse effect on our results of operations.

We conduct a portion of our operations through joint venture entities, over which we may have limited control.

We currently have equity interests in joint ventures and may enter into additional joint ventures in the future. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners, and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors could potentially harm the business and operations of a joint venture and, in turn, our business and operations.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Operating through joint ventures in which we are minority holders results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. As a result, internal control problems may arise with respect to the joint ventures.

Our dependence on subcontractors and equipment manufacturers could adversely affect us.

We rely on subcontractors and equipment manufacturers to complete our projects. For example, when providing D&D services to a government customer, we may rely on one or more subcontractors to conduct demolition work. To the extent that we cannot engage subcontractors or acquire equipment or materials to provide such services, our ability to complete the project in a timely fashion or at a given profit margin may be impaired. Our LP&D segment also enters into contracts with various railroads for the transportation of radioactive materials from project sites to our processing and disposal facilities. In the event that the railroads fail to deliver radioactive materials to our facilities on time, we could be forced to delay recognizing LP&D revenues until the time of delivery.

In addition, if a subcontractor or a manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase those services, equipment or materials from another source at a higher price. This may reduce our profitability or result in a loss on the project for which the services, equipment or materials were needed.

Letters of credit and adequate bonding are necessary for us to win certain types of new work.

We are required to post, from time to time, standby letters of credit and surety bonds to support contractual obligations to customers as well as other obligations. These letters of credit and bonds indemnify the customer if we fail to perform our obligations under the contract. For example, in connection with our agreement with Exelon Corporation regarding the decommissioning of its Zion nuclear facility located in Zion, Illinois, we are required to deliver a \$200 million letter of credit to Exelon relating to our present and future obligations. If a letter of credit or bond is required for a particular project and we are unable to obtain it due to insufficient liquidity or other reasons, we will not be able to pursue that project. We have a bonding facility but, as is typically the case, the issuance of bonds under that facility is at the surety's sole discretion. In addition, we have limited capacity under our credit facilities for letters of credit. Moreover, due to events that affect the insurance and bonding and credit markets generally, bonding and letters of credit may be more difficult to obtain in the future or may only be available at significant additional cost. There can be no assurance that letters of credit or bonds will continue to be available to us on reasonable terms. Our inability to obtain adequate letters of credit and bonding and, as a result, to bid on new work could have a material adverse effect on our business, financial condition and results of operations. As of September 30, 2008, we had \$99.9 million in letters of credit which are issued under our synthetic letter of credit facility, \$17.0 million in letters of credit which are issued under the revolving portion of our credit facility and \$2.6 million in surety bonds outstanding.

Because we publish earnings guidance for our company, our common stock may be subject to increased volatility and we may be subject to lawsuits by investors.

Because we publish earnings guidance, we are subject to a number of risks. Based on the timing of winning key contracts, regulatory decision making and other uncertainties relating to assumptions that management makes in calculating our expected financial results, actual results may vary from the guidance we provide investors. Our stock price may decline following an announcement of disappointing earnings or earnings guidance or if we revise our earnings guidance downward as the estimates and assumptions we make in calculating guidance become more certain. On October 14,

2008, we announced a reduction in our earnings guidance due, among other things, to the current economic downturn. Following that announcement, our stock price declined by 44% on October 14, 2008.

Our earnings guidance reflects our assumptions regarding future performance, including, among other things, the likelihood of securing and performing work under new contracts. If we fail to secure and perform work under contracts in accordance with our assumptions, we may be unable to achieve our earnings guidance. Some companies that have made downward revisions to their earnings guidance or did not meet the guidance provided have been subject to lawsuits by investors. Even if such lawsuits are dismissed or have no merit, they may be costly and may divert management attention and other resources away from our business, which could harm our business and the price of our common stock.

If securities or industry analysts stop publishing research or reports about our business, if they change their recommendations regarding our stock adversely or if our operating results do not meet their expectations, our stock price could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

As a public company, we are subject to additional financial and other reporting and corporate governance requirements that may be difficult for us to satisfy.

In connection with our initial public offering in November 2007, we became obligated to file with the SEC annual and quarterly information and other reports that are specified in Section 13 of the Securities Exchange Act of 1934, as amended. We are also required to ensure that we have the ability to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis. We are also subject to other reporting and corporate governance requirements, including the requirements of the NYSE and certain provisions of the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder, which impose significant compliance obligations upon us. As a public company, we are required to, among other things:

prepare and distribute periodic public reports and other shareholder communications in compliance with our obligations under the federal securities laws and NYSE rules;

create or expand the roles and duties of our board of directors and committees of the board;

institute more comprehensive financial reporting and disclosure compliance functions;

involve and retain to a greater degree outside counsel and accountants in the activities listed above;

enhance our investor relations function; and

establish new internal policies, including those relating to disclosure controls and procedures.

These changes require a significant commitment of additional resources. We may not be successful in implementing these requirements and implementing them could adversely affect our business or operating results. In addition, if we fail to implement the requirements with respect to our internal accounting and audit functions, our ability to report our operating results on a timely and accurate basis could be impaired.

Our internal control over financial reporting does not currently meet the standards required by Section 404 of the Sarbanes-Oxley Act of 2002, and failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Our internal control over financial reporting does not currently meet the standards required by Section 404 of the Sarbanes-Oxley Act, standards that we will be required to meet in the course of preparing our 2008 financial statements. We are in the final stages of addressing our internal control procedures to satisfy the requirements of Section 404, which requires an annual management assessment of the effectiveness of our internal control over financial reporting. If, as a public company, we are not able to completely implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent registered public accounting firm may not be able to attest to the adequacy of our internal control over financial reporting. If we are unable to maintain adequate internal control over financial reporting, we may be unable to report our financial information on a timely basis, may suffer adverse regulatory consequences or violations of applicable stock exchange listing rules and may breach the covenants under our credit facilities. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements.

In addition, we will incur incremental costs in order to improve our internal control over financial reporting and comply with Section 404, including increased auditing and legal fees and costs associated with hiring additional accounting and administrative staff.

If our independent registered public accounting firm identifies a material weakness in our internal controls and such material weakness is not properly remediated, it could result in material misstatements of our financial statements in future periods.

In 2007, our independent registered public accounting firm reported to our board of directors, and may report in the future, a material weakness in our internal control over financial reporting. A material weakness is defined by the standards issued by the Public Company Accounting Oversight Board as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The material weakness, which was identified in connection with the review of our September 30, 2007 interim financial statements, related to our financial statement close process and resulted in a material error in our accounting for a foreign currency derivative transaction, which is recorded in other income (expense), net, in our consolidated statements of operations. Specifically, this material weakness resulted from an error in recording a journal entry and inadequate review of the journal entry after it was made.

While management remediated the material weakness by implementing additional formal policies and procedures and by increasing management review and oversight over the financial statement close and reporting processes, additional material weaknesses in our internal controls may be discovered in the future. As such, we may be unable to provide required financial information in a timely and reliable manner, or otherwise comply with the standards applicable to us as a public company, and our management may not be able to report that our internal control over financial reporting is effective for the year ending December 31, 2008 or thereafter, when we are required to comply with Section 404 of the Sarbanes-Oxley Act. There could also be a negative reaction in the markets due to a loss of investor confidence in us and the reliability of our financial statements and, as a result, our business may be harmed and the price of our common stock may decline.

Edgar Filing: EnergySolutions, Inc. - Form 10-Q

Item 6. Exhibits.

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14a. Filed herewith.
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14a. Filed herewith.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 12th day of November, 2008.

ENERGYSOLUTIONS, INC.

By: /s/ PHILIP O. STRAWBRIDGE

Philip O. Strawbridge
*Executive Vice President and
Chief Financial Officer*

52
