

EnergySolutions, Inc.  
Form 10-Q  
November 09, 2012  
Table of Contents

**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, 2012

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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   
(Do not check if a smaller reporting company)

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 November 7, 2012, 90,263,331 shares of the registrant's common stock were outstanding.

Table of Contents

**ENERGYSOLUTIONS, INC.**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**

**For the Three and Nine Month Periods Ended September 30, 2012**

		<b>Page</b>
	<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u>	2
	<u>Condensed Consolidated Balance Sheets</u>	2
	<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)</u>	3
	<u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	4
	<u>Condensed Consolidated Statements of Cash Flow</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	43
<u>Item 4.</u>	<u>Controls and Procedures</u>	44
	<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	44
<u>Item 1A.</u>	<u>Risk Factors</u>	44
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 6.</u>	<u>Exhibits</u>	46
<u>Signatures</u>		47

---

Table of Contents**PART I****Item 1. Financial Statements****EnergySolutions, Inc.****Condensed Consolidated Balance Sheets****September 30, 2012 and December 31, 2011****(in thousands of dollars, except share and per share information)**

	<b>September 30, 2012 (unaudited)</b>	<b>December 31, 2011</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 87,913	\$ 77,213
Accounts receivable, net of allowance for doubtful accounts	280,441	302,203
Costs and estimated earnings in excess of billings on uncompleted contracts	92,472	109,700
Nuclear decommissioning trust fund investments, current portion	144,481	174,270
Deferred costs, current portion	127,329	148,966
Prepaid expenses and other current assets	24,474	23,156
Total current assets	757,110	835,508
Property, plant and equipment, net	120,633	126,609
Goodwill	308,281	306,358
Other intangible assets, net	244,560	260,879
Nuclear decommissioning trust fund investments	477,993	523,326
Restricted cash and decontamination and decommissioning deposits	331,447	332,918
Deferred costs	401,671	465,577
Other noncurrent assets	211,184	164,758
Total assets	\$ 2,852,879	\$ 3,015,933
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 3,969	\$
Accounts payable	109,388	140,951
Accrued expenses and other current liabilities	193,371	230,698
Facility and equipment decontamination and decommissioning liabilities, current portion	136,993	160,520
Unearned revenue, current portion	155,229	159,112
Total current liabilities	598,950	691,281
Long-term debt, less current portion	810,624	812,734
Pension liability	168,400	128,748

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

Facility and equipment decontamination and decommissioning liabilities	535,940	598,530
Unearned revenue, less current portion	409,518	469,497
Other noncurrent liabilities	17,676	29,886
Total liabilities	2,541,108	2,730,676
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; 90,263,331 and 88,981,121 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	903	890
Additional paid-in capital	510,842	506,038
Accumulated other comprehensive loss	(21,306)	(28,369)
Capital deficiency	(179,186)	(194,013)
Total EnergySolutions stockholders' equity	311,253	284,546
Noncontrolling interests	518	711
Total stockholders' equity	311,771	285,257
Total liabilities and stockholders' equity	\$ 2,852,879	\$ 3,015,933

See accompanying notes to condensed consolidated financial statements.

Table of Contents**EnergySolutions, Inc.****Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)****Three and Nine Month Periods Ended September 30, 2012 and 2011****(in thousands of dollars, except per share information)****(unaudited)**

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2012	2011	2012	2011
Revenue	\$ 444,157	\$ 421,027	\$ 1,327,470	\$ 1,346,967
Cost of revenue	(398,000)	(383,942)	(1,213,730)	(1,227,914)
Gross profit	46,157	37,085	113,740	119,053
Selling, general and administrative expenses	(31,779)	(32,165)	(99,661)	(96,157)
Equity in income of unconsolidated joint ventures	4,286	5,714	7,422	9,995
Income from operations	18,664	10,634	21,501	32,891
Interest expense	(17,636)	(18,201)	(52,822)	(54,850)
Other income, net	12,368	2,500	46,093	35,078
Income (loss) before income taxes and noncontrolling interests	13,396	(5,067)	14,772	13,119
Income tax benefit (expense)	(3,347)	2,218	20	(4,514)
Net income (loss)	10,049	(2,849)	14,792	8,605
Less: Net (income) loss attributable to noncontrolling interests	3	(979)	35	(2,020)
Net income (loss) attributable to EnergySolutions	\$ 10,052	\$ (3,828)	\$ 14,827	\$ 6,585
Net income (loss) per common share of EnergySolutions:				
Basic	\$ 0.11	\$ (0.04)	\$ 0.17	\$ 0.07
Diluted	\$ 0.11	\$ (0.04)	\$ 0.17	\$ 0.07
Weighted average common shares outstanding:				
Basic	89,993,618	88,845,102	89,432,722	88,775,360
Diluted	89,993,618	88,845,102	89,432,722	88,777,647
Comprehensive income (loss):				
Net income (loss)	\$ 10,049	\$ (2,849)	\$ 14,792	\$ 8,605
Foreign currency translation adjustments, net of taxes	5,443	(6,337)	6,821	(546)
Change in unrecognized actuarial gain	273	(122)	242	

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

Other comprehensive income (loss), net of taxes	15,765	(9,308)	21,855	8,059
Less: net income (loss) attributable to noncontrolling interests	3	(979)	35	(2,020)
Comprehensive income (loss) attributable to EnergySolutions	\$ 15,768	\$ (10,287)	\$ 21,890	\$ 6,039

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## EnergySolutions, Inc.

## Condensed Consolidated Statement of Changes in Stockholders' Equity

Nine Month Period Ended September 30, 2012

(in thousands of dollars, except share information)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Capital Deficiency	Noncontrolling Interests	Total Stockholders Equity
Balance at December 31, 2011	88,981,121	\$ 890	\$ 506,038	\$ (28,369)	\$ (194,013)	\$ 711	\$ 285,257
Net income (loss)					14,827	(35)	14,792
Equity-based compensation			3,440				3,440
Issuance of common stock	884,614	9	1,488				1,497
Vesting of restricted stock	428,653	4	(4)				
Minimum tax withholdings on restricted stock awards	(31,057)		(120)				(120)
Distributions to noncontrolling interests						(158)	(158)
Change in unrecognized actuarial loss				242			242
Foreign currency translation				6,821			6,821
Balance at September 30, 2012	90,263,331	\$ 903	\$ 510,842	\$ (21,306)	\$ (179,186)	\$ 518	\$ 311,771

See accompanying notes to condensed consolidated financial statements.



Table of Contents**EnergySolutions, Inc.****Condensed Consolidated Statements of Cash Flows****Nine Month Periods Ended September 30, 2012 and 2011****(in thousands of dollars)****(unaudited)**

	<b>Nine Month Period Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 14,792	\$ 8,605
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	56,601	59,560
Equity-based compensation expense	3,440	8,242
Deferred income taxes	(11,113)	174
Amortization of debt financing fees and debt discount	3,693	3,639
Loss on disposal of property, plant and equipment	2,137	20
Realized and unrealized gain on nuclear decommissioning trust fund investments	(54,964)	(34,581)
Changes in operating assets and liabilities:		
Accounts receivable	31,111	(27,475)
Costs and estimated earnings in excess of billings on uncompleted contracts	21,796	7,158
Prepaid expenses and other current assets	(2,888)	2,404
Accounts payable	(36,166)	15,995
Accrued expenses and other current liabilities	(45,998)	2,713
Unearned revenue	(63,949)	(98,691)
Facility and equipment decontamination and decommissioning liabilities	(109,973)	(119,427)
Restricted cash and decontamination and decommissioning deposits	1,471	5,067
Nuclear decommissioning trust fund	127,222	90,761
Deferred costs	85,544	95,710
Other noncurrent assets	(41,236)	(45,031)
Other noncurrent liabilities	34,246	37,650
Net cash provided by operating activities	15,766	12,493
<b>Cash flows from investing activities</b>		
Purchases of investments in nuclear decommissioning trust fund	(651,933)	(821,733)
Proceeds from sales of nuclear decommissioning trust fund investments	654,798	825,002
Purchases of property, plant and equipment	(14,588)	(15,309)
Purchases of intangible assets	(763)	(610)
Proceeds from disposition of property, plant and equipment	5,317	235
Net cash used in investing activities	(7,169)	(12,415)
<b>Cash flows from financing activities</b>		

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

Repayments of long-term debt				(15,200)	
Distributions to noncontrolling interests partners	(158)			(1,794)	
Proceeds from exercise of stock options				57	
Proceeds from issuance of common stock	1,497				
Minimum tax withholding on restricted stock awards	(120)			(116)	
Repayments of capital lease obligations	(629)			(368)	
Net cash provided by (used in) financing activities	590			(17,421)	
Effect of exchange rate on cash	1,513			(1,471)	
Net increase (decrease) in cash and cash equivalents	10,700			(18,814)	
Cash and cash equivalents, beginning of period	77,213			60,192	
Cash and cash equivalents, end of period		\$	87,913	\$	41,378

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(1) Description of Business**

References herein to *EnergySolutions*, the Company, we, us or our refer to *EnergySolutions*, Inc. and its consolidated subsidiaries unless the context otherwise requires.

Envirocare of Utah, Inc. 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, Envirocare of Utah, Inc. converted to a limited liability company, Envirocare of Utah, LLC. Immediately thereafter, the sole member of Envirocare of Utah, LLC sold all of its member interest to ENV Holdings LLC. In 2006, Envirocare of Utah, LLC changed its name 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 in October 2005, BNG America, LLC in February 2006, Duratek, Inc. in June 2006, Safeguard International Solutions, Ltd. (renamed ESEU Services Limited) in December 2006, Parallax, Inc. (renamed *EnergySolutions* Performance Strategies Inc.) in January 2007, Reactor Sites Management Company Limited in June 2007, NUKEM Corporation (renamed *EnergySolutions* Diversified Services, Inc.) in July 2007, and Monsarco Limited in December 2007.

On November 20, 2007, the date of the completion of our initial public offering, we completed our conversion to a corporate structure whereby *EnergySolutions*, LLC became a wholly owned subsidiary of *EnergySolutions*, Inc. As a result, the member of *EnergySolutions*, LLC contributed its membership equity interest for 75.2 million shares of \$0.01 par value common stock of *EnergySolutions*, Inc. *EnergySolutions*, Inc., is 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 LLC, as selling stockholder.

We report our results through two major operating groups: the Government Group and the Global Commercial Group. The Government Group derives its revenue from United States ( U.S. ) government customers for the management and operation or clean-up of facilities with radioactive materials. The Global Commercial Group reports its results under three separate operating business divisions: Commercial Services ( CS ), Logistics, Processing and Disposal ( LP&D ) and International. 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. The Global Commercial Group provides a broad range of services both nationally and internationally, including (i) on-site D&D services to commercial customers such as power and utility companies, pharmaceutical companies, research laboratories, universities, industrial facilities, state agencies and other commercial entities that are involved with nuclear materials; (ii) logistics, transportation, processing, and disposal services to both government and commercial customers at our facility in Clive, Utah, our four facilities in Tennessee, or our two facilities in Barnwell, South Carolina; and (iii) comprehensive long-term stewardship D&D work for shut-down nuclear power plants and similar operations, to commercial customers. Our International operations derive revenue primarily through contracts with the Nuclear Decommissioning Authority ( NDA ) in the United Kingdom ( U.K. ) to operate, manage, and decommission ten Magnox sites with twenty-two nuclear reactors. In addition, our International operations also provide turn-key services and sub-contract services for the treatment, processing, storage, and disposal of radioactive waste from nuclear sites and non-nuclear facilities such as hospitals, research facilities and other manufacturing and industrial facilities.

**(2) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring activities, considered necessary for a fair presentation have been included. 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, 2011 (our 2011 Annual Report ) filed with the Securities and Exchange Commission (the SEC ) on March 15, 2012.

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 revenue and expenses during the reporting period. Actual results could differ from these estimates. The results of operations for the three and nine month periods ended September 30, 2012 are not necessarily indicative of results that can be expected for the full year.

We have majority voting rights for one of our minority-owned joint ventures. Accordingly, we have consolidated its operations in our consolidated financial statements and therefore, we recorded the noncontrolling interests, which reflect the portion of the earnings of operations which are applicable to other noncontrolling partners.

Table of Contents

***Reclassifications and Other Adjustments***

Certain reclassifications have been made to our prior period consolidated financial information in order to conform to the current year presentation. Approximately \$14.0 million was reclassified from unearned revenue, current portion to accrued expenses and other current liabilities as of December 31, 2011.

Prior to the third quarter of 2012, purchases of equipment and other assets associated with the decommissioning of the Zion Station were inappropriately included in property, plant and equipment in the balance sheets, but should have reduced the facility and equipment decontamination and decommissioning liabilities due to the nature of the items. As such, we reduced property plant and equipment and facility and equipment decontamination and decommissioning liabilities as of December 31, 2011 by \$4.9 million in the accompanying condensed consolidated balance sheet. In addition, for the nine months ended September 30, 2011, net cash provided by operating activities and net cash used in investing activities decreased by \$1.8 million as a result of this correction.

***Accounting for the Exelon Transaction***

In December 2007, we entered into certain agreements with Exelon Corporation ( Exelon ) to dismantle the Zion Station nuclear power plant located in Zion, Illinois (the Zion Station ). On the date of the closing of the asset sale agreement with Exelon, the nuclear decommissioning trust (the NDT ) fund investments previously held by Exelon for the purpose of decommissioning the Zion Station were transferred to us and the use of those funds, and any investment returns arising therefrom, remain restricted solely for that purpose. The investments are classified as trading securities and as such, the realized and unrealized investment gains and losses are recorded in the condensed consolidated statements of operations and comprehensive income (loss) as other income, net. As part of this transaction, we have assumed Exelon's cost basis in the investments for tax purposes. To the extent that the trust fund assets exceed the total costs to perform the D&D work, we have a contractual obligation to return any excess funds to Exelon. Throughout the period over which we will perform the D&D work, we will assess whether such a contingent liability exists using the measurement thresholds included in ASC 450-20.

As the NDT fund assets transferred to us represented a prepayment of fees to perform the D&D work, we also recorded deferred revenue initially totaling \$772.2 million. Revenue recognition throughout the life of the project is based on the proportional performance method using a cost-to-cost approach.

In conjunction with the acquisition of Zion Station, we also became responsible for and assumed the asset retirement obligation ( ARO ) for the plant, and we have established an ARO measured in accordance with ASC 410-20. Subsequent measurement of the ARO follows ASC 410-20 accounting guidance, including the recognition of accretion expense, reassessment of the remaining liability using our estimated costs to complete the D&D work, plus a profit margin, and recognition of the ARO gain as the obligation is settled. ARO gain results from the requirement to record costs plus an estimate of third-party profits in determining the ARO. When we perform the D&D work using internal resources to reduce the ARO for work performed, we recognize a gain if actual costs are less than estimated costs plus the third-party profits. Accretion expense and ARO gain are recorded within cost of revenue because we are providing D&D services to a customer. Any change to the ARO as a result of cost estimate changes is recorded in cost of revenue in the statements of operations. We also recorded deferred costs to reflect the costs incurred to acquire the future revenue stream. The deferred cost balance was initially recorded at \$767.1 million, which is the same value as the initial ARO, and will be amortized to cost of revenue in the same manner as deferred revenue is amortized, using the proportional performance method.

**(3) Recent Accounting Pronouncements**

*Accounting Pronouncements Issued*

In July 2012, the Financial Accounting Standards Board ( FASB ) issued guidance regarding testing indefinite-lived intangible assets for impairment. The guidance provides an entity the option to assess qualitative factors to determine whether the existence of events and circumstances leads to the determination that it is more likely than not (a likelihood of more than 50 percent) that the indefinite-lived intangible asset is impaired. If the entity concludes that it is more likely than not that the asset is impaired, it is required to determine the fair value of the intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying value. If the entity concludes otherwise, no further quantitative assessment is required. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, although early adoption is permitted. The adoption of this guidance is not expected to have an impact on our results of operations, financial position or cash flows.

In September 2011, the FASB issued additional guidance regarding testing goodwill for impairment. The guidance provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. This guidance is effective for fiscal year 2012. The adoption of this guidance did not have an impact on our results of operations, financial position or cash flows.

Table of Contents

In June 2011, the FASB issued new guidance on the presentation of comprehensive income in financial statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. The provisions for this pronouncement are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, however, certain provisions related to the presentation of reclassification adjustments have been deferred by recent guidance issued in December 2011, in which entities are allowed to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before the issuance of these updates. The adoption of this guidance did not have an impact on our consolidated financial statements as it only requires a change in the format of our presentation.

**(4) Trust Fund Investments**

The NDT fund was established solely to satisfy obligations related to the D&D of the Zion Station. The NDT fund holds investments in marketable debt and equity securities directly and indirectly through commingled funds. Investments in the NDT fund are carried at fair value and are classified as trading securities. As of September 30, 2012, investments held by the NDT fund, net, totaled \$622.5 million, and are included in current and other long-term assets in the accompanying balance sheets, depending on the expected timing of usage of funds.

A portion of our NDT fund is invested in a securities lending program with the trustee of the NDT fund. The program authorizes the trustee of the NDT fund to loan securities that are assets of the NDT fund to approved borrowers. Borrowers have the right to sell or re-pledge the loaned securities. The trustee requires borrowers, pursuant to a security lending agreement, to deliver collateral to secure each loan. The securities are required to be collateralized by cash, U.S. government securities or irrevocable bank letters of credit. Initial collateral levels are no less than 102% and 105% of the market value of the borrowed securities for collateral denominated in U.S. and foreign currency, respectively.

We consolidate the NDT fund as a variable interest entity ( VIE ). We have a contractual interest in the NDT fund and this interest is a variable interest due to its exposure to the fluctuations caused by market risk. We are able to control the NDT fund by appointing the trustee, and subject to certain restrictions, we are able to direct the investment policies of the fund. We are also the primary beneficiary of the NDT fund as we benefit from positive market returns and bear the risk of market losses.

NDT fund investments consisted of the following (in thousands):

	As of September 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<b>Assets</b>				
Receivables for securities sold	\$ 7,371	\$	\$	\$ 7,371
<b>Investments</b>				
Corporate debt securities	254,190	18,036	(834)	271,392
Equity securities	15,001	6,154	(153)	21,002

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

Direct lending securities	76,429	6,089	(233)	82,285
Debt securities issued by states of the United States	49,550	4,097		53,647
Commingled funds	45,414	1,219		46,633
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	134,898	5,394	(148)	140,144
Total investments	575,482	40,989	(1,368)	615,103
<b>Total assets</b>	<b>582,853</b>	<b>40,989</b>	<b>(1,368)</b>	<b>622,474</b>
<b>Net assets held by the NDT fund</b>	<b>\$ 582,853</b>	<b>\$ 40,989</b>	<b>\$ (1,368)</b>	<b>622,474</b>
Less: current portion				(144,481)
<b>Long-term investments</b>				<b>\$ 477,993</b>



Table of Contents

	As of December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<b>Assets</b>				
Cash	\$ 138	\$	\$	\$ 138
Receivables for securities sold	8,996			8,996
<b>Investments</b>				
Corporate debt securities	315,937	9,279	(4,844)	320,372
Equity securities	21,210	5,182	(434)	25,958
Direct lending securities	58,498	3,833	(333)	61,998
Debt securities issued by states of the United States	60,444	2,453	(390)	62,507
Commingled funds	45,979		(156)	45,823
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	165,766	6,201	(163)	171,804
Total investments	667,834	26,948	(6,320)	688,462
<b>Net assets held by the NDT fund</b>				
	\$ 676,968	\$ 26,948	\$ (6,320)	697,596
Less: current portion				(174,270)
<b>Long-term investments</b>				\$ 523,326

We began consolidating the operations of the NDT fund on September 1, 2010. We have withdrawn from the NDT fund approximately \$127.2 million and \$161.5 million for the nine month period ended September 30, 2012 and the year ended December 31, 2011, respectively, to pay for D&D project expenses and estimated trust income taxes.

Unrealized gains resulting from adjustments to the fair value of the NDT fund investments were \$12.1 million and \$19.0 million for the three and nine month periods ended September 30, 2012, respectively. During 2011, we recorded unrealized losses resulting from adjustments to the fair value of the NDT fund investments of \$18.2 million and \$6.6 million for the three and nine month periods ended September 30, 2011, respectively.

Net realized gains related to sales of investments, dividends and interest payments received from investments held by the NDT fund were \$8.2 million and \$18.4 million for the three month periods ended September 30, 2012 and 2011, respectively, and \$36.0 million and \$41.2 million for the nine month periods ended September 30, 2012, and 2011, respectively. Both unrealized and realized gains and losses on the NDT fund investments are included in other income, net, in the condensed consolidated statements of operations and comprehensive income (loss).

**(5) Fair Value Measurements**

We have implemented the accounting requirements for financial assets, financial liabilities, non-financial assets and non-financial liabilities reported or disclosed at fair value. The requirements define fair value, establish a three level hierarchy for measuring fair value in GAAP, and expand disclosures about fair value measurements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the assets or liabilities.

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

This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Assets are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

The carrying value of accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, prepaid assets, accounts payable, and accrued expenses approximate their fair value principally because of the short-term nature of these assets and liabilities.

The fair market value of our debt is based on quoted market prices from the over-the-counter restricted market. The fair market value of our senior secured credit facility was approximately \$509.9 million as of September 30, 2012 and \$524.4 million as of December 31, 2011. The carrying value of our senior secured credit facility was \$527.0 million as of September 30, 2012 and

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

### Table of Contents

December 31, 2011. We also had outstanding senior notes obligations with a carrying amount of \$300.0 million as of September 30, 2012 and December 31, 2011, with a fair market value of approximately \$270.0 million as of September 30, 2012 and \$280.9 million as of December 31, 2011.

The following table presents the NDT fund investments measured at fair value (in thousands):

	As of September 30, 2012				As of December 31, 2011			
	Total Investments at Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Investments at Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Assets</b>								
Cash	\$	\$	\$	\$	\$ 138	\$ 138	\$	\$
Receivables for securities sold	7,371	7,371			8,996	8,996		
Investments								
Commingled funds (1)	26,425		26,425		21,258		21,258	
Fixed income securities (2)	465,182	83,742	381,440		554,578	49,271	505,307	
Equity securities (3)	21,003	21,003			25,958	25,958		
Direct lending securities (4)	82,285			82,285	61,998			61,998
Units of participation (1)	20,208		20,208		24,670		24,670	
Total investments	615,103	104,745	428,073	82,285	688,462	75,229	551,235	61,998
<b>Net assets held by the NDT fund</b>	\$ 622,474	\$ 112,116	\$ 428,073	\$ 82,285	\$ 697,596	\$ 84,363	\$ 551,235	\$ 61,998

(1) Commingled funds and units of participation, which are similar to mutual funds, are maintained by investment companies and hold certain investments in accordance with stated fund objectives. The fair values of short-term commingled funds held within the trust funds, which generally hold short-term fixed income securities and are not subject to restrictions regarding the purchase or sale of shares, are derived from observable prices. Commingled funds are categorized in Level 2 because the fair value of the funds are based on net asset values per fund share (the unit of account), primarily derived from the quoted prices in active markets on the underlying equity securities. Units of participation are categorized as Level 2 because the fair value of these securities is based primarily on observable prices of the underlying securities.

(2) For fixed income securities, multiple prices from pricing services are obtained from pricing vendors whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. The trustee monitors prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the portfolio managers challenge an assigned price and the trustee determines that another price source is considered to be preferable. U.S. Treasury securities are categorized as Level 1 because they trade in a highly liquid and transparent market. Investments with maturities of three months or less when purchased, including certain short-term fixed income securities, are considered cash equivalents and are also categorized as Level 1. The fair values of fixed income securities, excluding U.S. Treasury securities, are based on evaluated prices that reflect observable market information, such as actual trade information or similar securities, adjusted for observable differences and are categorized in Level 2.

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

(3) With respect to individually held equity securities, the trustee obtains prices from pricing services, whose prices are obtained from direct feeds from market exchanges. The fair values of equity securities held directly by the trust fund are based on quoted prices in active markets and are categorized in Level 1. Equity securities held individually are primarily traded on the New York Stock Exchange and NASDAQ Global Select Market, which contain only actively traded securities due to the volume trading requirements imposed by these national securities exchanges.

(4) Direct lending securities are investments in managed funds that invest in private companies for long-term capital appreciation. The fair value of these securities is determined using either an enterprise value model or a bond valuation model. The enterprise valuation model develops valuation estimates based on valuations of comparable public companies, recent sales of private and public companies, discounting the forecasted cash flows of the portfolio company, estimating the liquidation or collateral value of the portfolio company or its assets, considering offers from third parties to buy the portfolio company, its historical and projected financial results, as well as other factors that may impact value. Significant judgment is required in the applications of discounts or premiums applied to the prices of comparable companies for factors such as size, marketability and relative performance. Under the bond valuation model, expected future cash flows are discounted using a discount rate. The discount rate is composed of a market based rate for similar credits in the public market and an internal credit rate based on the underlying risk of the credit. Investments in direct lending funds are categorized as Level 3 because the fair value of these securities is based largely on inputs that are unobservable and also utilize complex valuation models. Investments in direct lending securities typically cannot be redeemed until maturity of the term loan.

Because we rely on a third party for valuation of Level 3 investments, we have concluded that quantitative information about significant unobservable inputs used in valuing these investments is not reasonably available. This includes information regarding the sensitivity of the fair values to changes in the unobservable inputs. We obtain annual valuations from the fund managers and gain an understanding of the inputs and assumptions used in preparing the valuations. We also conclude on the reasonableness of the fair value of these investments. We obtain quarterly reports from the fund managers and review for consistency and reasonableness with regards to the valuations of these investments that were analyzed at the most recent year-end.

The following table presents the rollforward for Level 3 assets and liabilities measured at fair value on a recurring basis for the nine month period ended September 30, 2012, and the year ended December 31, 2011 (in thousands):

<b>Direct Lending Securities</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Beginning balance	\$ 61,998	\$ 95,573
Purchases and issuances	55,723	95,573
Sales, dispositions and settlements	(34,942)	(37,167)
Realized gains and losses	(2,850)	92
Change in unrealized gains and losses	2,356	3,500
Ending balance	\$ 82,285	\$ 61,998

Table of Contents**(6) Joint Ventures**

We use the equity method of accounting for our unconsolidated joint ventures. Under the equity method, we recognize our proportionate share of the net earnings of these joint ventures as a single line item under *Equity in income of unconsolidated joint ventures* in our condensed consolidated statements of operations and comprehensive income. In accordance with authoritative guidance, we analyzed all of our joint ventures and classified them into two groups: (a) joint ventures that must be consolidated because we hold the majority voting interest, or because they are VIEs of which we are the primary beneficiary; and (b) joint ventures that do not need to be consolidated because we hold only a minority voting or other ownership interest, or because they are VIEs of which we are not the primary beneficiary. During the nine month period ended September 30, 2012, we performed an assessment of our joint ventures and concluded that no unconsolidated joint ventures should be consolidated and that no consolidated joint ventures should be deconsolidated.

The table below presents unaudited financial information, derived from the most recent financial statements provided to us, in aggregate, for our unconsolidated joint ventures (in thousands):

	<b>As of September 30, 2012</b>		<b>As of December 31, 2011</b>	
Current assets	\$	69,337	\$	46,820
Current liabilities		33,794		22,356

  

	<b>For The Three Month Period Ended September 30,</b>		<b>For The Nine Month Period Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenue	\$ 54,798	\$ 38,597	\$ 125,751	\$ 132,069
Gross profit	11,590	14,631	19,906	29,495
Net income	11,439	14,415	19,543	29,038
Net income attributable to EnergySolutions	4,286	5,714	7,422	9,995

Our percentage of ownership of unconsolidated joint ventures as of September 30, 2012 was:

	<b>Percentage of Ownership</b>
Global Threat Reduction Solutions, LLC	49.0%
LATA/Parallax Portsmouth, LLC	49.0%
SempreSafe, LLC	49.0%
TPMC EnergySolutions Environmental Services, LLC	49.0%
Washington River Protection Solutions, LLC	40.0%
Weskem, LLC	27.6%
Idaho Treatment Group, LLC	15.0%
West Valley Environmental Services LLC	10.0%

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

We received \$3.4 million and \$2.6 million of dividend distributions from our unconsolidated joint ventures during the nine month periods ended September 30, 2012 and 2011, respectively.

### *Noncontrolling interest*

We have majority voting rights for one of our minority owned joint ventures. Accordingly, we have reported its operations in our consolidated financial statements. Assets from our consolidated joint venture can only be used to settle its own obligations. Additionally, our assets cannot be used to settle the joint venture's obligations because this minority owned joint venture does not have recourse to our general credit. In December 2011, we acquired 100% of the noncontrolling interest in our Isotek Systems, LLC consolidated joint venture. Prior to the acquisition, Isotek Systems, LLC's operations were included in our consolidated financial statements with the noncontrolling interest reflected.

We record noncontrolling interest income which reflects the portion of the earnings of operations which are attributable to other minority interest partners. Cash payments, representing the distributions of other investors' share of cash generated by operations, are recorded as a reduction to noncontrolling interests. Noncontrolling interest income for the three and nine month periods ended September 30, 2012 was \$0.3 and \$0.4 million, respectively. Noncontrolling interest losses for the three and nine month periods ended September 30, 2011 were \$1.0 million and \$2.0 million, respectively. Distributions to noncontrolling interest shareholders for the nine month periods ended September 30, 2012 and 2011 were \$0.2 and \$1.8 million, respectively.

Table of Contents**(7) Goodwill**

As of September 30, 2012 and December 31, 2011, we had recorded \$308.3 million and \$306.4 million, respectively, of goodwill related to domestic and foreign acquisitions. Goodwill related to the acquisitions of foreign entities is translated into U.S. dollars at the exchange rate in effect at the balance sheet date. The related translation gains and losses are included as a separate component of stockholders' equity in accumulated other comprehensive income (loss) in the condensed consolidated balance sheets. For the nine month periods ended September 30, 2012 and 2011, we recorded translation gains of \$1.9 million and \$0.5 million, respectively, related to goodwill denominated in foreign currencies.

In accordance with authoritative guidance for accounting for Goodwill and Other Intangible Assets, we perform an impairment test on our goodwill annually, as of April 1, or more often when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit below its carrying value. We estimate the fair value of the reporting units using a combined income and market approach. The income approach is calculated based on management's best estimates of future cash flows. Changes in these forecasts could significantly change the calculated fair value of a reporting unit. The market approach is calculated based on market multiples for comparable companies as applied to our company-specific metrics.

Due to the change in management that occurred during the latter part of the second quarter of 2012, decreased earnings guidance, the organizational restructuring of the business units and a recent debt rating downgrade, management performed a comprehensive review of its financial forecasts and adjusted its estimates of future cash flows. These events prompted us to perform an interim goodwill impairment test as of September 30, 2012. The first step of the interim impairment assessment compared the estimated fair value of each of the reporting units to the carrying value, including goodwill, and indicated that no impairment existed as of that date, therefore, the second step was not required.

Based on the first step of the analysis each of our reporting units' fair value exceeded their carrying value and it would have needed to decrease by the following percentages to fail the first step of the impairment test.

Reporting Unit	Excess Fair Market Value calculated as a % of Book Value (*)	Weighted Average Discount Rate
Government Group	11.2%	17.5%
Global Commercial Group:		
Commercial Services	8.8%	17.5%
LP&D	11.1%	17.5%
International	4.6%	20.0%

---

(\*) Amounts calculated based on an estimated growth rate of 2.5%

The excess fair market value of our Commercial Services and International reporting units is less than 10%. A hypothetical increase in the weighted average discount of 0.5% would decrease the calculated fair value of the International reporting unit by approximately 1.6%. A hypothetical decrease in the residual growth rate of 0.5% would decrease the calculated fair value of the International reporting unit by approximately 2.4%. We would expect a similar outcome on the Commercial Services reporting unit if we made the same hypothetical changes

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

to the residual growth rate and the discount rate.

We will continue to monitor the fair value of each of our reporting units closely, however certain events such as deterioration of market conditions, adverse change in regulatory requirements, reductions in government funding, failure to win new business or re-bids of current contracts, decline in our stock price and the corresponding market capitalization or changes on our forecasts could result in future impairment losses.

### (8) Other Intangible Assets

Other intangible assets subject to amortization consist principally of amounts assigned to permits, customer relationships and technology. All of our intangibles are subject to amortization.

Other intangible assets consisted of the following (in thousands):

	As of September 30, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Useful Life
Permits	\$ 241,616	\$ (73,934)	17.1 years	\$ 240,853	\$ (66,544)	17.9 years
Customer relationships	161,429	(89,928)	5.8 years	157,594	(77,661)	6.4 years
Technology and other	15,490	(10,113)	3.3 years	15,490	(8,853)	4.1 years
Total amortizable intangibles	\$ 418,535	\$ (173,975)	13.5 years	\$ 413,937	\$ (153,058)	14.0 years



Table of Contents

Amortization expense was \$6.5 million and \$19.4 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$6.5 million and \$19.6 million for the three and nine month periods ended September 30, 2011, respectively. For the nine month periods ended September 30, 2012 and 2011, we recorded translation gains of \$3.8 million and \$0.9 million, respectively, related to intangible assets denominated in foreign currencies. In conjunction with the performance of our interim goodwill impairment analysis, we determined that no indicators of impairment existed with regard to intangible assets.

**(9) Senior Credit Facilities and Senior Notes**

Our outstanding long-term debt consists of the following (in thousands):

	September 30, 2012	December 31, 2011
Term loan facilities due through 2016(1)	\$ 527,000	\$ 527,000
Term loan unamortized discount	(9,218)	(10,797)
Senior notes, 10.75% due through 2018	300,000	300,000
Senior notes unamortized discount	(3,189)	(3,469)
Revolving Credit Facility		
Total debt	814,593	812,734
Less: current portion	(3,969)	
Total long-term debt	\$ 810,624	\$ 812,734

(1) The variable interest rate on borrowings under our senior secured credit facility was 6.25% as of September 30, 2012 and December 31, 2011.

On August 13, 2010, we entered into a senior secured credit facility with JPMorgan Chase Bank, N.A., as the administrative and collateral agent, consisting of a senior secured term loan (the Term Loan) in an aggregate principal amount of \$560 million at a discount rate of 2.5%, and a senior secured revolving credit facility (the Revolving Credit Facility) with availability of \$105.0 million, of which \$50.7 million was used to fund letters of credit issued as of September 30, 2012. Borrowings under the senior secured credit facility bear interest at a rate equal to: (a) Adjusted LIBOR plus 4.50%, or ABR plus 3.50% in the case of the Term Loan; (b) Adjusted LIBOR plus 4.50%, or ABR plus 3.50% in the case of the Revolving Credit Facility, and (c) a per annum fee equal to the spread over Adjusted LIBOR under the Revolving Credit Facility, along with a fronting fee and issuance and administration fees in the case of revolving letters of credit. The proceeds of the senior secured credit facility were used to repay outstanding indebtedness under former credit agreements, collateralize reimbursement obligations to the deposit issuing banks with respect to deposit letters of credit, replace synthetic letters of credit issued under former credit agreements, and provide credit support for obligations acquired under the agreements with Exelon. As of September 30, 2012, borrowings equivalent to \$310.7 million under the Term Loan were held in a restricted cash account as collateral for our reimbursement obligations with respect to deposit letters of credit.

The Term Loan amortizes in equal quarterly installments of \$1.3 million payable on the last day of each calendar quarter with the balance being payable on August 13, 2016. In addition to the scheduled repayments, we are required to prepay borrowings under the senior secured credit facility with (1) 100% of the net cash proceeds received from non-ordinary course asset sales or other dispositions, or as a result of a casualty or condemnation, subject to reinvestment provisions and other customary adjustments, (2) 100% of the net proceeds received from the issuance of debt obligations other than certain permitted debt obligations, (3) 50% of excess cash flow (as defined in the senior secured credit facility), if the leverage ratio is equal to or greater than 3.0 to 1.0, or 25% of excess cash flow if the leverage ratio is less than 3.0 to 1.0 but greater than 1.0 to 1.0, reduced by the aggregate amount of optional prepayments of Term Loans made during the applicable fiscal year. If the leverage ratio is

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

equal to or less than 1.0 to 1.0, we are not required to prepay the Term Loans. The excess cash flow calculations (as defined in the senior secured credit facility), are prepared annually as of the last day of each fiscal year. Prepayments of debt resulting from the excess cash flow calculations are due annually five days after the date that we file our Annual Report on Form 10-K for such fiscal year with the SEC.

As of September 30, 2012, we had mandatory principal repayments based on scheduled repayments of \$4.0 million due within the next 12 months. We have not made any principal repayments during 2012. During the nine month period ended September 30, 2011, we made principal repayments totaling \$15.2 million of which \$11.0 million was an optional prepayment. We made cash interest payments totaling \$58.7 million and \$65.4 million during the nine month periods ended September 30, 2012 and 2011, respectively, related to our outstanding debt obligations as of those dates.

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

### Table of Contents

The senior secured credit facility requires us to maintain a leverage ratio (based upon the ratio of indebtedness for money borrowed to consolidated adjusted earnings, as defined in the senior secured credit facility) and an interest coverage ratio (based upon the ratio of consolidated adjusted earnings to consolidated cash interest expense), both of which are calculated quarterly. Failure to comply with these financial ratio covenants would result in an event of default under the senior secured credit facility and, absent a waiver or an amendment from the lenders, preclude us from making further borrowings under the senior secured credit facility and permit the lenders to accelerate repayment of all outstanding borrowings under the senior secured credit facility. Based on the formulas set forth in the senior secured credit facility, we are required to maintain a maximum total leverage ratio of 4.25 for the quarter ended September 30, 2012, which is reduced by 0.25 on an annual basis through the maturity date. We are required to maintain a minimum cash interest coverage ratio of 2.0 from the quarter ended September 30, 2012 through the quarter ended September 30, 2014 and 2.25 through the maturity date. As of September 30, 2012, our total leverage and cash interest coverage ratios were 2.63 and 3.0, respectively.

The senior secured credit facility also contains 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 senior secured credit facility, we are permitted maximum annual capital expenditures of \$40.0 million for 2012, and each year thereafter, plus for each year the lesser of (1) a one year carryforward of the unused amount from the previous fiscal year and (2) 50% of the amount permitted for capital expenditures in the previous fiscal year. The senior secured credit facility contains 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 senior secured credit facility. Capital expenditures for the nine month period ended September 30, 2012 were \$15.4 million. As of September 30, 2012, we were in compliance with all of the covenants under our senior secured credit facility.

The obligations under the senior secured credit facility are secured by a lien on substantially all of our assets and the assets of each of our domestic subsidiary guarantors, including a pledge of equity interests with the exception of the equity interests in our subsidiary *ZionSolutions*, LLC, and other special purpose subsidiaries, whose organizational documentation prohibits or limits such pledge.

On August 13, 2010, we also completed a private offering of \$300 million 10.75% senior notes at a discount rate of 1.3%. The senior notes are governed by an indenture among EnergySolutions, Inc., EnergySolutions, LLC, the guarantor parties thereto and Wells Fargo Bank, National Association, as trustee. Interest on the senior notes is payable semiannually in arrears on February 15 and August 15 of each year beginning on February 15, 2011. The senior notes rank in equal right of payment to all existing and future senior debt, and senior in right of payment to all future subordinated debt. In May 2011, we filed a registration statement under the Securities Act, pursuant to a registration rights agreement entered into in connection with the senior notes offering. The SEC declared the registration statement relating to the exchange offer effective on May 27, 2011, and the exchange of the registered senior notes for the unregistered senior notes was consummated on May 31, 2011. We did not receive any proceeds from the exchange offer transaction.

At any time prior to August 15, 2014, we are entitled to redeem all or a portion of the senior notes at a redemption price equal to 100% of the principal amount of the senior notes plus an applicable make-whole premium, as of, and accrued and unpaid interest to, the redemption date. In addition, prior to August 15, 2013, we may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds from certain public equity offerings at a redemption price of 110.75% of the principal amount, plus accrued and unpaid interest to the date of redemption. In addition, on or after August 15, 2014, we may redeem all or a portion of the senior notes at the following redemption prices during the 12-month period commencing on August 15 of the years set forth below, plus accrued and unpaid interest to the redemption date.

Period	Redemption Price
2014	105.375%

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

2015	102.688%
2016 and thereafter	100.000%

The senior notes are guaranteed on a senior unsecured basis by all of our domestic restricted subsidiaries that guarantee the senior secured credit facility. The senior notes and related guarantees are effectively subordinated to our secured obligations, including the senior secured credit facility and related guarantees, to the extent of the value of assets securing such debt. The senior notes are structurally subordinated to all liabilities of each of our subsidiaries that do not guarantee the senior notes. If we experience a change in control, each holder will have the right to require that we purchase all or a portion of such holder's senior notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest to the date of the purchase. The indenture contains, among other things, certain covenants limiting our ability, and the ability of one restricted subsidiary, to incur or guarantee additional indebtedness,

Table of Contents

pay dividends or make other restricted payments, make certain investments, create or incur liens, sell assets and subsidiary stock, transfer all or substantially all of our assets, or enter into a merger or consolidation transactions, and enter into transactions with affiliates.

**(10) Facility and Equipment Decontamination and Decommissioning**

We recognize AROs when we have a legal obligation to perform D&D activities upon retirement of an asset. The fair value of an ARO liability is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made, and is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset, as is the case for all our AROs except for the Zion Station ARO, which is described below.

Our traditional AROs are based on a cost estimate for a third party to perform the D&D work, which is inflated, using an inflation rate, to the expected time at which the D&D activity will occur, and then discounted back, using our credit adjusted risk free rate, to the present value. Subsequent to the initial measurement, the AROs are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligations.

The ARO established in connection with the Zion Station project differs somewhat from our traditional AROs. The assets acquired in the Zion Station transaction have no fair value, no future useful life, and are in a shut-down, non-operating state. As a result, the ARO established in connection with the Zion Station project is not accompanied by a related depreciable asset. Changes to the ARO liability due to accretion expense and changes in cost estimates are recorded in cost of revenue in our condensed consolidated statements of operations and comprehensive income (loss).

Also, as we will perform most of the work related to the Zion Station ARO with internal resources, a gain will be recognized for the difference between our actual costs incurred and the recorded ARO which includes an element of profit. Due to the nature of this contract and the purpose of the license stewardship initiative, we have presented this gain in cost of revenue rather than as a credit to operating expense, as we would with our other AROs.

Our facility and equipment D&D liabilities consist of the following (in thousands):

	As of September 30, 2012	As of December 31, 2011
Facilities and equipment ARO Zion Station	\$ 605,992	\$ 690,152
Facilities and equipment ARO Clive, UT	29,250	29,220
Facilities and equipment ARO other	31,208	31,277
Total facilities and equipment ARO	666,450	750,649
Barnwell Closure	6,483	8,401
	672,933	759,050
Less: current portion	(136,993)	(160,520)
	\$ 535,940	\$ 598,530

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

The following is a rollforward of our facilities and equipment ARO (in thousands) for the nine month period ended September 30, 2012, and the year ended December 31, 2011:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>	
Beginning balance	\$ 750,649	\$ 812,114	
Liabilities incurred	1,376	627	
Liabilities settled	(108,054)	(191,476)	
Accretion expense	22,479	32,319	
ARO estimate adjustments		97,065	
Ending liability	\$ 666,450	\$ 750,649	

For certain of our D&D obligations, we are required to deposit cash relating to our D&D obligation in the form of a restricted cash account, a deposit in escrow, or in a trust fund. D&D deposits consist principally of: (i) funds held in trust for completion of various site clean-up projects and (ii) funds deposited in connection with landfill closure, post-closure and remediation obligations. Although we are required to provide assurance to satisfy some of our D&D obligations in the form of insurance policies, restricted cash accounts, escrows or trust funds, these assurance mechanisms do not extinguish our D&D liabilities.

Table of Contents

The following table presents a summary of the D&D deposits available to fund closure and post-closure obligations related to our AROs for the nine month period ended September 30, 2012, and the year ended December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
Zion Station plant - NDT fund (1)	\$ 622,474	\$ 697,596
Tennessee facilities - escrow account (2) (3)	13,877	13,888
Barnwell, South Carolina facility - trust fund account (2)	6,483	8,401
Clive, Utah facility - restricted cash account (2)	336	336

(1) Included in current and noncurrent assets in the accompanying balance sheets. In connection with the execution of the agreements with Exelon, and in fulfillment of NRC regulations, we secured a \$200.0 million letter of credit facility to further support the D&D activities at Zion Station. This letter of credit is cash-collateralized, with the funds included in non-current restricted cash in the accompanying consolidated balance sheets.

(2) Included in restricted cash and decontamination and decommissioning deposits within other noncurrent assets in the accompanying condensed consolidated balance sheets.

(3) To fund our obligation to clean and remediate our Tennessee facilities and equipment, we have also purchased insurance policies.

**(11) Derivative Financial Instruments**

We have foreign currency exposure related to our operations in the U.K. as well as in other foreign locations. Foreign currency gains and losses are included in other income, net, in the accompanying condensed consolidated statements of operations and comprehensive income. In January 2011, we implemented a foreign currency risk management program to hedge the operating income of one of our subsidiaries in the U.K., EnergySolutions EU Limited, to mitigate our exposure to foreign exchange rates as those results are consolidated in US dollars. As a result, we recognized foreign currency gains of \$0.3 million and \$0.3 million for the three and nine month periods ended September 30, 2012, respectively, and gains of \$0.3 million and losses of \$0.1 million for the three and nine periods ended September 30, 2011, respectively.

**(12) Earnings Per Share**

Basic earnings per share is computed by dividing net income attributable to EnergySolutions by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to EnergySolutions 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 options and non-vested restricted stock awards and are determined using the treasury stock method.

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

	For The Three Month Period Ended September 30,		For The Nine Month Period Ended September 30,	
	2012	2011	2012	2011
Weighted average common shares basic	89,993,618	88,845,102	89,432,722	88,775,360
Dilutive effect of restricted stock and stock options				2,287
Weighted average common shares diluted	89,993,618	88,845,102	89,432,722	88,777,647
Anti-dilutive securities not included above	7,853,688	7,694,523	7,928,105	7,653,508

**(13) Equity-Based Compensation**

*Stock Options and Restricted Stock*

In November 2007, 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 \$0.7 million and \$3.4 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$3.1 million and \$8.2 million for the three and nine month periods ended September 30, 2011, respectively.

As of September 30, 2012, we had \$2.0 million of unrecognized compensation expense related to outstanding stock options, which will be recognized over a weighted-average period of 1.4 years. As of September 30, 2012, there was \$6.4 million of



Table of Contents

unrecognized compensation expense related to non-vested restricted stock which is expected to be recognized over a weighted-average period of 1.9 years.

*Phantom Stock*

We have awarded phantom stock to certain employees in our Company including senior management. Phantom stock is a method for us to give employees a bonus if the company performs well financially. Phantom stock provides a cash or stock bonus based on the value of a stated number of shares to be paid out at the end of a specified period of time. The value of the phantom shares is dependent on the stock price on the vesting date; therefore, a market condition exists. The value of phantom stock awards to be paid in cash will be treated as liability awards; therefore, they are revalued at each reporting period. We recorded compensation expense related to our phantom stock grants of \$1.1 million and \$1.7 million for the three and nine month periods ended September 30, 2012, respectively. As of September 30, 2012, we had \$9.5 million of unrecognized compensation expense related to outstanding phantom stock awards which will be recognized over a weighted average period of 2.1 years.

**(14) Income Taxes**

Undistributed earnings of our foreign subsidiaries amounted to approximately \$110.0 million at December 31, 2011. Those earnings had been considered to be indefinitely reinvested and, accordingly, no U.S. federal or state income taxes had been provided thereon. During the quarter ended June 30, 2012, primarily due to a change in management, the Company revised its assertion with respect to a portion of the 2011 earnings and all current and future earnings of its U.K. subsidiary. The indefinite reinvestment assertion continues to apply to the remaining balance of approximately \$92.0 million of undistributed foreign earnings from prior periods. As a result of the expected partial repatriation during 2012, we have released a valuation allowance previously recorded against U.S. net operating losses expected to be utilized as a result of the increase in estimated U.S. taxable income, including certain losses with a separate return limitation year.

We recognized an income tax benefit of \$0.1 million and expense of \$4.5 million for the nine month periods ended September 30, 2012 and 2011, respectively, for a year-to-date effective rate of negative 0.1 % and 40.7%, respectively, based on an estimated annual effective tax rate method. The effective rate varies from the U.S. statutory rate of 35% primarily as a result of the amount of income tax expense relative to pretax book income, lower tax on income in foreign jurisdictions and the NDT fund, the tax benefit of foreign research and development credits, income tax expense due to the change in management's assertion with respect to unremitted foreign earnings, offset by foreign tax credits and further offset by the release of a domestic valuation allowance on net operating losses resulting from an increase in taxable income due to the partial change in the reinvestment assertion and the recognition of certain unrecognized tax benefits.

During the nine month periods ended September 30, 2012 and 2011, we made income tax payments of \$16.6 million and \$4.0 million, respectively.

As of September 30, 2012 and December 31, 2011, we had \$0.1 million and \$0.4 million, respectively, of gross unrecognized tax benefits. These tax benefits were accounted for under guidance for accounting for uncertainties in income taxes. During the nine month period ended September 30, 2012, the Company recognized an income tax benefit of \$1.1 million, due to the expiration of the statute of limitations to examine and challenge our tax positions. During the nine month period ended September 30, 2011, the Company recognized an income tax benefit of

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

\$1.0 million related to the finalization of U.S. federal examinations.

**(15) Segment Reporting and Business Concentrations**

We report our results through two major operating groups: the Government Group and the Global Commercial Group. The Government Group derives its revenue from government customers in the U.S., whereas the Global Commercial Group provides a broad range of services both nationally and internationally and reports its results under three separate operating business divisions: CS, LP&D and International.

The following table presents our segment information (in thousands):

	As of and For The Three Month Period Ended September 30, 2012					
	Government Group	CS	Global Commercial Group		Corporate Unallocated Items	Consolidated
			LP&D	International		
Revenue from external customers (1) (2)	\$ 43,972	\$ 48,631	\$ 62,407	\$ 289,147	\$	\$ 444,157
Income (loss) from operations (3)	10,422	1,702	18,956	5,411	(17,827)	18,664
Depreciation, amortization and accretion expense	54	7,350	5,917	1,946	3,602	18,869
Purchases of property, plant and equipment		(437)	2,509	869	531	3,472

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

Table of Contents

	As of and For The Three Month Period Ended September 30, 2011					
	Government Group	CS	Global Commercial Group		Corporate Unallocated Items	Consolidated
			LP&D	International		
Revenue from external customers (1) (2)	\$ 51,726	\$ 47,110	\$ 64,736	\$ 257,455	\$	\$ 421,027
Income (loss) from operations (3)	9,086	206	19,821	(1,734)	(16,745)	10,634
Depreciation, amortization and accretion expense	442	8,045	5,369	2,008	3,447	19,311
Purchases of property, plant and equipment	106	998	4,438	491	892	6,925

	As of and For The Nine Month Period Ended September 30, 2012					
	Government Group	CS	Global Commercial Group		Corporate Unallocated Items	Consolidated
			LP&D	International		
Revenue from external customers (1) (2)	\$ 124,744	\$ 129,110	\$ 155,768	\$ 917,848	\$	\$ 1,327,470
Income (loss) from operations (3)	13,212	4,406	30,758	31,699	(58,574)	21,501
Depreciation, amortization and accretion expense	694	22,459	16,988	5,801	10,659	56,601
Goodwill	73,594	90,129	89,548	55,010		308,281
Other long-lived assets (4)	15,913	18,369	267,466	52,980	10,464	365,192
Purchases of property, plant and equipment		3,503	7,969	1,630	1,486	14,588
Total assets (5)	171,117	1,524,906	557,954	540,375	58,525	2,852,879

	As of and For The Nine Month Period Ended September 30, 2011					
	Government Group	CS	Global Commercial Group		Corporate Unallocated Items	Consolidated
			LP&D	International		
Revenue from external customers (1) (2)	\$ 185,485	\$ 141,402	\$ 181,434	\$ 838,646	\$	\$ 1,346,967
Income (loss) from operations (3)	15,725	(592)	49,232	15,871	(47,345)	32,891
Depreciation, amortization and accretion expense	1,766	24,127	17,253	5,940	10,474	59,560
Goodwill	106,594	90,129	230,548	53,654		480,925
Other long-lived assets (4)	26,106	21,456	270,711	54,178	16,194	388,645
Purchases of property, plant and equipment	128	1,386	9,878	637	3,280	15,309
Total assets (5)	207,202	1,728,386	699,302	538,823	98,293	3,272,006

(1) We eliminate intersegment revenue in consolidation. Intersegment revenue for the three and nine month periods ended September 30, 2012 were \$5.1 million and \$18.4 million, respectively. Intersegment revenue for the three and nine month periods ended September 30, 2011 were \$4.6 million and \$13.1 million, respectively. Revenue by segment represent revenue earned based on third-party billings to customers.

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

(2) Results of our operations for services provided by our Global Commercial Group to our customers in Canada, Asia and Europe are included in our International operations.

(3) For the three month period ended September 30, 2012, we recorded \$4.3 million of income from our unconsolidated joint ventures of which \$0.1 million of loss is attributable to LP&D and \$4.4 million of income is attributable to the Government Group. For the nine month period ended September 30, 2012, we recorded \$7.4 million of income from our unconsolidated joint ventures of which \$0.1 million of loss is attributable to LP&D and \$7.5 million of income is attributable to the Government Group. Equity in income from unconsolidated joint ventures for the three and nine month periods ended September 30, 2011 was \$5.7 million and \$10.0 million, respectively, and was attributable to the Government Group.

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

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

### (16) Pension Plans

Net periodic benefit costs related to the Magnox pension plan consisted of the following (in thousands):

	For The Three Month Period Ended September 30,		For The Nine Month Period Ended September 30,	
	2012	2011	2012	2011
Service cost	\$ 14,021	\$ 14,226	\$ 42,018	\$ 42,751
Interest cost	39,692	43,524	118,952	130,796
Expected return on plan assets	(42,852)	(45,902)	(128,421)	(137,941)
Net actuarial loss	119		355	
	\$ 10,980	\$ 11,848	\$ 32,904	\$ 35,606

Table of Contents**(17) Employee Termination Benefits**

In September 2012, we initiated a restructuring plan (the Restructuring Plan) to reduce operating costs and improve profitability within our U.S. operations. Under the Restructuring Plan, we are reorganizing our business reporting units, reducing our facility footprint and implemented a reduction of force of approximately 265 employees across multiple business segments and functions. As a result, we estimate that the total restructuring charges under the Restructuring Plan will be between \$12.0 million and \$16.0 million, substantially all of which represent cash expenditures. The foregoing estimated charges include between \$9.0 million and \$11.0 million for severance, termination benefits and employee relocation costs, and between \$3.0 million and \$5.0 million for facility costs.

For the three and nine month periods ended September 30, 2012, we recognized \$3.2 million and \$9.4 million, respectively, in restructuring charges associated with this Restructuring Plan. These benefits are included in segment and corporate selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss) related to our operations in the U.S. The corresponding liability as of September 30, 2012 was \$7.4 million, and is included in accrued expenses and other current liabilities in the condensed consolidated balance sheets. We expect to substantially complete the Restructuring Plan by the end of the fourth quarter of 2012. We estimate that the Restructuring Plan will result in a reduction in expenses of approximately \$35.0 million annually, not including restructuring charges associated with the Restructuring Plan.

In 2009, an organizational review of our Magnox sites was initiated and we identified an opportunity to reduce the existing workforce, primarily at three sites at which decommissioning was relatively close to completion with only a few projects remaining. The termination plan was presented in two phases and was approved by the NDA. As a result of the overstaffing at the Magnox sites, approximately 300 employees left us on a voluntary basis. For the nine month periods ended September 30, 2012 and 2011, we recognized \$0 and \$9.6 million, respectively, of expected employee termination benefits. These benefits are included in cost of revenue in the accompanying consolidated statements of operations and comprehensive income (loss) related to our International operations. We have recognized a corresponding liability, which is included in accrued expenses and other current liabilities. In addition, we have recognized revenue and a receivable from the NDA for the reimbursement of the employee termination benefits. The remaining unpaid termination benefits are expected to be paid over a period of approximately 12 months.

The following is a reconciliation of the beginning and ending liability balances for the nine month period ended September 30, 2012, and the year ended December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
Beginning liability	\$ 32,659	\$ 36,753
Additions		9,591
Payments	(22,770)	(13,850)
Effect of exchange rate	959	165
Ending liability	\$ 10,848	\$ 32,659

The termination plan and employee benefits paid for the termination of these employees are in accordance with the existing employee and the trade union agreements and were pre-approved by the NDA. All employee termination benefits are treated as part of the normal Magnox cost base and are reimbursed by the NDA.

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

Following the initial restructuring and as a result of the organizational review of the Magnox business and at the request of the NDA, it was also recommended to combine the Magnox North Limited and Magnox South Limited entities into a single entity. We successfully combined these two entities into a single entity, Magnox Limited, during the first quarter of 2011. This event delivered the first major milestone in the Magnox organizational restructuring program previously agreed to by the NDA. We have now reorganized the business into three operating divisions within the single legal entity, which was an enabler to a review of corporate support structures and associated manpower, which was completed during the first half of 2012.

We anticipate that approximately \$29.0 million of termination benefits will be paid through December 31, 2012. The estimated cost of severance continues to be updated.

Magnox Limited continues to transition as sites move to a new state within their lifecycle. The Magnox Optimized Decommissioning Plan ( MODP ) includes approximately ten further changes of organization across the ten Magnox sites in the next 5 years. As a result of these changes and the drive to reduce support and overhead costs, there will be significant manpower reductions, expected to be approximately 1,000 employees, during the period through to 2015 followed by a further reduction of approximately 600 employees in the period from 2016 to 2020. The MODP has been approved by the NDA and forms part of the NDA funding settlement which in turn is part of the U.K. government's current Comprehensive Spending Review ( CSR ).

Table of Contents

The current total termination benefit costs included within the MODP over the remainder of the CSR period to 2015 is estimated to be approximately \$96 million, and is expected to be paid over the next three years. These amounts are estimates and have not yet been recorded because accounting criteria have not yet been met.

**(18) 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, 2012, we were not involved in any legal proceedings that we believe would have a material adverse effect on our consolidated financial position, operating results or cash flows. We have accrued approximately \$5 million related to the following pending legal matters:

*False Claim Act Proceeding*

On September 14, 2012, we and the plaintiffs in the False Claim Act proceeding previously disclosed and discussed in our 2011 Annual Report reached an agreement in principle to resolve all claims made by the plaintiffs in their complaint underlying the proceeding. The agreement does not contain an admission of guilt or other wrongdoing on the part of the Company, or our officers, directors or affiliates. The confidential settlement arrangement, the final terms of which are subject to the approval of the U.S. government, is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

*City of Roseville Employees Retirement System v. EnergySolutions, Inc., et al. and Shareholder Derivative Actions*

On October 12, 2012, we and the plaintiffs in the proceeding concerning the disclosures made in connection with our November 2007 initial public offering and July 2008 secondary offering, which proceeding has been previously disclosed and discussed by us in our 2011 Annual Report, reached an agreement in principle to resolve all claims made by the plaintiffs in their complaint underlying the proceeding. The agreement will also resolve the shareholder derivative actions filed by Messrs. Israni (which was voluntarily dismissed on October 9, 2012) and Fish, which actions have been previously disclosed and discussed by us in our 2011 Annual Report and were based on substantially the same underlying facts concerning our initial and secondary public offerings described above. The agreement does not contain an admission of guilt or other wrongdoing on the part of the Company, or our officers, directors or affiliates. The confidential settlement arrangement, the final terms of which are subject to mutually acceptable documentation and customary court approvals, is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

**(19) Related Party Transactions**

As required by his employment arrangement, on July 26, 2012, our chief executive officer purchased 884,614 shares of stock from the Company through his account in the Company's 401(k) plan at a price of \$1.69 per share.

**(20) Guarantor and Non-Guarantor Financial Information**

The senior notes due in 2018 were issued by EnergySolutions, Inc. (the Parent ) and EnergySolutions, LLC (together with the Parent, the Issuers ). The senior notes are jointly and severally guaranteed on a full and unconditional basis by each of the Parent's current and future domestic wholly owned subsidiaries that are guarantors under the senior secured credit facility, other than ZionSolutions, LLC, which was established for the purpose of our license stewardship initiative, as well as up to five other special purpose subsidiaries that may be established for similar license stewardship projects, and certain other non-operating or immaterial subsidiaries.

Presented below is the condensed consolidating financial information of the Issuers, our subsidiaries that are guarantors (the Guarantor Subsidiaries ), and our subsidiaries that are not guarantors (the Non-Guarantor Subsidiaries ). The following condensed consolidating financial information reflects the investments of the Parent in the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries using the equity method of accounting.



Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

As of September 30, 2012

(in thousands)

	Parent	Energy Solutions, LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Total current assets	\$ 18,514	\$ 79,527	\$ 144,157	\$ 516,472	\$ (1,560)	\$ 757,110
Property, plant and equipment, net		65,027	52,731	2,875		120,633
Goodwill		29,765	223,506	55,010		308,281
Intangibles, net		163,183	31,354	50,023		244,560
Restricted cash		110,593	20,361	200,493		331,447
Nuclear decommissioning trust fund				477,993		477,993
Deferred costs				401,671		401,671
Investment in subsidiaries	2,378	606,433			(608,811)	
Intercompany receivable	290,846		67,788	2,158	(360,792)	
Other long term assets		11,384	18,144	181,656		211,184
<b>TOTAL ASSETS</b>	<b>\$ 311,738</b>	<b>\$ 1,065,912</b>	<b>\$ 558,041</b>	<b>\$ 1,888,351</b>	<b>\$ (971,163)</b>	<b>\$ 2,852,879</b>
<b>Liabilities and Stockholders Equity</b>						
Intercompany loan payable		290,846			(290,846)	
Intercompany payable		62,486	1,513	7,460	(71,459)	
Total current liabilities	485	61,128	72,028	465,356	(47)	598,950
Long-term debt, less current portion		614,079		196,545		810,624
Facility and equipment decontamination and decommissioning liabilities, less current portion		32,112	34,509	469,319		535,940
Unearned revenue, less current portion				409,518		409,518
Other liabilities, net		2,883	1,371	181,822		186,076
Stockholders equity	311,253	2,378	448,620	157,813	(608,811)	311,253
Net income attributable to noncontrolling interests				518		518
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 311,738</b>	<b>\$ 1,065,912</b>	<b>\$ 558,041</b>	<b>\$ 1,888,351</b>	<b>\$ (971,163)</b>	<b>\$ 2,852,879</b>

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

For The Year Ended December 31, 2011

(in thousands)

	Parent	Energy Solutions, LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Total current assets	\$ 8,875	\$ 42,959	\$ 128,116	\$ 659,638	\$ (4,080)	\$ 835,508
Property, plant and equipment, net		68,428	56,845	1,336		126,609
Goodwill		29,764	223,506	53,088		306,358
Intangibles, net		171,349	36,400	53,130		260,879
Restricted cash		110,393	22,290	200,235		332,918
Nuclear decommissioning trust fund				523,326		523,326
Long-term deferred costs less current portion				465,577		465,577
Investment in subsidiaries	(19,961)	523,558			(503,597)	
Intercompany receivable	297,586	31,078	21,095	1,967	(351,726)	
Other long term assets		12,862	13,096	138,800		164,758
<b>TOTAL ASSETS</b>	\$ 286,500	\$ 990,391	\$ 501,348	\$ 2,097,097	\$ (859,403)	\$ 3,015,933
<b>Liabilities and Stockholders Equity</b>						
Intercompany loan payable		297,586			(297,586)	
Intercompany payable				54,140	(54,140)	
Total current liabilities	1,895	62,571	52,206	578,689	(4,080)	691,281
Long-term debt, less current portion		616,757		195,977		812,734
Facility and equipment decontamination and decommissioning liabilities, current portion		30,212	38,311	530,007		598,530
Unearned revenue, less current portion				469,497		469,497
Other liabilities, net	59	3,226	433	154,916		158,634
Stockholders equity	284,546	(19,961)	410,398	113,160	(503,597)	284,546
Net income attributable to noncontrolling interests				711		711
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	\$ 286,500	\$ 990,391	\$ 501,348	\$ 2,097,097	\$ (859,403)	\$ 3,015,933

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****For The Three Month Period Ended September 30, 2012****(in thousands)**

	Parent	Energy Solutions, LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$	\$ 23,760	\$ 161,114	\$ 297,738	\$ (38,455)	\$ 444,157
Cost of revenue		(10,110)	(137,284)	(289,061)	38,455	(398,000)
Gross profit		13,650	23,830	8,677		46,157
Selling, general and administrative expenses		(21,012)	(5,471)	(5,296)		(31,779)
Equity in income of unconsolidated joint ventures			4,286			4,286
Operating income (loss)		(7,362)	22,645	3,381		18,664
Interest expense		(14,355)		(3,281)		(17,636)
Income (loss) from subsidiaries	20,298	46,894			(67,192)	
Other, net		(4,879)	(2,426)	19,673		12,368
Income (loss) before income taxes	20,298	20,298	20,219	19,773	(67,192)	13,396
Benefit from (provision for) income taxes	(10,246)			6,899		(3,347)
Net income (loss)	10,052	20,298	20,219	26,672	(67,192)	10,049
Less: net loss attributable to noncontrolling interests				3		3
Net income (loss) attributable to EnergySolutions	\$ 10,052	\$ 20,298	\$ 20,219	\$ 26,675	\$ (67,192)	\$ 10,052
Other comprehensive income (loss):						
Net income (loss)	\$ 10,052	\$ 20,298	\$ 20,219	\$ 26,672	\$ (67,192)	\$ 10,049
Foreign currency translation adjustments, net of taxes		5,443		5,443	(5,443)	5,443
Change in unrecognized actuarial gain		273		273	(273)	273
Other comprehensive income (loss)	10,052	26,014	20,219	32,388	(72,908)	15,765
Less: net loss attributable to noncontrolling interests				3		3
Comprehensive income (loss) attributable to EnergySolutions	\$ 10,052	\$ 26,014	\$ 20,219	\$ 32,391	\$ (72,908)	\$ 15,768

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****For The Nine Month Period Ended September 30, 2012****(in thousands)**

	<b>Parent</b>	<b>Energy Solutions, LLC</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenue	\$	\$ 48,555	\$ 348,592	\$ 987,946	\$ (57,623)	\$ 1,327,470
Cost of revenue		(27,738)	(297,795)	(945,820)	57,623	(1,213,730)
Gross profit		20,817	50,797	42,126		113,740
Selling, general and administrative expenses		(66,150)	(18,640)	(14,871)		(99,661)
Equity in income of unconsolidated joint ventures			7,422			7,422
Operating income (loss)		(45,333)	39,579	27,255		21,501
Interest expense		(42,841)		(9,981)		(52,822)
Income (loss) from subsidiaries	15,275	108,154			(123,429)	
Other, net		(4,705)	(1,182)	51,980		46,093
Income (loss) before income taxes	15,275	15,275	38,397	69,254	(123,429)	14,772
Benefit from (provision for) income taxes	(448)			468		20
Net income (loss)	14,827	15,275	38,397	69,722	(123,429)	14,792
Net loss attributable to noncontrolling interests				35		35
Net income (loss) attributable to EnergySolutions	\$ 14,827	\$ 15,275	\$ 38,397	\$ 69,757	\$ (123,429)	\$ 14,827
Other comprehensive income (loss):						
Net income (loss)	\$ 14,827	\$ 15,275	\$ 38,397	\$ 69,722	\$ (123,429)	\$ 14,792
Foreign currency translation adjustments, net of taxes		6,821		6,821	(6,821)	6,821
Change in unrecognized actuarial gain		242		242	(242)	242
Other comprehensive income (loss)	14,827	22,338	38,397	76,785	(130,492)	21,855
Less: net loss attributable to noncontrolling interests				35		35
Comprehensive income (loss) attributable to EnergySolutions	\$ 14,827	\$ 22,338	\$ 38,397	\$ 76,820	\$ (130,492)	\$ 21,890

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****For The Three Month Period Ended September 30, 2011****(in thousands)**

	<b>Parent</b>	<b>Energy Solutions, LLC</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenue	\$	\$ 22,193	\$ 113,482	\$ 295,973	\$ (10,621)	\$ 421,027
Cost of revenue		(8,344)	(90,409)	(295,810)	10,621	(383,942)
Gross profit		13,849	23,073	163		37,085
Selling, general and administrative expenses		(15,118)	(16,259)	(788)		(32,165)
Equity in income of unconsolidated joint ventures			5,714			5,714
Operating income (loss)		(1,269)	12,528	(625)		10,634
Interest expense		(14,797)		(3,404)		(18,201)
Income (loss) from subsidiaries	(5,063)	7,520			(2,457)	
Other income (expense), net		3,483	113	(1,096)		2,500
Income (loss) before income tax	(5,063)	(5,063)	12,641	(5,125)	(2,457)	(5,067)
Benefit for income taxes	1,235			983		2,218
Net income (loss)	(3,828)	(5,063)	12,641	(4,142)	(2,457)	(2,849)
Net income attributable to noncontrolling interests				(979)		(979)
Net income (loss) attributable to <i>EnergySolutions</i>	\$ (3,828)	\$ (5,063)	\$ 12,641	\$ (5,121)	\$ (2,457)	\$ (3,828)
Other comprehensive income (loss):						
Net income (loss)	\$ (3,828)	\$ (5,063)	\$ 12,641	\$ (4,142)	\$ (2,457)	\$ (2,849)
Foreign currency translation adjustments, net of taxes		(6,337)		(6,337)	6,337	(6,337)
Change in unrecognized actuarial gain		(122)		(122)	122	(122)
Other comprehensive income (loss)	(3,828)	(11,522)	12,641	(10,601)	4,002	(9,308)
Less: net income attributable to noncontrolling interests				(979)		(979)
Comprehensive income (loss) attributable to <i>EnergySolutions</i>	\$ (3,828)	\$ (11,522)	\$ 12,641	\$ (11,580)	\$ 4,002	\$ (10,287)

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****For The Nine Month Period Ended September 30, 2011****(in thousands)**

	<b>Parent</b>	<b>Energy Solutions, LLC</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenue	\$	\$ 85,756	\$ 309,299	\$ 984,255	\$ (32,343)	\$ 1,346,967
Cost of revenue		(46,283)	(267,633)	(946,341)	32,343	(1,227,914)
Gross profit		39,473	41,666	37,914		119,053
Selling, general and administrative expenses		(51,383)	(29,217)	(15,557)		(96,157)
Equity in income of unconsolidated joint ventures			9,995			9,995
Operating income (loss)		(11,910)	22,444	22,357		32,891
Interest expense		(44,583)		(10,267)		(54,850)
Income (loss) from subsidiaries	8,566	61,553			(70,119)	
Other income, net		3,506	166	31,406		35,078
Income (loss) before income tax	8,566	8,566	22,610	43,496	(70,119)	13,119
Provision for income taxes	(1,981)			(2,533)		(4,514)
Net income (loss)	6,585	8,566	22,610	40,963	(70,119)	8,605
Net income attributable to noncontrolling interests				(2,020)		(2,020)
Net income (loss) attributable to <i>Energy Solutions</i>	\$ 6,585	\$ 8,566	\$ 22,610	\$ 38,943	\$ (70,119)	\$ 6,585
Other comprehensive income (loss):						
Net income (loss)	\$ 6,585	\$ 8,566	\$ 22,610	\$ 40,963	\$ (70,119)	\$ 8,605
Foreign currency translation adjustments, net of taxes		(546)		(546)	546	(546)
Other comprehensive income (loss)	6,585	8,020	22,610	40,417	69,573	8,059
Less: net income attributable to noncontrolling interests				(2,020)		(2,020)
Comprehensive income (loss) attributable to <i>EnergySolutions</i>	\$ 6,585	\$ 8,020	\$ 22,610	\$ 38,397	\$ 69,573	\$ 6,039

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW****For The Nine Month Period Ended September 30, 2012****(in thousands)**

	Parent	Energy Solutions, LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flow from operating activities</b>						
Net cash provided by (used in) operating activities	\$ 14,223	\$ 121,545	\$ 51,259	\$ (18,679)	\$ 152,582	\$ 15,766
<b>Cash flow from investing activities</b>						
Purchase of investments in nuclear decommissioning trust fund				(651,933)		(651,933)
Proceeds from sales of nuclear decommissioning trust fund investments				654,798		654,798
Purchases of property, plant and equipment		(7,305)	(5,635)	(1,648)		(14,588)
Purchases of intangible assets		(763)				(763)
Proceeds from disposition of property, plant and equipment			5,317			5,317
Net cash (used in) provided by investing activities		(8,068)	(318)	1,217		(7,169)
<b>Cash flows from financing activities</b>						
Intercompany loan receivable	6,740	31,078	(46,884)		9,066	
Intercompany loan payable		(6,740)			6,740	
Investment in subsidiary	(22,340)	(82,874)		(31,562)	136,776	
Distributions to noncontrolling interests partners				(158)		(158)
Minimum tax withholding on restricted stock awards	(120)					(120)
Proceeds from issuance of common stock	1,497					1,497
Repayments of capital lease obligations			(629)			(629)
Net cash provided by (used in) financing activities	(14,223)	(58,536)	(47,513)	(31,720)	(152,582)	590
Effect of exchange rate on cash				1,513		1,513
Net decrease in cash and cash equivalents		54,941	3,428	(47,669)		10,700
Cash and cash equivalents, beginning of period		694		76,519		77,213
Cash and cash equivalents, end of period	\$	\$ 55,635	\$ 3,428	\$ 28,850	\$	\$ 87,913





Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW**

For The Nine Month Period Ended September 30, 2011

(in thousands)

	Parent	Energy Solutions, LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flow from operating activities</b>						
Net cash provided by (used in) operating activities	\$ (2,927)	\$ 43,824	\$ 78,307	\$ (3,667)	\$ (103,044)	\$ 12,493
<b>Cash flow from investing activities</b>						
Purchase of investments in nuclear decommissioning trust fund				(821,733)		(821,733)
Proceeds from sales of nuclear decommissioning trust fund investments				825,002		825,002
Purchases of property, plant and equipment		(6,014)	(8,820)	(475)		(15,309)
Purchases of intangible assets		(610)				(610)
Proceeds from disposition of property, plant and equipment			235			235
Net cash (used in) provided by investing activities		(6,624)	(8,585)	2,794		(12,415)
<b>Cash flows from financing activities</b>						
Repayments of long-term debt		(15,200)				(15,200)
Intercompany loan receivable	11,551	(34,693)	(1,723)		24,865	
Intercompany loan payable		65,078	(74,387)		9,309	
Investment in subsidiary	(8,019)	(61,458)			69,477	
Distributions to noncontrolling interests partners				(1,794)		(1,794)
Minimum tax withholding on restricted stock awards	(116)					(116)
Proceeds from exercise of stock options	57					57
Repayments of capital lease obligations		(368)				(368)
Net cash provided by (used in) financing activities	3,473	(46,641)	(76,110)	(1,794)	103,651	(17,421)
Effect of exchange rate on cash	(546)	(546)		228	(607)	(1,471)
Net decrease in cash and cash equivalents		(9,987)	(6,388)	(2,439)		(18,814)
Cash and cash equivalents, beginning of period		18,587	11,049	30,556		60,192
Cash and cash equivalents, end of period	\$	\$ 8,600	\$ 4,661	\$ 28,117	\$	\$ 41,378



Table of Contents

**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 operations should be read together with the unaudited condensed consolidated financial statements and the related notes of EnergySolutions included elsewhere in this Quarterly Report on Form 10-Q, and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011 (our 2011 Annual Report).*

**Cautionary Statement Regarding Forward-Looking Statements**

Certain statements made herein, including statements regarding anticipated renegotiations of certain of our contracts, expected impacts of reduced government spending, expected costs to complete certain of our contracts, expected recoupment of expenses for work we perform, our future need to access credit, our projected revenue, expenses, income, the implementation of strategic initiatives and the risks associated therewith, our anticipated settlement arrangements of outstanding legal proceedings and reaching agreements in principle with respect hereto, as well as our expectations regarding their impact on our financial position, results of operations and cash flows, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1965, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect the 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 revenue 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 that may impact our expectations and projections can be found in our periodic filings with the Securities and Exchange Commission (SEC), including our 2011 Annual Report and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. Our SEC filings are available publicly on the SEC's website at [www.sec.gov](http://www.sec.gov), on EnergySolutions' website at [www.energysolutions.com](http://www.energysolutions.com) or upon request from EnergySolutions' Investor Relations Department at [ir@energysolutions.com](mailto: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 a broad range of nuclear services to government and commercial customers who rely on our expertise to address their needs throughout the lifecycle of their nuclear operations. Our broad range of nuclear services includes engineering, in-plant support services, spent nuclear fuel management, decontamination and decommissioning (D&D) services, operation of nuclear reactors, logistics, transportation, processing, and low-level radioactive waste disposal. We also own and operate strategic processing and disposal facilities that complement our services and uniquely position us to provide a single-source solution to our customers. We derive almost 100% of our revenue from the provision of nuclear services.

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

We provide our services through two customer groups: the Government Group and the Global Commercial Group. Our Government Group provides services to U.S. government customers for the management and operation, and/or clean-up of facilities with radioactive materials. The Global Commercial Group, reports its results under three operating business divisions: Commercial Services, Logistics, Processing and Disposal ( LP&D ), and International. Our Government Group customers are individual offices, departments and administrations within the U.S. Department of Energy ( DOE ) and the U.S. Department of Defense. Our Commercial Services operations provide a broad range of on-site services, including D&D services and comprehensive long-term stewardship D&D work for shut-down nuclear power plants and similar operations, to commercial customers. Our commercial customers include power and utility companies, pharmaceutical companies, research laboratories, universities, industrial facilities, state agencies and other commercial entities that are involved with nuclear materials as well as state agencies in the U.S. Our LP&D operations provide a broad range of logistics, transportation, processing and disposal services to both government and commercial customers. Our LP&D division also operates our facilities for the processing and disposal of radioactive materials, including our facility in Clive, Utah, four facilities in Tennessee, and two facilities in Barnwell, South Carolina. Our International division derives revenue primarily through contracts with the Nuclear Decommissioning Authority ( NDA ) in the United Kingdom ( U.K. ) to operate, manage and decommission ten Magnox sites with twenty-two nuclear reactors. In addition, our International division also provides turn-key services and sub-contract services for the treatment, processing, storage and disposal of radioactive waste from nuclear sites and non-nuclear facilities such as hospitals, research facilities and other manufacturing and industrial facilities.

Table of Contents

Consistent with our experience for the full year 2011, revenue from our Government Group declined for the three and nine month periods ended September 30, 2012 compared to the same periods in 2011 due primarily to the completion of certain large contracts with the DOE in 2011, and to decreased American Recovery and Reinvestment Act (ARRA) funding for 2012. In addition, in April 2012, the prime contractor on our Salt Waste project located at the Savannah River site informed the DOE of an estimated cost increase on the construction phase of the project that is unrelated to our work on the project. As a result of this change in total budgeted project costs, the current potential incentive fee pool was reduced, which resulted in a corresponding reduction in the amount of incentive fee we had previously recognized. Such fee had been based on previously estimated costs and the estimated progress to date on the construction phase. We anticipate the contract will be renegotiated in 2013, and that incentive fee will be added to the new contract. However, until negotiations occur and the related terms of the negotiated contract are known, we are unable to recognize any such potential incentive fee.

Notwithstanding the decline in our Government Group operations, our Global Commercial Group operations remain strong. We continue to extend our business development efforts into Europe, Asia and Canada, and have won new contracts in Japan, Korea, Canada, Germany and elsewhere. Most notably we were selected by Toshiba Corporation as the technology provider for the clean-up of a large volume of radioactively contaminated water at the damaged Fukushima Dai-ichi Nuclear Power Plant.

We continue our work on the Magnox contracts. The Magnox contracts have been extended and are scheduled to expire on June 30, 2014. As expected, the NDA published a notice advising of its intention to launch the contract rebid process that is expected to commence in late 2012 and be completed in late 2013.

In September 2012, we initiated a restructuring plan (the Restructuring Plan) to reduce operating costs and improve profitability within the U.S. entities. Under the Restructuring Plan, we are reorganizing our business, reducing our facility footprint and implemented a reduction in force of approximately 265 employees across multiple business segments and functions and other cost reductions. As a result, we estimate that the total restructuring charges under the Restructuring Plan will be between \$12.0 million and \$16.0 million, substantially all of which represent cash expenditures. The foregoing estimated charges include between \$9.0 million and \$11.0 million for severance, termination benefits and employee relocation costs, and between \$3.0 million and \$5.0 million for facility costs. We expect to substantially complete the Restructuring Plan by the end of the fourth quarter of 2012. We estimate that the Restructuring Plan will result in a reduction in expenses of approximately \$35.0 million annually, not including restructuring charges associated with the Restructuring Plan.

Table of Contents**Results of Operations**

The following table shows certain items from our statements of operations for the three and nine month periods ended September 30, 2012 and 2011 (in thousands):

	Three Month Period Ended September 30		Nine Month Period Ended September 30,	
	2012	2011	2012	2011
<b>Revenue:</b>				
Government Group	\$ 43,972	\$ 51,726	\$ 124,744	\$ 185,485
Global Commercial Group				
Commercial Services	48,631	47,110	129,110	141,402
LP&D	62,407	64,736	155,768	181,434
International	289,147	257,455	917,848	838,646
Total revenue	444,157	421,027	1,327,470	1,346,967
<b>Cost of revenue:</b>				
Government Group	(35,801)	(45,088)	(110,228)	(168,730)
Global Commercial Group				
Commercial Services	(43,883)	(46,197)	(117,636)	(131,704)
LP&D	(40,890)	(40,396)	(118,282)	(127,624)
International	(277,426)	(252,261)	(867,584)	(799,856)
Total cost of revenue	(398,000)	(383,942)	(1,213,730)	(1,227,914)
<b>Gross profit:</b>				
Government Group	8,171	6,638	14,516	16,755
Global Commercial Group				
Commercial Services	4,748	913	11,474	9,698
LP&D	21,517	24,340	37,486	53,810
International	11,721	5,194	50,264	38,790
Total gross profit	46,157	37,085	113,740	119,053
<b>Group selling, general and administrative expenses:</b>				
Government Group	(2,155)	(3,266)	(8,790)	(11,024)
Global Commercial Group	(11,797)	(12,154)	(32,297)	(37,788)
Total group selling, general and administrative expenses (1)	(13,952)	(15,420)	(41,087)	(48,812)
<b>Group operating income:</b>				
Government Group	6,016	3,372	5,726	5,730
Global Commercial Group	26,189	18,293	66,927	64,511
Total group operating income	32,205	21,665	72,653	70,241
<b>Corporate selling, general and administrative expenses (1)</b>				
	(17,827)	(16,745)	(58,574)	(47,345)
<b>Equity in income of unconsolidated joint ventures (2)</b>				
	4,286	5,714	7,422	9,995
Total income from operations	18,664	10,634	21,501	32,891
Interest expense	(17,636)	(18,201)	(52,822)	(54,850)
Other income, net	12,368	2,500	46,093	35,078
<b>Income (loss) before income taxes and noncontrolling interests</b>				
	13,396	(5,067)	14,772	(13,119)
Income tax benefit (expense)	(3,347)	2,218	20	(4,514)
Net income (loss)	10,049	(2,849)	14,792	8,605
<b>Less: Net (income) loss attributable to noncontrolling interests</b>				
	3	(979)	35	(2,020)

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

Net income (loss) attributable to EnergySolutions	\$	10,052	\$	(3,828)	\$	14,827	\$	6,585
---	----	--------	----	---------	----	--------	----	-------

---

(1) Together, group and corporate selling, general and administrative expenses represent our total segment, general and administrative expenses as reported in the accompanying condensed consolidated statements of operations and comprehensive income (loss). As such, both amounts are needed to compute total consolidated income from operations for the three and nine month periods ended September 30, 2012 and 2011.

(2) For the three month period ended September 30, 2012, we recorded \$4.3 million income of from our unconsolidated joint ventures of which \$0.1 million of loss is attributable to LP&D and \$4.4 million of income is attributable to the Government Group. For the nine month period ended September 30, 2012, we recorded \$7.4 million income from our unconsolidated joint ventures of which \$0.1 million of loss is attributable to LP&D and \$7.5 million of income is attributable to the Government Group.

Table of Contents

***Three Month Period Ended September 30, 2012 Compared to the Three Month Period Ended September 30, 2011***

***Government Group***

Revenue from our Government Group decreased \$7.8 million to \$44.0 million for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to the completion of certain large contracts during 2011 and to decreased ARRA funding for 2012, partially offset by increased demand of engineering and technology work. Gross profit increased by \$1.5 million and gross margin increased to 18.6% for the three month period ended September 30, 2012 from 12.8% for the three month period ended September 30, 2011, due primarily to increased testing and technical supporting activities on a large scale mixing project. The overall reduction of federal government spending is expected to continue to negatively impact the financial results of our Government Group for the remainder of the year.

Revenue and cost of revenue related to engineered systems and technology projects within the Government Group increased \$7.0 million and \$5.0 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011 due primarily to increased testing activities on the large scale mixing contract awarded in August 2011. As a result, gross profit increased \$2.0 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our subsidiary Isotek Systems, LLC increased \$1.4 million and \$0.5 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to the fixed price waste shipment phase of the contract which commenced in January 2012. As a result, gross profit increased \$0.9 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue from our subsidiary EnergySolutions Performance Strategies Inc. increased \$1.1 million for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to fee recognition for supporting work completed on certain Salt Waste projects. In contrast, cost of revenue decreased \$0.5 million for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due to budget cuts on contracts at Los Alamos National Laboratory. As a result, gross profit increased \$1.6 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue generated by our contract with the DOE to clean up the Atlas mill tailings site near Moab, Utah decreased \$12.3 million and \$11.1 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due to the completion of the contract in April 2012. As a result, gross profit decreased \$1.2 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue related to our UCOR liquids and gases staff augmentation project decreased \$3.2 million and \$2.6 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due to the completion of the contract during the second quarter of 2012. As a result, gross profit decreased \$0.6 million for the three month period ended September 30, 2012 compared to the same period in 2011.



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

Revenue and cost of revenue generated by our Salt Waste processing facility contract decreased \$1.5 million and \$0.3 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to lower fee earnings resulting from a higher projection of expected costs to complete the contract. As a result, gross profit decreased \$1.2 million during the three month period ended September 30, 2012 compared to the same period in 2011. We anticipate the contract will be renegotiated in 2013, and that the previously forfeited incentive fee will be added to the new contract.

### *Global Commercial Group*

#### *Commercial Services Operations*

Revenue from our Commercial Services operations increased \$1.5 million to \$48.6 million for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to the increase in liquid waste processing projects during 2012. As a result, gross profit increased \$3.8 million and gross margin increased to 9.8% for the three month period ended September 30, 2012 from 1.9% for the three month period ended September 30, 2011.

Revenue related to the decommissioning of the Zion Station increased \$0.1 million for the three month period ended September 30, 2012, compared to the three month period ended September 30, 2011, due primarily to increased project activity. Cost of revenue decreased \$2.6 million due primarily to the combination of higher ARO gain and lower accretion expense recognized for

Table of Contents

the three month period ended September 30, 2012 compared to the same period in 2011. As a result, gross profit increased \$2.7 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our project services delivery group increased \$1.7 million and \$1.6 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to increased design and fabrication activities to support our contracts in Asia which resulted in higher labor, training and travel costs. Gross profit increased \$0.1 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our technology products group decreased \$0.1 million and \$0.6 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to lower demand of specialty container liners and decreased incentive compensation expense. As a result, gross profit increased \$0.5 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our commercial technology and engineering operations decreased \$0.1 million and \$0.8 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to completion of design work during 2011. As a result, gross profit increased \$0.7 million for the three month period ended September 30, 2012 compared to the same period in 2011.

*LP&D Operations*

Revenue from our LP&D operations decreased \$2.3 million to \$62.4 million for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to lower volumes of waste processed and disposed at our Clive, Utah facility offset by increased fabrication activities at our manufacturing division and increased transportation services. As a result, gross profit decreased \$1.8 million and gross margin decreased to 34.4% for the three month period ended September 30, 2012 from 36.1% for the three month period ended September 30, 2011.

Revenue and cost of revenue from our processing facilities increased \$5.8 million and \$2.1 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to increased fabrication activities on a new contract, the recognition of fees related to processing of materials on a large scale contract, and to lower labor, transportation and container costs. As a result, gross profit increased \$3.7 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue related to our disposal facilities decreased \$12.2 million and \$3.8 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to lower volumes of waste receipts on DOE projects due in part to a decrease in ARRA funding. The majority of costs at our disposal facilities are fixed, resulting in a disproportionate decrease in cost of revenue as a percentage of revenue. As a result, gross profit decreased \$8.4 million for the three month period ended September 30, 2012 compared to the same period in 2011.

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

Revenue and cost of revenue from our logistics operations increased \$4.1 million and 2.3 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to increased utility shipments offset in part by lower cask rental expense. As a result, gross profit increased \$1.8 million for the three month period ended September 30, 2012 compared to the same period in 2011.

### *International Operations*

Revenue from our International operations increased \$31.7 million to \$289.1 million for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to filter media, containers and support for clean-up operations in Japan and Korea, continued progress of fabrication activities in China and increased waste processing activities in Canada. Gross profit increased \$6.5 million and gross margin increased to 4.1% for the three month period ended September 30, 2012 from 2.0% for the three month period ended September 30, 2011.

Revenue and cost of revenue from our operations in Asia increased \$31.9 million and \$26.7 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to increased revenues and costs related to fabrication activities at the Yangjiang and Haiyang, China nuclear reactor sites, and to supplying filter media, containers and support for clean-up operations in Japan and Korea. As a result, gross profit increased \$5.1 million for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our operations in Canada increased \$1.5 million and \$1.5 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to

Table of Contents

increased shipments of waste for processing and higher demand for waste storage services. As a result, gross profit remained level for the three month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our U.K. operations decreased \$1.5 million and \$3.0 million, respectively, for the three month period ended September 30, 2012 compared to the three month period ended September 30, 2011, due primarily to progress delays at two Magnox sites. Revenue was negatively impacted by \$5.0 million while cost of revenue was positively impacted by \$4.9 million as a result of fluctuations in pound sterling exchange rates for the three month period ended September 30, 2012 compared to the same period in 2011. Gross profit decreased \$0.1 million due to exchange rate fluctuations for the three month period ended September 30, 2012 compared to the same period in 2011.

*Group selling, general and administrative expenses*

Group selling, general and administrative ( SG&A ) expenses include expenses that are not directly associated with performing services for our customers. These expenses consist primarily of compensation and related benefits for management and administrative personnel, preparing contract bids, office expenses, advisory fees, professional fees, strategic growth initiatives such as research and development, and administrative overhead. Group SG&A expenses decreased \$1.4 million, or 9.5%, to \$14.0 million for the three month period ended September 30, 2012 compared to \$15.4 million for the three month period ended September 30, 2011, due primarily to lower bid and proposal costs incurred during 2012, lower employee incentive expenses and our ongoing effort to reduce SG&A expenses. Group SG&A expenses, as a percentage of revenue, decreased 0.3% for the three month period ended September 30, 2012 compared to the same period in 2011.

*Corporate selling, general and administrative expenses*

Corporate SG&A expenses reflect costs associated with supporting our entire company including executive management and administrative functions such as accounting, treasury, legal, human resources, and information technology, as well as other costs required to support our company. Corporate SG&A expenses increased \$1.1 million, or 6.5%, to \$17.8 million, for the three month period ended September 30, 2012, from \$16.7 million for the three month period ended September 30, 2011 due primarily to reorganization and transitional costs resulting from the execution of the Restructuring Plan during the quarter, offset by decreased incentive compensation expense. Corporate SG&A expenses, as a percentage of revenue, increased 0.2% for the three month period ended September 30, 2012 compared to the same period in 2011.

*Equity in income of unconsolidated joint ventures*

Income from unconsolidated joint ventures decreased \$1.4 million, or 25.0%, to \$4.3 million for the three month period ended September 30, 2012, from \$5.7 million for the three month period ended September 30, 2011, due primarily to a \$1.3 million decrease from our proportional share of income from our Washington River Protection Solutions LLC joint venture at the Hanford site.

*Interest expense*

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

Interest expense decreased \$0.6 million to \$17.6 million for the three month period ended September 30, 2012 from \$18.2 million for the three month period ended September 30, 2011, due primarily to a decrease in outstanding borrowings during late 2011. During the three month period ended September 30, 2012, we made interest payments totaling \$24.5 million of which \$8.4 million are related to the term loan and related senior secured revolving credit facility and \$16.1 million to the senior notes. For the three month periods ended September 30, 2012 and 2011, the variable interest rate on our term loan was 6.25%, while our senior notes bear interest at a fixed annual rate of 10.75%.

### *Other income, net*

Other income, net, increased \$9.8 million to \$12.3 million for the three month period ended September 30, 2012 from \$2.5 million for the three month period ended September 30, 2011, due primarily to higher investment income earned on investments in the nuclear decommissioning trust ( NDT ) fund during the third quarter of 2012, offset by a \$2.4 million donation of an engineering research facility to Washington State University and the accrual of approximately \$5.0 million related to pending settlements on certain legal matters.

### *Income taxes*

We recognized income tax expense of \$3.3 million and income tax benefit of \$2.2 million for the three month periods ended September 30, 2012 and 2011, respectively, for a quarterly effective rate of 25.0% and 36.7%, respectively, based on an estimated annual effective tax rate method. The effective rate varies from the U.S. statutory rate of 35% primarily as a result of the amount of income tax expense relative to pretax book income, lower tax on income in foreign jurisdictions and the NDT fund, the tax benefit of

Table of Contents

foreign research and development credits, income tax expense due to the change in management's assertion with respect to unremitted foreign earnings, offset by foreign tax credits and further offset by the release of a domestic valuation allowance on net operating losses resulting from an increase in taxable income due to the partial change in the reinvestment assertion.

***Nine Month Period Ended September 30, 2012 Compared to the Nine Month Period Ended September 30, 2011***

***Government Group***

Revenue and cost of revenue in our Government Group decreased \$60.7 million and \$58.5 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to the completion of certain large contracts during 2011 and decreased ARRA funding for 2012, partially offset by an increase in revenue related to our engineering and technology projects. Gross profit decreased by \$2.2 million and gross margin increased to 11.6% for the nine month period ended September 30, 2012 from 9.0% for the nine month period ended September 30, 2011, due primarily to increased testing and technical supporting activities on a large scale mixing project. The overall reduction of federal government spending is expected to continue to negatively impact the financial results of our Government Group for the remainder of the year.

Revenue and cost of revenue related to our engineered systems and technology products division increased \$18.5 million and \$12.3 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011 due primarily to increased testing activities on a large scale mixing contract awarded in August 2011, offset by the completion of technical and testing support activities at the DOE Waste Treatment Plant in Richland, Washington. As a result, gross profit increased \$6.2 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue generated by our contract with the DOE to clean up the Atlas mill tailings site near Moab, Utah decreased \$39.0 million and \$35.5 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due to the completion of that contract in April 2012. As a result, gross profit decreased \$3.5 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our Uranium Disposition Services, LLC joint venture decreased \$23.5 million and \$22.5 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due to completion of the hot functional test phase as of March 31, 2011. As a result, gross profit decreased \$1.0 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our Salt Waste Processing facility contract decreased \$7.8 million and \$0.4 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to a fee adjustment in March 2012 resulting from expected costs to complete the contract exceeding the original total budgeted costs. As a result, gross profit decreased \$7.4 million for the nine month period ended September 30, 2012 compared to the same period in 2011. We anticipate the contract will be renegotiated in 2013, and that the previously forfeited incentive fee will be added to the new contract.

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

Revenue and cost of revenue from our subsidiary EnergySolutions Performance Strategies Inc. decreased \$5.0 million and \$6.7 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to completion of the remediation activities at the Portsmouth Gaseous Diffusion Plant in Piketon, Ohio during March 2011. As a result, gross profit increased \$1.7 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our Isotek Systems LLC, joint venture decreased \$3.3 million and \$4.4 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, primarily due to decreased engineering design activity work. As a result, gross profit increased \$1.1 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

### ***Global Commercial Group***

#### *Commercial Services Operations*

Revenue and cost of revenue from our Commercial Services operations decreased \$12.3 million and \$14.1 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to the completion of large scale projects during 2011, lower subcontractor costs, lower project support costs and lower licensing and permitting costs when compared to 2011. Gross profit increased by \$1.8 million and gross margin increased to 8.9% for

Table of Contents

the nine month period ended September 30, 2012 from 6.9% for the nine month period ended September 30, 2011, due primarily to the relatively profitability of the major projects performed in each period.

Revenue and cost of revenue related to the decommissioning of the Zion Station decreased \$11.5 million and \$11.3 million, respectively, for the nine month period ended September 30, 2012, due primarily to lower subcontractor costs, lower project support costs and lower accretion expense when compared to 2011. As a result, gross profit decreased \$0.2 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our project services delivery group decreased \$4.2 million and \$3.2 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011 due primarily to the completion of work at Pearl Harbor and at GE's Hitachi's global nuclear fuel plant in Wilmington, North Carolina, during the fourth quarter of 2011. As a result, gross profit decreased \$1.0 million for the nine month period ended September 30, 2012 compared to same period in 2011.

Revenue and cost of revenue from our technology products division increased \$2.7 million and \$1.3 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to continued construction of liquid waste processing system for the Palo Verde nuclear power station, as well as increased supporting activities for the Zion Station project during 2012. As a result, gross profit increased \$1.4 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

*LP&D Operations*

Revenue and cost of revenue from our LP&D operations decreased \$25.7 million and \$9.3 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to lower waste disposal volumes processed at our Clive, Utah facility offset by increased fabrication activities at our manufacturing division and increased transportation services. As result, gross profit decreased \$16.4 million and gross margin decreased to 24.1% for the nine month period ended September 30, 2012 from 29.7% for the nine month period ended September 30, 2011.

Revenue from our processing facilities increased \$5.9 million for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to increased fabrication activities on a new contract and the recognition of fees related to processing of materials on a large scale contract. Cost of revenue decreased \$1.1 million for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to lower container, transportation and labor costs. As a result, gross profit increased \$7.0 million for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011.

Revenue and cost of revenue related to our logistics operations increased \$3.0 million and \$2.0 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011 due to increased shipping activity on major contracts as well as lower labor support, container cost and facility maintenance. As a result, gross profit increased \$1.0 million for the nine month period ended September 30, 2012 compared to the same period in 2011.



Revenue and cost of revenue related to our disposal facilities decreased \$34.6 million and \$10.2 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to lower volumes of waste receipts on DOE projects due in part to a decrease in ARRA funding. As a result, gross profit decreased \$24.4 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

*International Operations*

Revenue and cost of revenue related to our International operations increased \$79.2 million and \$67.7 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to increased reimbursable contract cost base on our Magnox contracts and fees earned on our China, Japan and Korea contracts for the nine month period ended September 30, 2012. As result, gross profit increased \$11.5 million and gross margin increased to 5.5% for the nine month period ended September 30, 2012 from 4.6% for the nine month period ended September 30, 2011.

Revenue and cost of revenue from our operations in Asia increased \$41.2 million and \$33.5 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to increased progress related to fabrication and installation activities at the Yangjiang and Haiyang, China nuclear reactor sites and to the completion of design activities for the clean-up operations in Japan and Korea as well as the provision of media filters, containers and support in Japan. As a result, gross profit increased \$7.7 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

Table of Contents

Revenue and cost of revenue from our operations in the U.K. increased \$34.1 million and \$31.7 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to a contribution received from the NDA to fund a deficit of the Magnox pension plan, as well as better than expected progress during the nine months ended September 30, 2012 resulting in higher incentive fees during the nine month period ended September 30, 2012. Revenue was negatively impacted by \$18.1 million while cost of revenue was positively impacted by \$17.4 million as a result of fluctuations in pound sterling exchange rates period over period. As a result, gross profit decreased \$0.7 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

Revenue and cost of revenue from our operations in Canada increased \$3.9 million and \$2.5 million, respectively, for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011, due primarily to increased shipments of waste for processing and higher demand for waste storage services. As a result, gross profit increased \$1.4 million for the nine month period ended September 30, 2012 compared to the same period in 2011.

*Group selling, general and administrative expenses*

For the nine month period ended September 30, 2012, group SG&A expenses decreased by \$7.7 million, or 15.8%, from \$48.8 million for the nine month period ended September 30, 2011, to \$41.1 million for the nine month period ended September 30, 2012. The decrease was due primarily to lower bid and proposal costs incurred during the nine month period ended September 30, 2012, lower employee incentive compensation expenses and our ongoing effort to reduce SG&A expenses.

*Corporate selling, general and administrative expenses*

Corporate SG&A expenses increased \$11.2 million, or 23.7%, to \$58.6 million for the nine month period ended September 30, 2012 from \$47.3 million for the nine month period ended September 30, 2011. This increase was due primarily to reorganization and transitional costs resulting from the execution of the Restructuring Plan during the year that involved the reduction of approximately 265 employees across the divisions. The increase was offset by decreased incentive compensation expense.

*Equity in income of unconsolidated joint ventures*

Income from unconsolidated joint ventures decreased \$2.6 million, or 25.7%, to \$7.4 million for the nine month period ended September 30, 2012 from \$10.0 million for the nine month period ended September 30, 2011. The decrease was attributable primarily to a decrease of \$2.0 million from our proportional share of income from our Washington River Protection Solutions joint venture at the Hanford site as well as a \$0.9 million decrease from our proportional share of our Parallax joint venture.

*Interest expense*

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

Interest expense decreased \$2.0 million, or 3.7%, to \$52.8 million for the nine month period ended September 30, 2012 from \$54.9 million for the nine month period ended September 30, 2011. The decrease was due primarily to a decrease in outstanding borrowings during late 2011. During the nine month period ended September 30, 2012, we made interest payments totaling \$58.7 million of which \$26.5 million are related to the term loan and related senior secured revolving credit facility and \$32.3 million related to the senior notes. The variable interest rate on our term loan as of September 30, 2012 and 2011 was 6.25%, while our senior notes bear interest at a fixed annual rate of 10.75%.

### *Other income, net*

Other income, net, increased \$11.0 million to \$46.0 million for the nine month period ended September 30, 2012 from a net other income of \$35.1 million for the nine month period ended September 30, 2011 due primarily to higher investment income earned on investments in the NDT fund during the nine month period ended September 30, 2012, offset by a \$2.4 million donation of an engineering research facility to Washington State University and the accrual of approximately \$5.0 million related to pending settlements on certain legal matters.

### *Income taxes*

We recognized income tax expense of \$0.1 million and \$4.5 million for the nine month periods ended September 30, 2012 and 2011, respectively, for a year-to-date effective rate of 0.1% and 32.7%, respectively, based on an estimated annual effective tax rate method. The effective rate varies from the U.S. statutory rate of 35% primarily as a result of the amount of income tax expense

Table of Contents

relative to pretax book income, lower tax on income in foreign jurisdictions and the NDT fund, the tax benefit of foreign research and development credits, income tax expense due to the change in management's assertion with respect to unremitted foreign earnings, offset by foreign tax credits and further offset by the release of a domestic valuation allowance on net operating losses resulting from an increase in taxable income due to the partial change in the reinvestment assertion and the recognition of certain unrecognized tax benefits. During the nine month period ended September 30, 2012, the Company recognized an income tax benefit of \$1.1 million, due to the statute of limitations expiring to examine and challenge our tax positions in the jurisdictions in which we operate.

**Liquidity and Capital Resources**

We finance our operations primarily through cash provided by operations. Our cash flow from operations is impacted primarily by fluctuations in working capital caused by the timing of our billings to customers, collection terms of our contracts, stages of completion of our projects, the timing of payments to vendors and subcontractors, the timing of payment of dividends from our unconsolidated joint ventures, the changes in income tax liabilities and to unforeseen events.

As of September 30, 2012, our principal sources of liquidity consisted of \$87.9 million in existing cash and cash equivalents, of which \$17.4 million was held in foreign jurisdictions, an increase of \$10.7 million compared to our cash and cash equivalents as of December 31, 2011. The increase in domestic cash was due in part to the repatriation of approximately \$31.7 million in earnings from the U.K. Due to U.S. tax laws and regulations, our ability to use our cash held in foreign jurisdictions to fund U.S. operations is subject to certain tax obligations. As of September 30, 2012, we also had \$54.3 million available under the \$105.0 million revolving portion of our senior secured credit facility, which is net of \$50.7 million of outstanding letters of credit issued against it. As of September 30, 2012, we had no outstanding borrowings under our senior secured revolving credit facility.

As of September 30, 2012, we also had \$280.4 million in accounts receivable and \$92.5 million in costs and estimated earnings in excess of billings on uncompleted contracts to fund our operations. Our Days Sales Outstanding ( DSO ) decreased to 60 days as of September 30, 2012 compared to 69 days as of September 30, 2011. We use DSO to monitor the average time, in days, that it takes us to convert our accounts receivable into cash. We calculate DSO by dividing the average accounts receivable for the quarter into the amount of revenue recognized during the quarter, and multiplying the result of that calculation by the number of days in that quarter. Our cash flow from operations and cash on hand for the nine month period ended September 30, 2012, has been sufficient to cover our operating expenses without the need to draw on your senior secure revolving credit facility to cover any shortfalls in the timing of receipts and payments. We are actively engaged in managing our working capital to reduce our DSO to generate cash that will allow us to accelerate our plans to reduce debt and to fund the growth of our business.

As discussed above, our cash and cash equivalents increased \$10.7 million to \$87.9 million during the nine month period ended September 30, 2012, compared to a \$6.6 million decrease in cash and cash equivalents during the nine month period ended September 30, 2011. For the nine month period ended September 30, 2012, cash provided by operating activities was \$15.8 million compared to cash provided by operating activities of \$14.3 million for the nine month period ended September 30, 2011. The decrease in cash flows from operating activities was due primarily to increased income tax obligations related to the repatriation of foreign earnings offset by higher net income for the period as well as the use of advance payments from clients as projects advance and large payments made on vendor and subcontractor payables, employee incentive benefits and debt interest during the nine month period ended September 30, 2012. We also reported a net income of \$14.8 million for the nine month period ended September 30, 2012, compared to a net income of \$8.6 million for the nine month period ended September 30, 2011. Cash flows from operating activities was partially offset by a decrease of \$21.8 million in costs and estimated earnings in excess of billings on uncompleted contracts, a decrease of \$31.1 million in receivables and the add back of significant non-cash expenses including depreciation, amortization and accretion expenses, amortization of debt financing fees and equity-based compensation expense.

We used \$7.2 million of cash in investing activities during the nine month period ended September 30, 2012, primarily to fund capital expenditures in the amount of \$15.4 million offset by proceeds from disposition of assets related to the cleanup of the Atlas mill tailings site near Moab, Utah, which was completed in April 2012. Investments in capital expenditures included purchases of transportation equipment to support our disposal and logistics operations and storage equipment to support waste disposal activities. Cash flows from investing activities were also generated by sales of NDT fund investments of approximately \$654.8 million of which \$651.9 million was reinvested during the period. Investment income and realized earnings on the NDT fund are a source of working capital for the decommissioning work we perform at the Zion Station. We actively invest in securities to provide our target returns on the NDT trust assets to satisfy current and future decommissioning costs associated with the Zion Station ARO.

We will incur substantial costs associated with the D&D activities for the Zion Station project. However, we expect that the NDT fund will have sufficient assets to reimburse us for the cost of the work we perform. Nevertheless, in the event that we do not comply with the contractual requirements included in our agreements with Exelon Corporation ( Exelon ), we may become subject to additional financial requirements. These additional financial requirements may take the form of not being able to withdraw from the

Table of Contents

NDT fund for work performed, funding the work on the project through our own cash flows, increasing the letter of credit amount established for this project, or having the letter of credit drawn down by Exelon.

Cash flow from financing activities provided \$0.6 million during the nine month period ended September 30, 2012, due primarily to the issuance of common stock to an executive pursuant to his employment arrangement. This increase was offset by repayments of capital lease obligations and repurchases of our common stock to pay for taxes due upon the vesting of restricted stock awards.

Certain trends or uncertainties could have a material impact on our liquidity. For example, if interest rates increase substantially, that could dramatically increase our cash interest expense; if we are required to increase our bonding requirements on current or future projects it could materially impact our available liquidity under the Revolving Credit Facility; if the economy suddenly weakens or governments materially reduce future funding for nuclear remediation or D&D projects; these events could have a negative effect on our liquidity. Under certain terms and conditions of our senior secured credit facility, we have the ability, absent an event of default, to increase the size of our senior secured credit facility up to an additional \$150.0 million. We do not anticipate the need to access this incremental commitment in our senior secured credit facility. Furthermore, we have the ability to hedge interest rate and foreign currency fluctuations, and we actively monitor these markets in order to mitigate our exposure to these risks. Our principal needs for liquidity have been, and will continue to be, for working capital, to pay down debt and for capital expenditures.

We had accumulated benefit obligations related to the U.K. pension plans of \$3.4 billion as of December 31, 2011. See Note 19 to our audited consolidated financial statements included in our 2011 Annual Report on Form 10-K for the year ended December 31, 2011 for a more detailed discussion. The Magnox pension plan is funded by contributions from employees and the NDA pursuant to a contractual arrangement. As a result, we are reimbursed for contributions made to the Magnox pension plan under the terms of the contract. Thus, we have no potential net funding requirements relative to the accumulated benefit obligation of the Magnox pension plan. Our liquidity is not affected by these contributions as they are only made when we have received the funds from the NDA. We are required to fund the pension plan for our employees of EnergySolutions EU Limited, a wholly owned subsidiary of EnergySolutions, Inc. This plan is currently funded by contributions from us and from those employees.

**Senior Secured Credit Facility and Senior Notes**

On August 13, 2010, we entered into a senior secured credit facility with JPMorgan Chase Bank, N.A., as the administrative and collateral agent, consisting of a senior secured term loan (the *Term Loan*) in an aggregate principal amount of \$560 million at a discount rate of 2.5%, and a senior secured revolving credit facility (the *Revolving Credit Facility*) with availability of \$105.0 million, of which \$50.7 million was used to fund letters of credit issued as of September 30, 2012. Borrowings under the senior secured credit facility bear interest at a rate equal to: (a) Adjusted LIBOR plus 4.50%, or ABR plus 3.50% in the case of the Term Loan; (b) Adjusted LIBOR plus 4.50%, or ABR plus 3.50% in the case of the Revolving Credit Facility, and (c) a per annum fee equal to the spread over Adjusted LIBOR under the Revolving Credit Facility, along with a fronting fee and issuance and administration fees in the case of revolving letters of credit. The proceeds of the senior secured credit facility were used to repay outstanding indebtedness under former credit agreements, collateralize reimbursement obligations to the deposit issuing banks with respect to deposit letters of credit, replace synthetic letters of credit issued under former credit agreements, and provide credit support for obligations acquired under the agreements with Exelon. As of September 30, 2012, borrowings equivalent to \$310.7 million, under the Term Loan, were held in a restricted cash account as collateral for our reimbursement obligations with respect to deposit letters of credit.

The Term Loan amortizes in equal quarterly installments of \$1.3 million payable on the last day of each calendar quarter with the balance being payable on August 13, 2016. In addition to the scheduled repayments, we are required to prepay borrowings under the senior secured credit

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

facility with (1) 100% of the net cash proceeds received from non-ordinary course asset sales or other dispositions, or as a result of a casualty or condemnation, subject to reinvestment provisions and other customary adjustments, (2) 100% of the net proceeds received from the issuance of debt obligations other than certain permitted debt obligations, (3) 50% of excess cash flow (as defined in the senior secured credit facility), if the leverage ratio is equal to or greater than 3.0 to 1.0, or 25% of excess cash flow if the leverage ratio is less than 3.0 to 1.0 but greater than 1.0 to 1.0, reduced by the aggregate amount of optional prepayments of Term Loans made during the applicable fiscal year. If the leverage ratio is equal to or less than 1.0 to 1.0, we are not required to prepay the Term Loans. The excess cash flow calculations (as defined in the senior secured credit facility), are prepared annually as of the last day of each fiscal year. Prepayments of debt resulting from the excess cash flow calculations are due annually five days after the date that we file our Annual Report on Form 10-K for such fiscal year with the SEC.

As of September 30, 2012, we had mandatory principal repayments based on scheduled repayments of \$4.0 million due within the next 12 months. We have not made any principal repayments during 2012. During the nine month period ended September 30, 2011, we made principal repayments totaling \$15.2 million of which \$11.0 million was an optional prepayment. We made cash

Table of Contents

interest payments totaling \$58.7 million and \$65.4 million, during the nine month periods ended September 30, 2012 and 2011, respectively, related to all of our outstanding debt obligations as of those dates.

The senior secured credit facility requires us to maintain a leverage ratio (based upon the ratio of indebtedness for money borrowed to consolidated adjusted earnings, as defined in the senior secured credit facility) and an interest coverage ratio (based upon the ratio of consolidated adjusted earnings to consolidated cash interest expense), both of which are calculated quarterly. Failure to comply with these financial ratio covenants would result in an event of default under the senior secured credit facility and, absent a waiver or an amendment from the lenders, preclude us from making further borrowings under the senior secured credit facility and permit the lenders to accelerate repayment of all outstanding borrowings under the senior secured credit facility. Based on the formulas set forth in the senior secured credit facility, we are required to maintain a maximum total leverage ratio of 4.25 for the quarter ended September 30, 2012, which is reduced by 0.25 on an annual basis through the maturity date. We are required to maintain a minimum cash interest coverage ratio of 2.0 from the quarter ended September 30, 2012 through the quarter ended September 30, 2014 and 2.25 through the maturity date. As of September 30, 2012, our total leverage and cash interest coverage ratios were 2.63 and 3.0, respectively.

The senior secured credit facility also contains 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 senior secured credit facility, we are permitted maximum annual capital expenditures of \$40.0 million for 2012, and each year thereafter, plus for each year the lesser of (1) a one year carryforward of the unused amount from the previous fiscal year and (2) 50% of the amount permitted for capital expenditures in the previous fiscal year. The senior secured credit facility contains 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 senior secured credit facility. Capital expenditures for the nine month period ended September 30, 2012 were \$15.4 million. As of September 30, 2012, we were in compliance with all of the covenants under our senior secured credit facility.

The obligations under the senior secured credit facility are secured by a lien on substantially all of our assets and the assets of each of our domestic subsidiary guarantors, including a pledge of equity interests with the exception of the equity interests in our subsidiary *ZionSolutions*, LLC, and other special purpose subsidiaries, whose organizational documentation prohibits or limits such pledge.

On August 13, 2010, we also completed a private offering of \$300 million 10.75% senior notes at a discount rate of 1.3%. The senior notes are governed by an indenture among EnergySolutions, Inc., EnergySolutions, LLC, the guarantor parties thereto and Wells Fargo Bank, National Association, as trustee. Interest on the senior notes is payable semiannually in arrears on February 15 and August 15 of each year beginning on February 15, 2011. The senior notes rank in equal right of payment to all existing and future senior debt, and senior in right of payment to all future subordinated debt. In May 2011, we filed a registration statement under the Securities Act, pursuant to a registration rights agreement entered into in connection with the senior notes offering. The SEC declared the registration statement relating to the exchange offer effective on May 27, 2011, and the exchange of the registered senior notes for the unregistered senior notes was consummated on May 31, 2011. We did not receive any proceeds from the exchange offer transaction.

At any time prior to August 15, 2014, we are entitled to redeem all or a portion of the senior notes at a redemption price equal to 100% of the principal amount of the senior notes plus an applicable make-whole premium, as of, and accrued and unpaid interest to, the redemption date. In addition, prior to August 15, 2013, we may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds from certain public equity offerings at a redemption price of 110.75% of the principal amount, plus accrued and unpaid interest to the date of redemption. In addition, on or after August 15, 2014, we may redeem all or a portion of the senior notes at the following redemption prices during the 12-month period commencing on August 15 of the years set forth below, plus accrued and unpaid interest to the redemption date.



<b>Period</b>	<b>Redemption Price</b>
2014	105.375%
2015	102.688%
2016 and thereafter	100.000%

The senior notes are guaranteed on a senior unsecured basis by all of our domestic restricted subsidiaries that guarantee the senior secured credit facility. The senior notes and related guarantees are effectively subordinated to our secured obligations, including the senior secured credit facility and related guarantees, to the extent of the value of assets securing such debt. The senior notes are structurally subordinated to all liabilities of each of our subsidiaries that do not guarantee the senior notes. If we experience a change

Table of Contents

in control, each holder will have the right to require that we purchase all or a portion of such holder's senior notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest to the date of the purchase. The indenture contains, among other things, certain covenants limiting our ability, and the ability of one restricted subsidiary, to incur or guarantee additional indebtedness, pay dividends or make other restricted payments, make certain investments, create or incur liens, sell assets and subsidiary stock, transfer all or substantially all of our assets, or enter into a merger or consolidation transactions and enter into transactions with affiliates.

***Exelon Agreement***

In September 2010, we entered into an arrangement, through our subsidiary *ZionSolutions*, LLC, with Exelon to dismantle the Zion Station nuclear power plant which ceased operation in 1998. Upon closing, Exelon transferred to *ZionSolutions* substantially all of the assets (other than land) associated with the Zion Station, including all assets held in its NDT fund. In consideration for Exelon's transfer of those assets, *ZionSolutions* agreed to assume decommissioning and other liabilities associated with Zion Station. *ZionSolutions* also took possession and control of the land associated with Zion Station pursuant to a lease agreement executed at the closing. *ZionSolutions* is under contract to complete the required decommissioning work according to an established schedule, and to construct a dry cask storage facility on the land for the spent nuclear fuel currently held in spent fuel pools at the Zion Station. Exelon retains ownership of the land and the spent nuclear fuel and associated operational responsibilities following completion of the Zion Station D&D project. The Nuclear Regulatory Commission (NRC) approved the transfer of the facility operating licenses and conforming license amendments from Exelon to *ZionSolutions*.

To satisfy the conditions of the arrangement between *ZionSolutions* and Exelon, and to fulfill the requirements of the NRC to approve the license transfer, we (i) secured a \$200 million letter of credit facility, (ii) granted an irrevocable easement of disposal capacity of 7.5 million cubic feet at our Clive disposal facility and (iii) purchased the insurance coverages required of a licensee under the NRC's regulations.

We provided a guarantee as primary obligor to the full and prompt payment and performance by *ZionSolutions* of all its obligations under the various agreements with Exelon. We also pledged 100% of our interests in *ZionSolutions* to Exelon. In addition, we were required to obtain a \$200 million letter of credit facility to further support the D&D activities at the Zion Station. If we exhaust our resources and ability to complete the D&D activities, and in the event of a material default (as defined within the Credit Support Agreement), Exelon may exercise its rights to take possession of *ZionSolutions*. At that point, through their ownership of *ZionSolutions*, Exelon (not the Company) would then be entitled to draw on the funds associated with the letter of credit. Under the terms of our financing arrangements, we obtained restricted cash and took on the liability for the letter of credit facility.

**Off Balance Sheet Arrangements**

As of September 30, 2012, we had routine operating leases, primarily related to real estate and rail equipment and investments in joint ventures.

As of September 30, 2012, we had an outstanding variable rate term loan of \$527.0 million. Under our senior secured credit facility, we are required to maintain one or more hedge agreements bearing interest at a fixed rate in the aggregate notional amount of no less than 50% of the outstanding principal amounts of our long term debt net of restricted cash. We were not required to enter into new hedge agreements because the outstanding balances under our senior notes bear interest at a fixed rate of 10.75% and totaled \$300.0 million as of September 30, 2012, which is 58.1% of our outstanding long term debt net of restricted cash.

From time to time, we are required to post standby letters of credit and surety bonds to support certain contractual obligations to our customers, self-insurance programs, closure and post-closure financial assurance, as well as other obligations. As of September 30, 2012, we had \$307.2 million in deposit letters of credit issued under our senior secured credit facility and \$50.7 million of letters of credit issued against our \$105.0 million Revolving Credit Facility. As of September 30, 2012, we had \$27.5 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, 2012, the closure and post-closure requirements for our facilities were \$144.8 million.

Table of Contents

**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 U.S. generally accepted accounting principles. 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 2011 Annual Report.

***Recoverability of Long-Lived Assets, Including Goodwill***

As of September 30, 2012 and December 31, 2011, we had recorded \$308.2 million and \$306.4 million, respectively, of goodwill related to domestic and foreign acquisitions. Goodwill related to the acquisitions of foreign entities is translated into U.S. dollars at the exchange rate in effect at the balance sheet date. The related translation gains and losses are included as a separate component of stockholders' equity in accumulated other comprehensive loss in the condensed consolidated balance sheets. For the nine month periods ended September 30, 2012 and 2011, we recorded translation gains of \$1.9 million and \$1.8 million, respectively, related to goodwill denominated in foreign currencies.

In accordance with authoritative guidance for accounting for Goodwill and Other Intangible Assets, we perform an impairment test on our goodwill annually, as of April 1, or more often when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit below its carrying value. Goodwill is assigned to each of our reporting units based on which of the reporting units derive the benefits of an acquired company. If multiple reporting units benefit from an acquisition, goodwill is allocated to each reporting unit based on an allocation of revenue between the reporting units at the acquisition date.

We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using a combined income and market approach. Forecasts of future cash flow utilized in the income approach are based on our best estimate of future net revenue and operating expenses, based primarily on pricing, market segment share, volume of activity and general economic conditions. Changes in these forecasts could significantly change the calculated fair value of a reporting unit. The market approach is calculated based on market multiples for comparable companies as applied to our company-specific metrics.

Due to adverse stock market conditions, change in management, decreased earnings guidance and a debt rating downgrade that occurred during the latter part of the second quarter of 2012, our stock price and corresponding market capitalization declined significantly. This decline in share price during the second quarter of 2012 prompted us to perform an interim goodwill impairment test as of June 30, 2012. While the stock price increased in the third quarter of 2012 the level was still such that we determined it was necessary to perform a goodwill impairment analysis as of September 30, 2012. Based on the first step of the analysis each of our reporting units' fair value exceeded their carrying value. However, the fair value of the International reporting unit exceeded its carrying value by less than 5% using a weighted average discount rate of 20.0% and a residual growth rate of 2.5%. The goodwill balance of our International reporting unit was \$55.0 million as of September 30, 2012. A hypothetical increase in the weighted average discount rate of 0.5% would decrease the calculated fair value as a percentage of book value for the International reporting unit by 1.4%. A hypothetical decrease in the residual growth rate of 0.5% would decrease the calculated fair value as a percent of book value for the International reporting unit by 1.4%. The calculated fair value of each of our other reporting units exceeded the

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

reporting unit's book value by amounts greater than 5% of their book value. Although the fair value of each of the reporting units currently exceeds their carrying value, a deterioration of market conditions, an adverse change in regulatory requirements, reductions in government funding, failure to win new business or re-bids of current contracts or a continuation of the decline in our stock price and corresponding market capitalization could result in a future impairment loss.

The goodwill balances of our Government Group, Commercial Services and LP&D reporting units as of September 30, 2012 were \$72.6 million, \$90.1 million and \$90.5 million, respectively. Based on a goodwill impairment analysis performed as of September 30, 2012, the fair value of these reporting units exceeded their carrying value by approximately 11.2%, 8.8% and 11.1%, respectively. Since the estimated fair value of the reporting units was in excess of their book value, it was not necessary to perform the second step of the goodwill impairment test.

Due to adverse stock market conditions that existed during the third and fourth quarter of 2011, our stock price and corresponding market capitalization declined significantly. This decline prompted us to perform an interim goodwill impairment test as of December 31, 2011, and as a result, we recorded a non-cash goodwill impairment charge for the Government Group and LP&D reporting units totaling \$174.0 million during the quarter ended December 31, 2011. Of the \$174.0 million, \$34.0 million was related to the Government Group and \$140.0 million was related to our LP&D reporting unit. This non-cash charge reduces goodwill.

Table of Contents

recorded in connection with previous acquisitions and does not impact our overall business operations, cash position, operating cash flow or debt covenants.

We measured the fair value of the Government Group and LP&D by using an equal weighting of the fair value implied by a discounted cash flow analysis and by comparisons with the market values of similar publicly traded companies. We believe the blended use of both models compensates for the inherent risk associated with either model if used on a stand-alone basis, and this combination is indicative of the factors a market participant would consider when performing a similar valuation. The discounted cash flow analysis calculated the fair value of the Government Group and LP&D using management's business plans and projections as the basis for expected cash flows for the next four years and a 2.5% residual growth rate thereafter. We also used a weighted average discount rate of 17% for the analysis for both the Government Group and LP&D. Other significant estimates used in the discounted cash flow analysis include the profitability of the respective reporting units and working capital effects.

The goodwill balances of our Commercial Services and International reporting units as of December 31, 2011 were \$90.1 million and \$53.1 million, respectively. Based on a preliminary goodwill impairment analysis performed as of December 31, 2011, the fair value of these reporting units exceeded their carrying value by approximately 40% and 33%, respectively. Since the estimated fair value of the reporting units was in excess of their book value, it was not necessary to perform the second step of the goodwill impairment test.

Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. We assess the useful lives of other intangible assets to determine whether events or circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized prospectively over the revised remaining useful life. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives and reviewed for impairment whenever events or circumstances indicate that the carrying value of such assets may not be recoverable.

Intangible assets subject to amortization consist of customer relationships, licenses and permits, technology, and non-compete agreements. Customer relationships, which include the fair value of acquired customer contracts, were evaluated for each reporting unit using a discounted cash flow methodology and are amortized on a straight-line basis over a term of two to twelve years. Estimated future cash flows for each operating segment were derived based on detailed budgets and projections prepared by management. Licenses and permits were evaluated for each licensed facility using a replacement cost methodology. Also, due to the unique characteristics of our Utah disposal facility permits, we also included an opportunity cost reflecting an estimate of earnings that would be lost if we had to replace the licenses and permits as opposed to having acquired them. Licenses and permits are either amortized over the definite terms of the related agreements or over the remaining useful lives of the related intangible asset, typically 20 to 25 years. Estimates of replacement costs were determined by management taking into consideration the cost of labor and other costs needed to meet regulatory requirements to obtain and maintain the licenses or permits. Estimates of opportunity cost were determined by management after considering estimated cash flows for the business generated with the licenses and permits offset by contribution asset charges for other assets of the business that also contribute to cash flow generation. Technology and non-compete agreements were evaluated using a discounted cash flow methodology. Intangible technology assets are amortized on a straight-line basis over a term of nine to ten years and non-compete agreements are amortized over the terms of the contracts. Estimated future cash flows for each technology and non-compete agreement were derived based on detailed budgets and projections prepared by management.

Long-lived assets such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount of excess carrying value over fair value.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We believe there has been no material change in our exposure to market risk from that discussed in our 2011 Annual Report.

Table of Contents

**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

Our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) are effective as of September 30, 2012, based upon their evaluation of those controls and procedures required by paragraph (b) of Rule 13a-15 or Rule 15d-15 of the Exchange Act.

*Changes in Internal Control Over Financial Reporting*

During the second quarter of 2012 we implemented an enterprise resource planning ( ERP ) system for the majority of our U.K. operations. In the period of implementation, we were required to rely on certain compensating controls to help validate information generated within the ERP system such as additional validation of underlying data and additional data analyses. Throughout the ERP system stabilization period, we will continue to improve and enhance our system of internal control over financial reporting such that certain of these compensating controls may no longer be necessary. Our current system of internal controls over financial reporting continues to provide reasonable assurance that our financial reporting is accurate and our established policies are followed.

**PART II**

**Item 1. Legal Proceedings.**

Except as set forth below, there have been no material developments to the legal proceedings disclosed under Part I, Item 3. Legal Proceedings in our 2011 Annual Report. The following discussion regarding our anticipated settlement arrangements and reaching agreements in principle with respect thereto, as well as our expectations regarding their impact on our financial position, results of operations and cash flows, are forward-looking in nature. For additional information on the known and unknown risks that could affect our actual results, please see

Cautionary Statement Regarding Forward-Looking Statements under Part 1, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in this report.

*False Claim Act Proceeding*

On September 14, 2012, we and the plaintiffs in the False Claim Act proceeding previously disclosed and discussed in our 2011 Annual Report reached an agreement in principle to resolve all claims made by the plaintiffs in their complaint underlying the proceeding. The agreement does not contain an admission of guilt or other wrongdoing on the part of the Company, or our officers, directors or affiliates. The confidential settlement arrangement, the final terms of which are subject to the approval of the U.S. government, is not expected to have a material adverse



effect on our financial position, results of operations or cash flows.

*City of Roseville Employees Retirement System v. EnergySolutions, Inc., et al. and Shareholder Derivative Actions*

On October 12, 2012, we and the plaintiffs in the proceeding concerning the disclosures made in connection with our November 2007 initial public offering and July 2008 secondary offering, which proceeding has been previously disclosed and discussed by us in our 2011 Annual Report, reached an agreement in principle to resolve all claims made by the plaintiffs in their complaint underlying the proceeding. The agreement will also resolve the shareholder derivative actions filed by Messrs. Israni (which was voluntarily dismissed on October 9, 2012) and Fish, which actions have been previously disclosed and discussed by us in our 2011 Annual Report and were based on substantially the same underlying facts concerning our initial and secondary public offerings described above. The agreement does not contain an admission of guilt or other wrongdoing on the part of the Company, or our officers, directors or affiliates. The confidential settlement arrangement, the final terms of which are subject to mutually acceptable documentation and customary court approvals, is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors.**

There have been no material changes to the risk factors disclosed under Part I, Item 1A. Risk Factors in our 2011 Annual Report and Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information with respect to shares of restricted stock granted under the EnergySolutions, Inc. 2007 Equity Incentive Plan that we withheld upon vesting to satisfy our tax withholding obligations during the three month period ended September 30, 2012.

Table of Contents

<b>Period</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Program</b>
July 1, 2012 - July 31, 2012		\$		
August 1, 2012 - August 31, 2012		\$		
September 1, 2012 - September 30, 2012	10,089	\$ 2.89		

---

(1) Shares cancelled as payment for minimum statutory withholding taxes upon the vesting of restricted stock issued pursuant to the EnergySolutions, Inc. 2007 Equity Incentive Plan.

Table of Contents

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS *	XBRL Instance Document.
101.SCH *	XBRL Taxonomy Extension Schema.
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF *	XBRL Taxonomy Extension Definition Linkbase.
101.LAB *	XBRL Taxonomy Extension Label Linkbase.
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase.

---

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under these sections.

Table of Contents

**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 9th day of November, 2012.

ENERGYSOLUTIONS, INC.

By:

/s/ GREGORY S. WOOD  
Gregory S. Wood  
*Executive Vice President and  
Chief Financial Officer*

Table of Contents

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS *	XBRL Instance Document.
101.SCH *	XBRL Taxonomy Extension Schema.
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF *	XBRL Taxonomy Extension Definition Linkbase.
101.LAB *	XBRL Taxonomy Extension Label Linkbase.
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase.

---

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under these sections.