

EnergySolutions, Inc.  
Form 10-Q  
August 07, 2009

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

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**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 June 30, 2009

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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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 August 7, 2009, 88,323,708 shares of registrant's common stock were outstanding.

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**EnergySolutions, Inc.**

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Table of Contents**PART I****Item 1. Financial Statements****EnergySolutions, Inc.****Condensed Consolidated Balance Sheets****June 30, 2009 and December 31, 2008**

(in thousands of dollars)

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 49,889	\$ 48,448
Accounts receivable, net of allowance for doubtful accounts	322,088	213,037
Costs and estimated earnings in excess of billings on uncompleted contracts	68,089	59,545
Income tax receivable	6,609	5,537
Inventories	12,066	11,218
Prepaid expenses	10,240	19,109
Other current assets	22,090	34,363
 Total current assets	 491,071	 391,257
Property, plant and equipment, net	112,826	114,021
Goodwill	528,254	528,254
Other intangible assets, net	343,566	357,100
Restricted cash and decontamination and decommissioning deposits	25,690	31,712
Other noncurrent assets	166,918	128,368
 Total assets	 \$ 1,668,325	 \$ 1,550,712
<b>Liabilities and Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 8,831	\$ 2,954
Accounts payable	121,172	89,513
Accrued expenses and other current liabilities	224,367	177,439
Deferred income taxes	2,068	2,067
Unearned revenues	20,158	26,734
 Total current liabilities	 376,596	 298,707
Long-term debt, less current portion	546,182	563,803
Pension liability	147,108	104,897
Facility and equipment decontamination and decommissioning liabilities	62,152	65,904
Deferred income taxes	41,924	41,385
Other noncurrent liabilities	5,732	7,197
 Total liabilities	 1,179,694	 1,081,893
 Commitments and contingencies		

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EnergySolutions stockholders' equity:

Preferred stock, \$0.01 par value, 100,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value, 1,000,000,000 shares authorized; 88,305,674 shares issued and outstanding	883	883
Additional paid-in capital	483,183	482,042
Accumulated other comprehensive income	8,023	4,895
Capital deficiency	(4,577)	(20,034)
Total EnergySolutions stockholders' equity	487,512	467,786
Noncontrolling interests	1,119	1,033
Total equity	488,631	468,819
Total liabilities and equity	\$ 1,668,325	\$ 1,550,712

See accompanying notes to condensed consolidated financial statements.

Table of Contents**EnergySolutions, Inc.****Condensed Consolidated Statements of Operations and Comprehensive Income****Three and Six Months Ended June 30, 2009 and 2008**

(in thousands of dollars, except per share information)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	\$ 373,585	\$ 460,345	\$ 810,694	\$ 962,098
Cost of revenues	327,257	398,375	713,768	826,595
Gross profit	46,328	61,970	96,926	135,503
Selling, general and administrative expenses	30,320	30,025	61,099	58,287
Income from operations	16,008	31,945	35,827	77,216
Interest expense	(7,465)	(11,934)	(15,421)	(24,472)
Other income (expenses), net	1,494	242	2,227	(1,819)
Income before income taxes and noncontrolling interests	10,037	20,253	22,633	50,925
Income tax expense	(2,351)	(7,153)	(6,625)	(18,337)
Net income	\$ 7,686	\$ 13,100	\$ 16,008	\$ 32,588
Less: Net income attributable to noncontrolling interests	(356)	(505)	(551)	(700)
Net income attributable to EnergySolutions	\$ 7,330	\$ 12,595	\$ 15,457	\$ 31,888
Net income attributable to EnergySolutions per share:				
Basic	\$ 0.08	\$ 0.14	\$ 0.18	\$ 0.36
Diluted	\$ 0.08	\$ 0.14	\$ 0.17	\$ 0.36
Shares used to calculate net income attributable to EnergySolutions per share:				
Basic	88,305,674	88,303,500	88,305,674	88,303,500
Diluted	88,493,274	88,310,022	88,328,023	88,310,022
Cash dividends declared per common share	\$ 0.025	\$ 0.025	\$ 0.050	\$ 0.050
Comprehensive income:				
Net income	\$ 7,686	\$ 13,100	\$ 16,008	\$ 32,588
Foreign currency translation adjustment	(20)	161	945	365
Change in unrecognized actuarial gain (loss)	85	2,449	2,183	336
Comprehensive income	7,751	15,710	19,136	33,289
Comprehensive income attributable to noncontrolling interests	(356)	(505)	(551)	(700)

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Comprehensive income attributable to EnergySolutions	\$	7,395	\$	15,205	\$	18,585	\$	32,589
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See accompanying notes to condensed consolidated financial statements.

**EnergySolutions, Inc.****Condensed Consolidated Statements of Cash Flows****Six Months Ended June 30, 2009 and 2008**

(in thousands of dollars)

(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net income attributable to EnergySolutions	\$ 15,457	\$ 31,888
Adjustments to reconcile net income attributable to EnergySolutions to net cash provided by operating activities:		
Net income attributable to noncontrolling interests	551	700
Depreciation and amortization	23,595	23,435
Equity-based compensation expense	5,545	4,960
Foreign currency transaction gain	(5,041)	(43)
Deferred income taxes	3,124	1,831
Amortization of debt financing fees and debt discount	2,063	1,478
Loss on disposal of property, plant and equipment	15	117
Unrealized loss on derivative contracts	6,834	3,957
Changes in operating assets and liabilities:		
Accounts receivable	(82,994)	(55,906)
Costs and estimated earnings in excess of billings on uncompleted contracts	(8,544)	(22,839)
Income tax receivable	(1,072)	2,359
Inventories	(848)	(1,833)
Prepaid expenses and other current assets	23,524	(18,839)
Accounts payable	19,266	30,657
Accrued expenses and other current liabilities	27,888	41,262
Unearned revenues	(6,592)	4,789
Facility and equipment decontamination and decommissioning liabilities	775	696
Restricted cash and decontamination and decommissioning deposits	1,475	1,969
Other noncurrent assets	(24,725)	(27,732)
Other noncurrent liabilities	24,218	23,525
Net cash provided by operating activities	24,514	46,431
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(8,226)	(5,680)
Purchases of intangible assets	(372)	
Proceeds from disposition of property, plant and equipment		27
Net cash used in investing activities	(8,598)	(5,653)
<b>Cash flows from financing activities</b>		
Repayments of long-term debt	(11,744)	(30,000)
Dividends/distributions to stockholders	(4,415)	(4,415)
Distributions to noncontrolling interests partners	(457)	(341)
Repayments of capital lease obligations	(709)	(793)
Net cash used in financing activities	(17,325)	(35,549)



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Effect of exchange rate on cash	2,850	647
Net increase in cash and cash equivalents	1,441	5,876
Cash and cash equivalents, beginning of period	48,448	36,366
Cash and cash equivalents, end of period	\$ 49,889	\$ 42,242

See accompanying notes to condensed consolidated financial statements.

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements**

(Unaudited)

**(1) Description of Business**

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

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

**(2) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring activities, considered necessary for a fair presentation have been included. We evaluated all subsequent events through the date that we filed these financial statements in our Form 10-Q Report with the Securities and Exchange Commission on August 7, 2009. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission on February 27, 2009.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of results that can be expected for the full year.

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(2) Basis of Presentation (Continued)**

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

Certain amounts for prior periods have been reclassified to conform to the current year presentation. Prior to the fourth quarter of 2008, we included letter of credit interest in cost of revenues and selling, general and administrative expenses. During the fourth quarter of 2008, we reclassified these amounts from operating expenses to interest expense in the accompanying condensed consolidated statements of operations. Accordingly, for the three and six months ended June 30, 2008, gross profit was increased by \$0.9 million and \$1.4 million, respectively, and income from operations was increased \$0.8 million and \$1.6 million, respectively as a result of this reclassification. We have also reclassified \$6.4 million from unearned revenues to accrued expenses and other current liabilities as of December 31, 2008 to conform to the current year presentation.

**(3) Recent Accounting Pronouncements**

***Accounting Pronouncements Recently Adopted***

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. SFAS No. 160 requires that noncontrolling (or minority) interests in subsidiaries be reported in the equity section of a company's balance sheet, rather than in a mezzanine section of the balance sheet between liabilities and equity. SFAS No. 160 also changes the manner in which the net income of a subsidiary is reported and disclosed in the controlling company's income statement. SFAS No. 160 also establishes guidelines for accounting for changes in ownership percentages and for deconsolidation. Pursuant to the transition provisions of SFAS No. 160, we adopted the statement on January 1, 2009 via retrospective application of the presentation and disclosure requirements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Pursuant to the transition provisions of the statement, we adopted SFAS No. 161 on January 1, 2009. The required disclosures are presented in Note 7 on a prospective basis. SFAS No. 161 does not impact the consolidated financial results as it is disclosure-only in nature.

In April 2009, the FASB issued three new FASB Staff Positions ("FSPs") all of which impact the accounting and disclosure related to certain financial instruments. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4) provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. It also includes guidance on identifying circumstances that

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(3) Recent Accounting Pronouncements (Continued)**

indicate a transaction is not orderly. FSP FAS 115-2 and FAS 124-2, "*Recognition of Other-Than-Temporary Impairment*" (FSP FAS 115-2 and FAS 124-2) amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 107-1 and APB 28-1 "*Interim Disclosures about Fair Value of Financial Instruments*" (FSP FAS 107-1 and APB 28-1) amends SFAS No. 107 to require disclosures about the fair value of financial instruments on an interim basis in addition to the annual disclosure requirements. We adopted all three FSPs as of April 1, 2009 and they did not have a material impact on our financial position, results of operations or cash flows during the three and six months ended June 30, 2009.

In May 2009, FASB issued SFAS No. 165, "*Subsequent Events*." This pronouncement establishes standards for accounting for and disclosing subsequent events (events which occur after the balance sheet date but before financial statements are issued or are available to be issued). SFAS No. 165 requires an entity to disclose the date through which subsequent events were evaluated and whether that evaluation took place on the date financial statements were issued or were available to be issued. We adopted SFAS No. 165 as of April 1, 2009 and the required disclosures are presented in Note 2. SFAS No. 165 does not impact the Company's financial position or results of operation as it is disclosure-only in nature.

***Accounting Pronouncements Issued But Not Yet Adopted***

In June 2009, the FASB issued SFAS No. 166, "*Accounting for Transfers of Financial Assets*" an amendment of SFAS No. 140. SFAS No. 166 is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Company is currently evaluating the potential impact of this statement but does not expect the adoption of SFAS No. 166 to have a material impact on the Company's results of operations, financial position or cash flows.

In June 2009, the FASB issued SFAS No. 167, "*Amendments to FASB Interpretation No. 46(R)*." SFAS No. 167 is intended to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), "*Consolidation of Variable Interest Entities*", as a result of the elimination of the qualifying special-purpose entity concept in SFAS No. 166, and (2) constituent concerns about the application of certain key provisions of FASB Interpretation 46(R), including those in which the accounting and disclosures under the interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Company is currently evaluating the potential impact of this statement but does not expect the adoption of SFAS No. 167 to have a material impact on the Company's results of operations, financial position or cash flows.

In June 2009, the FASB issued SFAS No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*." SFAS No. 168 will become the source of

Table of Contents**EnergySolutions, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(3) Recent Accounting Pronouncements (Continued)**

authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this statement, the codification will supersede all then existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the codification will become non-authoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of SFAS No. 168 to have a material impact on the Company's results of operations, financial position or cash flows.

**(4) Inventories**

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

	June 30, 2009	December 31, 2008
Parts and supplies	\$ 522	\$ 517
Work in process		3,050
Finished goods	11,544	7,651
	\$ 12,066	\$ 11,218

**(5) Goodwill and Other Intangible Assets**

As of June 30, 2009, we had recorded \$528.3 million of goodwill related to the acquisitions of Envirocare, Scientech, Duratek, BNGA, Safeguard, Parallax, RSMC, Nukem and Monserco. In accordance with SFAS No. 142, goodwill and other intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually, or more frequently, upon the occurrence of a triggering event. We completed our annual goodwill impairment test as of March 31, 2009 and we concluded that no impairment had occurred and the fair value of each reporting unit exceeded its carrying value; thus, no impairment was recognized.

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

	As of June 30, 2009			As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Useful Life
Permits	\$ 239,059	\$ (41,920)	20.3 years	\$ 239,059	\$ (36,995)	20.6 years
Customer relationships	182,436	(46,285)	8.8 years	182,436	(38,157)	9.1 years
Technology and other	14,851	(4,690)	6.5 years	14,479	(3,930)	6.7 years
Non competition	1,030	(915)	0.7 years	1,030	(822)	0.9 years
Total amortizable intangibles	\$ 437,376	\$ (93,810)	15.4 years	\$ 437,004	\$ (79,904)	15.5 years

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(5) Goodwill and Other Intangible Assets (Continued)**

For the three and six months ended June 30, 2009, amortization expense was \$7.0 million and \$13.9 million, respectively, as compared to \$7.2 million and \$14.4 million for the same periods in 2008. We do not have intangible assets that are not subject to amortization.

**(6) Senior Credit Facilities**

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

Borrowings under the credit facilities bear interest at a base rate (the greater of the Prime Rate or 0.5% higher than the Federal Funds Rate) plus an applicable margin or, at our option, the London Interbank Offered Rates ("LIBOR"), adjusted for the Eurodollar reserve percentage, plus an applicable margin. The applicable margin for base rate and LIBOR loans is 2.25%. As of June 30, 2009 and December 31, 2008, the interest rate of borrowings under the term loan facilities was 2.57% and 4.14%, respectively.

According to the terms of the credit agreements, at the end of each calendar quarter, we are required to make scheduled repayments of the term loans of approximately \$1.5 million, adjusted for optional prepayments made. In addition to the scheduled repayments, we may be required to make mandatory quarterly repayments, to be applied to the principal balance of the term loan, the amounts of which are dependent on our excess cash flow for the quarter and our leverage ratio as defined in the credit agreements. As of June 30, 2009, we have mandatory principal repayments based on our excess cash flow and scheduled repayments of \$8.8 million due within the next 12 months.

The credit facilities require us to maintain certain financial ratios, including maximum leverage ratios (based upon the ratios of total consolidated indebtedness and first lien indebtedness to consolidated operating cash flow) and a minimum cash interest coverage ratio (based upon the ratio of consolidated operating cash flow to consolidated cash interest expense), which are tested quarterly. Based on the formulas set forth in the credit agreements, we are required to maintain a maximum leverage ratio of 4.25 as of June 30, 2009, 4.0 as of September 30, 2009, 3.75 as of December 31, 2009 and 3.5 from March 31, 2010 through the maturity date; a maximum first lien leverage ratio of 3.75 as of June 30, 2009, 3.5 as of September 30, 2009, 3.25 as of December 31, 2009 and 3.0 from March 31, 2010 through the maturity date; and a minimum cash interest coverage ratio of 2.75 from June 30, 2009 through December 31, 2009 and 3.0 from March 31, 2010 through the maturity date. Failure to comply with these financial ratio covenants would result in a default under our credit facilities and, absent a waiver or an amendment from the lenders, preclude us from making further borrowings under our credit facilities and permit the lenders to accelerate all outstanding borrowings under the credit facilities. As of June 30, 2009, our total leverage, first lien leverage and interest coverage ratios were 3.69, 3.69 and 4.47, respectively. The credit agreements also contain annual capital expenditure limitations. For fiscal year 2009, the credit agreements require us to limit capital expenditures to \$45.0 million. Capital expenditures for the six months ended June 30, 2009 were \$8.2 million. As of June 30, 2009, we were in compliance with all of the covenants under our credit agreements.

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(6) Senior Credit Facilities (Continued)**

The obligations under the credit facilities are secured by substantially all of our assets and guaranteed by each of our existing and subsequently acquired or organized domestic subsidiaries.

During the six months ended June 30, 2009 and 2008, we made principal repayments totaling \$11.7 million and \$30.0 million, respectively, on the outstanding term loan facilities. Subsequent to June 30, 2009, we made an optional prepayment of \$30.0 million. During the six months ended June 30, 2009 and 2008, we made cash interest payments of \$13.7 million and \$23.0 million, respectively.

***Amendment Agreements***

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

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

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

In anticipation of the closing of this transaction, on July 16, 2008, we and our subsidiary, Duratek, Inc. ("Duratek"), entered into Amendment Agreements with our lenders under the current credit facilities. The Amendment Agreements provide that the existing credit agreements will be amended and restated in their entirety upon satisfaction of certain conditions including the closing of the transaction with Exelon.

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

The Amendment Agreements provide that the amended and restated credit facilities will include letter of credit fees of 2.50% with respect to letters of credit issued under each of the revolving loan

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(6) Senior Credit Facilities (Continued)**

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

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

**(7) Fair Value Measurements**

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*." This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 14, 2007. In February 2008, the FASB issued FSP FAS 157-2, "*Partial Deferral of the Effective Date of Statement 157*," which delays the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The FSP deferred the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. In accordance with this staff position, we adopted the provisions of SFAS No. 157 that became effective at the beginning of fiscal year 2008 with respect to financial assets and liabilities, which did not have an impact on our financial position, results of operations or cash flows. We adopted the provisions of SFAS No. 157 for non-financial assets and liabilities in the first quarter of 2009, which did not have a material impact on our financial position, results of operations or cash flows. This adoption impacts the way that we calculate fair value for our annual impairment review of goodwill and, when conditions exist, the way we calculate fair value of long-lived assets. This adoption, however, did not have a material impact on our financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board 28-1 "*Interim Disclosures about Fair Value of Financial Instruments*," which requires disclosures about fair value of financial instruments for interim periods as well as in annual financial statements.



Table of Contents**EnergySolutions, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(7) Fair Value Measurements (Continued)**

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

The fair market value of our debt is based on quoted market prices from the over-the-counter restricted market. As of June 30, 2009 and December 31, 2008, we had outstanding term loans with carrying amounts of \$555.0 million and \$566.8 million and with fair values of approximately \$516.2 million and \$430.7 million, respectively.

The fair value measurements of our derivative instruments are determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies, and are classified as Level II under the fair value hierarchy. As of June 30, 2009, the carrying amount of our foreign currency derivative and interest rate swap approximates fair value.

As of June 30, 2009 and December 31, 2008, we had no assets or liabilities considered to be Level 1 or Level 3. The following table discloses the Level 2 fair value of our interest rate and foreign currency derivative contracts outstanding at June 30, 2009 and December 31, 2008 that are included in accrued expenses and other current liabilities and other noncurrent liabilities in the accompanying balance sheets (in thousands):

	June 30, 2009	December 31, 2008
<b>Liabilities</b>		
Fair value of derivative contracts short term	\$ 6,156	\$ 521
Fair value of derivative contracts long term	1,460	261

**(8) Derivative Financial Instruments**

We have entered into derivative contracts to help offset our exposure to movements in interest rates in relation to our variable rate debt. As of June 30, 2009 and December 31, 2008, the fair value liability of the derivative contracts was \$1.5 million and \$0.3 million, respectively, which is included in other noncurrent liabilities in the accompanying balance sheets. These contracts are not designated as accounting hedges. Unrealized gains and losses resulting from adjustments to the fair value of the contracts are included in other income (expenses), net. We recognized losses of \$0.6 million and \$1.2 million for the three and six months ended June 30, 2009, respectively. We recognized gains of \$0.6 million and losses of \$2.2 million for the three and six months ended June 30, 2008, respectively. We do not use interest rate derivatives for trading or speculative purposes.

In addition, we have foreign currency exposure related to our operations in the UK as well as other foreign locations. Exchange gains and losses resulting from this exposure are included in other income (expenses) net, in the accompanying consolidated statements of operations. During the three and six months ended June 30, 2009, we recognized gains of \$6.7 million and \$5.7 million, respectively. During the three and six months ended June 30, 2008, we recognized losses of \$5,000 and \$0.8 million, respectively.

Table of Contents**EnergySolutions, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(8) Derivative Financial Instruments (Continued)**

We have entered into derivative contracts to help offset our exposure to movements in foreign currency rates in relation to our U.S. dollar denominated intercompany loan with our UK subsidiary. This foreign currency derivative contract is not designated as an accounting hedge. As of June 30, 2009, the fair value of the derivative was \$6.2 million, which is included in other current liabilities in the accompanying balance sheets. Unrealized gains and losses resulting from adjustments to the fair value of the contracts are included in other income (expenses), net and resulted in losses of \$6.3 million and \$5.6 million for the three and six months ended June 30, 2009 and losses of \$1.7 million for the three and six months ended June 30, 2008.

**(9) Net Income Per Share**

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Weighted average common shares basic	88,305,674	88,303,500	88,305,674	88,303,500
Dilutive effect of restricted stock and stock options	187,600	6,522	22,349	6,522
Weighted average common shares diluted	88,493,274	88,310,022	88,328,023	88,310,022
Anti-dilutive securities not included above	5,982,209	5,686,355	5,874,230	5,673,848

**(10) Equity-Based Compensation*****Profit Interests***

In prior years, certain members of our management were granted profit interest units in ENV Holdings LLC ("ENV Holdings"), formerly our parent, in consideration for services rendered during the vesting period. These units did not represent ownership in ENV Holdings but rather these units entitled the holders to distributions from ENV Holdings if a distribution was paid. There were several classes of units granted and each successive class carried a lower priority on distributions. Certain units vested immediately upon grant and others vested over periods up to three years. We estimated the fair value at grant date of the units issued using both a market and an income approach and recorded compensation expense of \$0.3 million for the six months ended June 30, 2009 and \$0.1 million and \$0.4 million for the three and six months ended June 30, 2008, respectively. There was no compensation expense recorded for the three months ended June 30, 2009 and there is no remaining unrecognized compensation expense associated with these units.

Table of Contents**EnergySolutions, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(10) Equity-Based Compensation (Continued)*****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 \$2.8 million and \$5.2 million during the three and six months ended June 30, 2009, respectively, and \$2.3 million and \$4.5 million during the three and six months ended June 30, 2008, respectively. As of June 30, 2009, we had \$20.1 million of unrecognized compensation expense related to outstanding stock options, which will be recognized over a weighted-average period of 2.6 years. As of June 30, 2009, there was \$2.8 million of unrecognized compensation cost related to non-vested restricted stock which is expected to be recognized over a weighted-average period of 3.0 years.

**(11) Pension Plans**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Service cost	\$ 8,360	\$ 12,623	\$ 16,126	\$ 25,283
Interest cost	37,118	46,546	71,596	93,232
Expected return on plan assets	(31,351)	(51,772)	(60,473)	(103,701)
	\$ 14,127	\$ 7,397	\$ 27,249	\$ 14,814

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

**(12) Income Taxes**

We recognized income tax expense of \$2.4 million and \$6.6 million for the three and six months ended June 30, 2009, respectively, based on an estimated annual effective tax rate on our consolidated operations of 30.0%. We recognized \$7.2 million and \$18.3 million for the three and six months ended June 30, 2008, respectively, based on an estimated annual effective tax rate on our consolidated operations of 36.5%. During the six months ended June 30, 2009 and 2008, we made income tax payments of \$6.7 million and \$10.7 million, respectively.

For the six months ended June 30, 2009 and 2008, we had no change in our unrecognized tax benefits under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109. As of June 30, 2009 and December 31, 2008, we had \$0.9 million of unrecognized tax benefits, which may impact our annual effective tax rate in future years. During the three months ended June 30, 2009, we recognized a discrete income tax benefit of \$0.6 million related to research and development activities in the UK.

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

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

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

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

	As of and for the Three Months Ended June 30, 2009					
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
Revenues from external customers(1)	\$ 74,721	\$ 23,106	\$ 61,614	\$ 214,144	\$	\$ 373,585
Income (loss) from operations	4,649	3,782	23,640	1,133	(17,196)	16,008
Depreciation and amortization expense	403	485	5,126	2,393	3,537	11,944
Purchases of property, plant and equipment	451	62	768	89	2661	4,031

	As of and for the Three Months Ended June 30, 2008					
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
Revenues from external customers(1)	\$ 73,124	\$ 26,225	\$ 63,044	\$ 297,952	\$	\$ 460,345
Income (loss) from operations	6,270	6,230	23,528	13,823	(17,906)	31,945
Depreciation and amortization expense	52	480	5,454	2,365	3,266	11,617
Purchases of property, plant and equipment	152	218	419	55	3,556	4,400

	As of and for the Six Months Ended June 30, 2009					
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
Revenues from external customers(1)	\$ 140,802	\$ 44,830	\$ 107,618	\$ 517,444	\$	\$ 810,694
Income (loss) from operations	10,265	6,960	35,403	19,641	(36,442)	35,827
Depreciation and amortization expense	627	846	10,539	4,769	6,814	23,595
Goodwill	143,514	90,129	233,193	61,418		528,254
Other long-lived assets(2)	35,522	19,541	222,690	92,547	86,092	456,392
Purchases of property, plant and equipment	3,968	264	115	111	3,767	8,226
Total assets(3)	276,163	149,034	547,430	507,562	188,136	1,668,325

	As of and for the Six Months Ended June 30, 2008					
	FS	CS	LP&D	International	Corporate Unallocated Items	Consolidated
Revenues from external customers(1)	\$ 117,711	\$ 56,820	\$ 117,159	\$ 670,408	\$	\$ 962,098
Income (loss) from operations	12,618	15,874	40,421	43,928	(35,625)	77,216
Depreciation and amortization expense	159	979	10,841	4,709	6,747	23,435
Goodwill	143,144	91,262	232,707	59,220		526,333
Other long-lived assets(2)	31,004	25,630	244,090	101,415	75,441	477,580

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Purchases of property, plant and equipment	177	389	786	183	4,145	5,680
Total assets(3)	253,116	152,091	612,299	571,417	139,264	1,728,187

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(1)

Intersegment revenues have been eliminated for the three and six months ended June 30, 2009 and 2008. Intersegment revenues were \$5.6 million and \$8.8 million for the three and six months ended June 30, 2009 and were not material for

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(13) Segment Reporting and Business Concentrations (Continued)**

the three and six months ended June 30, 2008. Revenues by segment represent revenues earned based on third-party billing to customers.

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

**(14) Employee Termination Benefits**

An organizational review of our Magnox sites identified an opportunity to reduce the existing workforce, primarily at three sites that are in the process of defueling, which involves removing fuel from the reactor, loading it into flasks and transporting it for processing with a third party and a site at which decommissioning is relatively close to completion with only a few projects remaining.

As a result of the overstaffing at the four Magnox sites, we presented a termination plan to the NDA to terminate approximately 200 employees on a voluntary basis at these sites in the quarter ended March 31, 2009. The termination plan and employee termination benefits to be paid for the voluntary termination of these employees in accordance with the Magnox Lifetime Plan, an agreement among Magnox, the employees and the trade unions, were pre-approved by the NDA Expenditure Review Panel during the six months ended June 30, 2009. All employee termination benefits are treated as part of the normal Magnox cost base and will be reimbursed by the NDA.

For the six months ended June 30, 2009, in accordance with SFAS No. 112, *Employers' Accounting for Postretirement Benefits*, we recognized expected employee termination benefits of \$31.6 million, which are included in cost of revenues in the accompanying condensed consolidated statements of operations for our International Segment. We have recognized a corresponding liability, which is included in accrued expenses and other current liabilities. In addition, we have recognized revenues and a receivable from the NDA for the reimbursement of the employee termination benefits. Benefits are expected to be paid over the next 15 months.

The following is a reconciliation of the beginning and ending liability balances (in thousands of dollars):

Beginning liability, December 31, 2008	\$
Employee termination benefits	31,638
Payments	(7,332)
Ending liability, June 30, 2009	\$24,306

**(15) 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 June 30, 2009, we are not involved in any legal proceedings that we believe would have a material adverse effect on our consolidated financial position, operating results and cash flows.

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**EnergySolutions, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

**(16) License Stewardship Program**

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

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

Prior to our announcement to defer the transfer of the Zion Station assets, we had anticipated that the closing of this transaction would occur in late third quarter or during the fourth quarter of 2008. Accordingly, we hired employees, entered into subcontracts and performed services for Exelon under a planning contract. Invoicing for some of these services provided is subject to the closing of the transaction. As of June 30, 2009 and December 31, 2008, we have incurred costs of \$13.5 million and \$12.4 million, respectively, which have been deferred until the closing of the transaction. Since we believe that it is probable that we will close or be granted an extension to close this transaction before December 31, 2009, we will continue to defer these costs until we close the transaction, at which time we will recognize the costs and related revenues. If we determine that it is not probable that we will close this transaction, we will expense these costs in the period of such determination. We have taken steps to reduce the monthly project costs including the termination of certain employees, transferring employees to other projects and the termination of certain subcontracts and lease agreements. Any costs relating to the termination of employees, subcontractors and lease or other agreements are expensed in the period terminated.

On May 4, 2009, the NRC issued an order approving the License Transfer subject to ZionSolutions satisfying the NRC that (i) the Zion letter of credit facility has been established, (ii) an irrevocable easement of disposal capacity of 7.5 million cubic feet has been established and (iii) the appropriate amount of insurance required of a licensee under the NRC's regulations has been obtained. If the License Transfer is not completed by May 4, 2010, the order approving the License Transfer expires; however, upon written application and for good cause shown, the expiration date may be extended by order of the NRC.

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

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

**Cautionary Statement Regarding Forward-Looking Statements**

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

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

Additional information concerning these and other factors can be found in our periodic filings with the Securities and Exchange Commission (the "SEC"), including our Form 10-K filed February 27, 2009 and this report under "Item 1A Risk Factors." 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 specialized, technology-based nuclear services to government and commercial customers. Our customers rely on our expertise to address their needs throughout the lifecycle of their nuclear operations. Our broad range of nuclear services includes engineering, operation of nuclear reactors, in-plant support services, spent nuclear fuel management, decontamination and decommissioning ("D&D"), logistics, transportation, processing and disposal. We derive almost 100% of our revenues from the provision of nuclear services.

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



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**Results of Operations**

The following table shows certain items from our income statements for the three and six months ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Federal Services Segment	\$ 74,721	\$ 73,124	\$ 140,802	\$ 117,711
Commercial Services Segment	23,106	26,225	44,830	56,820
LP&D Segment	61,614	63,044	107,618	117,159
International Segment	214,144	297,952	517,444	670,408
Total revenues	373,585	460,345	810,694	962,098
<b>Cost of revenues:</b>				
Federal Services Segment	66,669	64,018	123,781	100,489
Commercial Services Segment	17,462	18,240	34,240	37,255
LP&D Segment	35,802	36,951	67,820	71,488
International Segment	207,324	279,166	487,927	617,363
Total cost of revenues	327,257	398,375	713,768	826,595
<b>Gross profit:</b>				
Federal Services Segment	8,052	9,106	17,021	17,222
Commercial Services Segment	5,644	7,985	10,590	19,565
LP&D Segment	25,812	26,093	39,798	45,671
International Segment	6,820	18,786	29,517	53,045
Total gross profit	46,328	61,970	96,926	135,503
<b>Segment selling, general and administrative expenses:</b>				
Federal Services Segment	3,403	2,836	6,756	4,604
Commercial Services Segment	1,862	1,755	3,630	3,691
LP&D Segment	2,172	2,565	4,395	5,250
International Segment	5,687	4,963	9,876	9,117
Total segment selling, general and administrative expenses	13,124	12,119	24,657	22,662
<b>Segment operating income:</b>				
Federal Services Segment	4,649	6,270	10,265	12,618
Commercial Services Segment	3,782	6,230	6,960	15,874
LP&D Segment	23,640	23,528	35,403	40,421
International Segment	1,133	13,823	19,641	43,928
Total segment operating income	33,204	49,851	72,269	112,841
Corporate selling, general and administrative expenses	17,196	17,906	36,442	35,625
Total income from operations	16,008	31,945	35,827	77,216
Interest expense	(7,465)	(11,934)	(15,421)	(24,472)
Other income (expenses), net	1,494	242	2,227	(1,819)
Net income before income taxes and noncontrolling interests	10,037	20,253	22,633	50,925
Income tax expense	(2,351)	(7,153)	(6,625)	(18,337)
Net income	7,686	13,100	16,008	32,588
Less: Net income attributable to noncontrolling interests	(356)	(505)	(551)	(700)

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Net income attributable to EnergySolutions	\$ 7,330	\$ 12,595	\$ 15,457	\$ 31,888
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***Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008***

*Federal Services Segment*

Revenues and cost of revenues in our Federal Services segment increased \$1.6 million and \$2.7 million, respectively, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Gross profit decreased \$1.1 million while gross margin decreased to 10.8% for the three months ended June 30, 2009 from 12.5% for the three months ended June 30, 2008 primarily due to increased activity on lower margin contracts and decreased activity on higher margin contracts.

In June 2007, we were awarded a contract by the DOE to clean up the Atlas mill tailings near Moab, Utah. During the three months ended June 30, 2008, work on the contract was in the early stages. During the three months ended June 30, 2009, we performed significant work on the rail benches, increased excavation activities and began transporting mill tailings to the disposal cell. As a result, cost of revenues on the Moab contract increased \$9.4 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. The contract with the DOE allows for the reimbursement of costs plus a fee, resulting in increased revenues of \$10.8 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Thus, gross profit on the Moab contract increased \$1.4 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 due to the recognition of award fee.

Revenues related to engineering and technology projects within Federal Services increased \$5.6 million, cost of revenues increased \$5.4 million and gross profit increased \$0.2 million for the three months ended June 30, 2009 compared to June 30, 2008 due to two new projects we were awarded subsequent to the prior year quarter.

These increases were offset, in part, by a collective decrease of revenues, cost of revenues and gross profit of \$6.0 million, \$3.6 million and \$2.4 million, respectively, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 related to two contracts at the DOE Hanford site and our Savannah River site operations contract due to completion of contracts at these sites in June 2008. However, we continue to generate revenue through our share of income in the WRPS joint venture at the Hanford site and through work performed as subcontractor at the Savannah River site.

In addition, revenues and cost of revenues in our Uranium Disposition Services, LLC ("UDS") joint venture decreased \$9.9 million and \$9.7 million, respectively, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008, due to substantial completion of the construction phase of the project. Gross profit decreased \$0.2 million for the three months ended June 30, 2009 compared to June 30, 2008.

Segment selling, general and administrative expenses in our Federal Services segment increased \$0.6 million to \$3.4 million for the three months ended June 30, 2009 from \$2.8 million for the three months ended June 30, 2008. The increase is primarily attributable to higher administrative costs incurred during the second quarter of 2009.

*Commercial Services Segment*

Revenues and cost of revenues in our Commercial Services segment decreased \$3.1 million and \$0.8 million, respectively, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Gross profit decreased \$2.3 million while gross margin decreased to 24.4% for the three months ended June 30, 2009 from 30.4% for the three months ended June 30, 2008 due primarily to the relative profitability of the major projects being performed in each period.

Revenues and gross profit in our spent fuel operations decreased \$4.0 million and \$1.8 million, respectively, for the three months ended June 30, 2009 compared to the three months ended June 30,

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2008. This decrease was mostly attributable to the acceleration of work during the three months ended June 30, 2008 related to the closure of the Barnwell disposal site to states outside the Atlantic Compact in July 2008.

In addition, one of our large commercial engineering and technology waste container design and fabrication projects was completed in December 2008. This resulted in a decrease of revenues and gross profit of \$4.2 million and \$1.5 million, respectively, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008.

Revenues and gross profit in our commercial decommissioning services decreased \$1.8 million and \$1.3 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. This decrease was mostly attributable to changes in estimated costs on one of our percentage of completion projects due to delays related to weather conditions.

These decreases were offset, in part, by increased revenues and gross profit of \$5.6 million and \$1.1 million, respectively, in our large components operations for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 due to the substantial work completed on our Duke McGuire project.

In addition, revenues in our liquid waste processing division increased \$1.4 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 due to a higher demand for liners. As a result, cost of revenues and gross profit increased \$0.2 million and \$1.1 million, respectively, for the three months ended June 30, 2009 compared to June 30, 2008.

Segment selling, general and administrative expenses in our Commercial Services segment increased \$0.1 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008.

*LP&D Segment*

Revenues and cost of revenues in our LP&D segment decreased \$1.4 million and \$1.1 million, respectively, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Gross profit decreased \$0.3 million while gross margin increased to 41.9% for the three months ended June 30, 2009 from 41.4% for the three months ended June 30, 2008 due to a slight decrease in project administrative expenses.

Revenues related to our transportation services decreased \$1.2 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 due to lower shipments on major contracts. Cost of revenues related to our transportation services decreased \$1.2 million due to lower shipments and additional reductions in operating and overhead costs.

Revenues related to our manufacturing division decreased \$0.9 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 due to completion of a production contract of depleted uranium tubes on March 31, 2009. Cost of revenues related to our manufacturing division increased \$1.5 million due to higher overhead costs recorded during the second quarter due to excess capacity; thus, resulting in a disproportionate decrease in gross profit of \$2.4 million.

These decreases were offset, in part, by increased revenues and gross profit of \$1.4 million and \$3.2 million, respectively, for the three months ended June 30, 2009 compared to June 30, 2008 at our Clive, Utah facility mostly due to the disposal of a significant large components project during the second quarter of 2009.

Segment selling, general and administrative expenses in our LP&D segment decreased \$0.4 million to \$2.2 million for the three months ended June 30, 2009 from \$2.6 million for the three months ended June 30, 2008. The decrease is mostly attributable to reduced labor costs and insurance expense.

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*International Segment*

Revenues in our International segment decreased \$83.8 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Our revenues, prior to considering the effects of fluctuations in pound sterling exchange rates, decreased \$19.5 million. In addition, revenues decreased \$64.3 million due to the decline in the pound sterling exchange rates during the three months ended June 30, 2009 compared to the same period in 2008. Of the \$19.5 million decrease in revenues, our revenues from the Magnox contracts decreased \$21.1 million mostly due to lower reimbursable contract cost base. This decrease was offset, in part, by increased revenues of \$1.6 million related to our other UK operations.

Cost of revenues in our International segment decreased \$71.8 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Our cost of revenues, prior to considering the effects of fluctuations in pound sterling exchange rates, decreased \$11.6 million. In addition, cost of revenues decreased \$60.3 million due to the decline in the pound sterling exchange rates during three months ended June 30, 2009 compared to the same period in 2008. Of the \$11.6 million decrease in cost of revenues, our cost of revenues from the Magnox contracts decreased \$13.1 million primarily due to decreased labor and subcontractor costs. This decrease was offset, in part, by net increases in cost of revenues of \$1.6 million related to our other UK operations.

Gross profit in our International segment decreased \$12.0 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Our gross profit, prior to considering the effects of fluctuations in pound sterling exchange rates, decreased \$7.9 million. In addition, gross profit decreased \$4.1 million due to an increase in pound sterling exchange rates during the three months ended June 30, 2009 compared to the same period in 2008. Gross profit margin in our International segment was 3.2% for the three months ended June 30, 2009 compared to 6.3% for the three months ended June 30, 2008. The decrease in gross profit margin is due to lower efficiency fees recognized from our Magnox contracts with the NDA for the three months ended June 30, 2009 compared to the same period of 2008.

Segment selling, general and administrative expenses in our International segment increased \$0.7 million for the three months ended June 30, 2009 as compared to 2008 due to higher bid and proposal expenses.

*Corporate selling, general and administrative expenses*

Corporate selling, general and administrative expenses decreased \$0.7 million, or 4.0%, to \$17.2 million for the three months ended June 30, 2009 from \$17.9 million for the three months ended June 30, 2008. This decrease is primarily attributable to lower labor-related expenses and professional fees.

*Interest expense*

Interest expense decreased \$4.4 million, or 37.0% to \$7.5 million for the three months ended June 30, 2009 from \$11.9 million for the three months ended June 30, 2008. The decrease is primarily attributable to a decline in both our average borrowings outstanding and interest rates related to our credit facilities.

*Other income (expense), net*

Other income, net, increased \$1.3 million to \$1.5 million for the three months ended June 30, 2009 from \$0.2 million for the three months ended June 30, 2008. The increase is mostly attributable increases in our proportional share of income from our joint ventures in which we have a noncontrolling interest.

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*Income taxes*

We recognized income tax expense of \$2.4 million and \$7.2 million for the three months ended June 30, 2009 and 2008, respectively, based on an estimated annual effective tax rate on our consolidated operations of 30.0% and 36.5%, respectively. The decrease in the estimated annual effective tax rate is mostly due to the effect of research and development credits in the UK. During the three months ended June 30, 2009, we recognized a discrete income tax benefit of \$0.6 million related to research and development activities in the UK.

***Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008***

*Federal Services Segment*

Revenues and cost of revenues in our Federal Services segment increased \$23.1 million and \$23.3 million, respectively, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Gross profit decreased \$0.2 million while gross margin decreased to 12.1% for the six months ended June 30, 2009 from 14.6% for the six months ended June 30, 2008 primarily due to increased activity on lower margin contracts and decreased activity on higher margin contracts.

In June 2007, we were awarded a contract by the DOE to clean up the Atlas mill tailings near Moab, Utah. During the six months ended June 30, 2008, work on the contract was in the early stages. During the six months ended June 30, 2009, we performed significant work on the rail benches, increased excavation activities and began transporting tailings to the disposal cell. As a result, cost of revenues on the Moab contract increased \$17.8 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. The contract with the DOE allows for the reimbursement of costs plus a fee, resulting in increased revenues of \$20.1 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Thus, gross profit on the Moab contract increased \$2.3 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 due to the recognition of award fee.

Revenues related to engineering and technology projects within Federal Services increased \$14.5 million, cost of revenues increased \$12.3 million and gross profit increased \$2.2 million for the six months ended June 30, 2009 compared to June 30, 2008 due to two new projects we were awarded.

These increases were offset, in part, by a collective decrease of revenues, cost of revenues and gross profit of \$11.0 million, \$7.0 million and \$4.0 million, respectively, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 related to two contracts at the DOE Hanford site and our Savannah River site operations contract due to completion of contracts at these sites in June 2008. However, we continue to generate revenue through our share of income in the WRPS joint venture at the Hanford site and through work performed as subcontractor at the Savannah River site.

Segment selling, general and administrative expenses in our Federal Services segment increased \$2.2 million to \$6.8 million for the six months ended June 30, 2009 from \$4.6 million for the six months ended June 30, 2008. The increase is primarily attributable to higher bid and proposal costs due to work on several contract proposals during the six months ended June 30, 2009.

*Commercial Services Segment*

Revenues and cost of revenues in our Commercial Services segment decreased \$12.0 million and \$3.0 million, respectively, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Gross profit decreased \$9.0 million while gross margin decreased to 23.6% for the six months ended June 30, 2009 from 34.4% for the six months ended June 30, 2008 due primarily to the relative profitability of the major projects being performed in each period.

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Revenues and gross profit in our spent fuel operations decreased \$7.3 million and \$3.0 million, respectively, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. This decrease was mostly attributable to the acceleration of work during the six months ended June 30, 2008 related to the closure of the Barnwell disposal site to states outside the Atlantic compact in July 2008.

In addition, one of our large commercial engineering and technology waste container design and fabrication projects was completed in December 2008. This resulted in a decrease of revenues and gross profit of \$8.5 million and \$3.9 million, respectively, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008.

These decreases were offset, in part, by increased revenues of \$3.1 million in our liquid waste processing division for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 primarily due to a higher demand for liners. As a result, cost of revenues and gross profit increased \$1.3 million and \$1.9 million, respectively, for the six months ended June 30, 2009 compared to June 30, 2008.

In addition, revenues in our large components operation increased \$2.0 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 due to the substantial work completed on our Duke McGuire project. Cost of revenues related to our large components operations increased \$3.6 million. However, gross profit decreased \$1.5 million for the six months ended June 30, 2009 compared to June 30, 2008 as a result of the higher margin projects completed during the six months ended June 30, 2008 compared to the six months ended June 30, 2009.

Segment selling, general and administrative expenses in our Commercial Services segment decreased \$0.1 million to \$3.6 million for the six months ended June 30, 2009 from \$3.7 million for the six months ended June 30, 2008. The decrease is primarily attributable to lower business development and license stewardship costs.

### *LP&D Segment*

Revenues and cost of revenues in our LP&D segment decreased \$9.5 million and \$3.7 million, respectively, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Gross profit decreased \$5.9 million and gross margin decreased to 37.0% for the six months ended June 30, 2009 from 39.0% for the six months ended June 30, 2008 due to decreased revenues at our Clive, Utah facility.

Revenues at our Clive, Utah facility decreased \$8.7 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 as a result of decreased volumes of waste processed and disposed mostly due to the completion of two major decommissioning projects during the first quarter of 2008. This decrease in revenues resulted in a decrease of cost of revenues of \$3.4 million related to lower taxes, fees and equipment costs mostly attributable to the lower volumes of waste processed and disposed. The majority of costs at our Clive, Utah facility are fixed, resulting in a disproportionate decrease in cost of revenues when compared to revenues. As a result, gross profit decreased \$5.3 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008.

Revenues related to our transportation services decreased \$2.3 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 due to lower shipments on major contracts. Cost of revenues related to our transportation services decreased \$2.5 million due to lower shipments and additional reductions in operating and overhead costs, resulting in a \$0.2 million increase in gross profit for the six months ended June 30, 2009.

Revenues related to our manufacturing division decreased \$1.6 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 due to completion of a production

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contract of depleted uranium tubes on March 31, 2009. Cost of revenues related to our manufacturing division increased \$1.3 million due to higher overhead costs recorded during the second quarter due to excess capacity; thus, resulting in a disproportionate decrease in gross profit of \$2.9 million.

These decreases were offset, in part, by increased revenues of \$4.2 million for the six months ended June 30, 2009 compared to June 30, 2008 at our Bear Creek, Tennessee facility as a result of increased receipts of waste and processing of backlog carried over from 2008 during the six months ended June 30, 2009. The majority of costs at our Bear Creek, Tennessee facility are fixed, resulting in an increase in gross profit of \$3.2 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008.

Segment selling, general and administrative expenses in our LP&D segment decreased \$0.9 million to \$4.4 million for the six months ended June 30, 2009 from \$5.3 million for the six months ended June 30, 2008. The decrease is mostly attributable to reduced labor costs, insurance expense, taxes and costs related to business development activities.

*International Segment*

Revenues in our International segment decreased \$153.0 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Our revenues, prior to considering the effects of fluctuations in pound sterling exchange rates, increased \$14.9 million mostly due to increased reimbursable contract cost base on our Magnox contracts. However, this increase was offset by a \$167.9 million decrease due to a decline in the pound sterling exchange rates during the six months ended June 30, 2009 compared to the same period in 2008. Of the \$14.9 million increase in revenues, our revenues from the Magnox contracts increased \$10.1 million mostly due to higher reimbursable contract cost base. In addition, revenues related to our other UK operations increased \$4.8 million.

Cost of revenues in our International segment decreased \$129.4 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Our cost of revenues, prior to considering the effects of fluctuations in pound sterling exchange rates, increased \$24.8 million. However, this increase was offset by a \$154.2 million decrease due to a decline in the pound sterling exchange rates during the six months ended June 30, 2009 compared to the same period in 2008. The increase of \$24.8 million is primarily due to an increase of \$31.6 million of employee termination benefits related to voluntary termination of approximately 200 employees at our Magnox sites offset by lower labor and subcontractor costs. Benefits for the voluntary termination of these employees are to be paid in accordance with the Magnox Lifetime Plan, which is an agreement with Magnox, the employees, and the trade unions. These termination benefits were pre-approved by the NDA Expenditure Review Panel in 2009.

Gross profit in our International segment decreased \$23.5 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Our gross profit, prior to considering the effects of fluctuations in pound sterling exchange rates, decreased \$9.9 million. In addition, gross profit decreased \$13.6 million due to a decline in pound sterling exchange rates during the six months ended June 30, 2009 compared to the same period in 2008. Gross profit margin in our International segment was 5.7% for the six months ended June 30, 2009 compared to 7.9% for the six months ended June 30, 2008. The decrease in gross profit margin is due to lower efficiency fees recognized from our Magnox contracts with the NDA for the six months ended June 30, 2009. Most of the efficiency fees related to the contract fiscal year ended March 31, 2008 were recognized during the three months ended March 31, 2008. For the contract fiscal year ended March 31, 2009, more of the efficiency fees were recognized in the quarter ended December 31, 2008 than in the same quarter of the prior year due to earlier achievement of milestones; thus, reducing the amount recognized during the six months ended June 30, 2009. We expect this trend to continue in future periods.



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Segment selling, general and administrative expenses in our International segment increased \$0.8 million for the six months ended June 30, 2009 and 2008 due to increased bid and proposal expenses relating to potential contracts in the United Kingdom and other administrative expenses.

*Corporate selling, general and administrative expenses*

Corporate selling, general and administrative expenses increased \$0.8 million, or 2.2%, to \$36.4 million for the six months ended June 30, 2009 from \$35.6 million for the six months ended June 30, 2008. This increase is primarily attributable to increased marketing and advertising expenses related to a television advertising campaign run during the first quarter of 2009 in Utah and increased legal fees primarily related to our declaratory judgment action with the Northwest Compact.

*Interest expense*

Interest expense decreased \$9.1 million, or 37.0%, to \$15.4 million for the six months ended June 30, 2009 from \$24.5 million for the six months ended June 30, 2008. The decrease is primarily attributable to a decline in both our average borrowings outstanding and interest rates related to our credit facilities.

*Other income (expense), net*

Other income, net, increased \$4.0 million, to net other income of \$2.2 million for the six months ended June 30, 2009 from net other expense of \$1.8 million for the six months ended June 30, 2008. The increase is mostly attributable to increases in our proportional share of income from our joint ventures in which we have a non-controlling interest of \$1.6 million and remeasurement gains of \$6.5 million on our US dollar denominated notes receivable with our UK subsidiary and other foreign currency transactions. These increases are offset, in part, by a decrease in the fair value of our foreign currency derivative contracts of \$3.9 million.

*Income taxes*

We recognized income tax expense of \$6.6 million and \$18.3 million for the six months ended June 30, 2009 and 2008, respectively, based on an estimated annual effective tax rate on our consolidated operations of 30.0% and 36.5%, respectively. The decrease in the estimated annual effective tax rate is mostly due to the effect of research and development credits in the UK. During the six months ended June 30, 2009, we recognized a discrete income tax benefit of \$0.6 million related to research and development activities in the UK.

**Liquidity and Capital Resources**

We finance our operations primarily through cash provided by operations. As of June 30, 2009, our principal sources of liquidity consisted of \$49.9 million of cash and cash equivalents and \$63.1 million of availability under the \$75.0 million revolving portion of our credit facilities, which is net of \$11.9 million of outstanding letters of credit. We also have a synthetic letter of credit facility of \$100.0 million, all of which was outstanding as of June 30, 2009.

During the six months ended June 30, 2009, our cash and cash equivalents increased \$1.4 million, to \$49.9 million. This compares to an increase in cash and cash equivalents of \$5.9 million for the six months ended June 30, 2008. During the six months ended June 30, 2009, we had net cash inflows from operating activities of \$24.5 million. Cash from operating activities for the six months ended June 30, 2009 included net income of \$15.5 million and significant non-cash expenses including depreciation and amortization expense of \$23.6 million and equity-based compensation expense of \$5.5 million. Cash from operating activities was also provided from increased accounts payable and accrued liabilities of \$47.2 million. The increase in accounts payable and accrued liabilities was primarily due to timing of

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payments to vendors of our Magnox contracts in the UK. Cash from operating activities was used by an increase in accounts receivable of \$83.0 million primarily due to timing of collections on work performed on our contracts with the NDA.

During the six months ended June 30, 2009, we had net cash outflows from investing activities of \$8.6 million, primarily related to purchases of property, plant and equipment. Our cash outflows from our financing activities were \$17.3 million, primarily related to repayment of debt and payment of dividends to stockholders.

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

We have accumulated benefit obligations related to our pension plans of \$2.4 billion as of December 31, 2008. See Note 19 to our audited consolidated financial statements included in the Form 10-K filed February 27, 2009 for a more detailed discussion. Approximately 99% of the accumulated benefit obligation relates to the Magnox North and Magnox South pension plans (the "Magnox Plans"). The Magnox Plans are 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 Plans under the terms of these contracts. Thus, we have no potential net funding requirements relative to the accumulated benefit obligation. The plan we are required to fund related to our employees of Reactor Sites Management Company Limited, a wholly-owned subsidiary in the UK, is currently funded by regular monthly payroll contributions from us and the employees. This will be the sole source of funding until at least mid-2010 at which time the next triennial valuation of the plan will be completed. Therefore, we do not expect there to be any implications to our liquidity within the next 12 months resulting from potential incremental cash payments to maintain funding requirements.

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

***Capital Expenditures***

We had capital expenditures of \$8.2 million and \$5.7 million for the six months ended June 30, 2009 and 2008, respectively. This increase of \$2.5 million is mostly attributable to equipment required for the Atlas mill tailings contract and equipment and capitalizable implementation costs for a new enterprise resource planning system (Oracle EBS R12). We expect capital expenditures for the year ending December 31, 2009 will be approximately \$26.0 million, which is in compliance with the debt covenants of our credit agreement, relating primarily to the capitalizable implementation costs of Oracle EBS R12 and equipment to be used at our decommissioning sites and at our facilities. We anticipate the sources of funds for our anticipated capital expenditures will come from cash flows provided by our operating activities.

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***Credit Facilities***

We have entered into credit facilities with Citicorp North America, Inc., or CNAI, as administrative agent and collateral agent. Our credit facilities consist of a \$75.0 million revolving credit facility, which matures on June 7, 2011, and a total of \$770.0 million in term loan facilities, which mature on June 7, 2013, and a \$100.0 million synthetic letter of credit facility, which expires on June 7, 2013.

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

Borrowings under the credit facilities bear interest at a rate equal to (1) in the case of the first lien term loans, (i) the greater of the rate of interest announced by CNAI, from time to time, as its prime rate in effect at its principal office in the city of New York, and the federal funds rate plus 0.50% per annum (the "base rate"), plus 0.75% (or 0.50% when the leverage ratio (as defined in the credit agreements) as of the most recently completed fiscal quarter is less than 2.0 to 1.0) or (ii) for any portion of the term loans as to which we have elected to pay interest on a Eurodollar basis, LIBOR plus 2.25% (or 2.00% when the leverage ratio (as defined in the credit agreements) as of the most recently completed fiscal quarter is less than 2.0 to 1.0), (2) in the case of the revolving loans, (i) the base rate plus 0.75% or (ii) for any portion of the revolving loans as to which we have elected to pay interest on a Eurodollar basis, LIBOR plus 2.25% (3) in the case of synthetic letters of credit under the first lien credit facilities, 2.25% (or 2.00% when the leverage ratio (as defined in the related credit agreement) as of the most recently completed fiscal quarter is less than 2.0 to 1.0).

According to the terms of the credit agreements, at the end of each calendar quarter, we are required to make scheduled repayments of the term loans of approximately \$1.5 million, adjusted for optional prepayments made, provided that the final installment shall be equal to the amount outstanding of the term loan facilities.

We are generally also required to prepay borrowings under the credit facilities with (1) 100% of the net proceeds we receive from non-ordinary course asset sales or as a result of a casualty or condemnation, subject to reinvestment provisions, (2) 100% of the net proceeds we receive from the issuance of debt obligations other than specified debt obligations and (3) the excess, if any, of 50% (or, if our leverage ratio is less than 3.0 and greater than 1.0, 25%) of excess cash flow (as defined in the credit agreements) reduced by the aggregate amount of term loans optionally prepaid during the applicable fiscal year. Under the credit facilities, we are not required to prepay borrowings with excess cash flow if our leverage ratio is less than or equal to 1.0. As of June 30, 2009, we were required to make a mandatory prepayment of \$5.9 million based on our excess cash flow.

As of June 30, 2009, the weighted average interest rate under our credit facilities was 2.57%. At this rate and assuming an outstanding balance of \$555.0 million as of June 30, 2009, our annual debt service obligations would be \$20.2 million, consisting of \$14.3 million of interest and \$5.9 million of scheduled principal payments. However, due to optional prepayments made through June 30, 2009, only \$2.9 million of our scheduled principal payments are currently due within the next year.

The credit facilities require us to maintain certain financial ratios, including maximum leverage ratios (based upon the ratios of total consolidated indebtedness and first lien indebtedness to consolidated operating cash flow) and a minimum cash interest coverage ratio (based upon the ratio of consolidated operating cash flow to consolidated cash interest expense), which are tested quarterly.

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Based on the formulas set forth in the credit agreements, we are required to maintain a maximum leverage ratio of 4.25 as of June 30, 2009, 4.0 as of September 30, 2009, 3.75 as of December 31, 2009 and 3.5 from March 31, 2010 through the maturity date; a maximum first lien leverage ratio of 3.75 as of June 30, 2009, 3.5 as of September 30, 2009, 3.25 as of December 31, 2009 and 3.0 from March 31, 2010 through the maturity date; and a minimum cash interest coverage ratio of 2.75 from June 30, 2009 through December 31, 2009 and 3.0 from March 31, 2010 through the maturity date. Failure to comply with these financial ratio covenants would result in a default under our credit facilities and, absent a waiver or an amendment from the lenders, preclude us from making further borrowings under our credit facilities and permit the lenders to accelerate all outstanding borrowings under the credit facilities. As of June 30, 2009, our total leverage, first lien leverage and interest coverage ratios were 3.69, 3.69 and 4.47, respectively. As such, we have determined that we are in compliance with these financial covenants.

We have potential debt covenant compliance risk relating to compliance with the first lien leverage ratio of our credit facilities in future periods. The potential risk is primarily a result of declining operating cash flow during 2009 compared to 2008. As previously noted, we are required to maintain a maximum first lien leverage ratio of 3.5 as of September 30, 2009, 3.25 as of December 31, 2009 and 3.0 from March 31, 2010 through the maturity date. Our first lien leverage ratio as of June 30, 2009 was 3.69. In order to maintain compliance with the financial covenants of our credit facilities, we will need to reduce our first lien leverage ratio prior to September 30, 2009 and continue to reduce the ratio in future periods. The first lien leverage ratio can be reduced by increasing our operating cash flow (as defined in our credit facilities) over the same quarter of the prior year, by reducing our first lien debt balance or through a combination of the two. Subsequent to June 30, 2009, we made an optional prepayment of \$30.0 million, which reduced our first lien debt balance. In addition, we anticipate making a mandatory repayment as a result of excess cash flow (as defined in our credit facilities) of \$5.9 million prior to August 15, 2009, further reducing our first lien debt balance. Based on these reductions in our debt balance and our current forecast of operating cash flows, we expect to be in compliance with our debt covenant ratios through the end of the year; however, there can be no assurances that we will achieve our current forecast of operating cash flows. Management has further plans to minimize the risk of noncompliance with our debt covenant ratios. Such plans may include some combination of the following: reducing operating costs; delaying planned capital expenditures; making additional prepayments of debt from available cash balances; selling equity securities, the proceeds of which would be used to repay debt; seeking amendments to the debt covenant ratios of our credit facilities; and restructuring our credit facilities and capitalization.

The credit facilities also contain a number of affirmative and restrictive covenants including limitations on mergers, consolidations and dissolutions; sales of assets; investments and acquisitions; indebtedness; liens; affiliate transactions; and dividends and restricted payments. Under the credit facilities, we are permitted maximum annual capital expenditures of up to \$30.0 million under the first lien credit facilities plus the lesser of (1) a one year carry-forward of the unused amount from the previous fiscal year and (2) 50% of the amount permitted for capital expenditures in the prior fiscal year. Our permitted maximum annual capital expenditures for 2009 is \$45.0 million. The credit facilities contain events of default for non-payment of principal and interest when due, a cross-default provision with respect to other indebtedness having an aggregate principal amount of at least \$5.0 million and an event of default that would be triggered by a change of control, as defined in the credit facilities. As of June 30, 2009, we were in compliance with all of our covenants and other obligations under the credit facilities.

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***Amendment Agreements***

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

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

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

In anticipation of the closing of this transaction, on July 16, 2008, we and our subsidiary, Duratek, entered into Amendment Agreements with our lenders under the current credit facilities. The Amendment Agreements provide that the existing credit agreements will be amended and restated in their entirety upon satisfaction of certain conditions including the closing of the transaction with Exelon.

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

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

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

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**Off Balance Sheet Arrangements**

We have routine operating leases, primarily related to real estate and rail equipment, at June 30, 2009.

As of June 30, 2009, we had outstanding floating-rate term loans of \$555.0 million. Under our credit facilities, we are required to maintain one or more interest rate swap agreements for the aggregate notional amount of at least 33% of the outstanding aggregate principal amount of the term loans. Accordingly, we entered into a swap agreement effective December 18, 2008. As of June 30, 2009, the swap agreement had a notional amount of \$200.0 million and a fair value liability of approximately \$1.5 million.

We are required to post, from time to time, standby letters of credit and surety bonds to support contractual obligations to customers, self-insurance programs, closure and post-closure financial assurance and other obligations. As of June 30, 2009, we had \$100.0 million in letters of credit issued under our synthetic letters of credit facilities and \$11.9 million in letters of credit issued under our revolving credit facilities. As of June 30, 2009, we had \$0.7 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 June 30, 2009, the closure and post-closure state regulatory requirements for our facilities were \$143.8 million, which amount is not determined on the same basis as the asset retirement obligation, or ARO, calculated under SFAS No. 143, *Accounting for Asset Retirement Obligations*.

**Critical Accounting Policies**

This management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions about matters that are uncertain. These estimates and assumptions are often based on judgments that we believe to be reasonable under the circumstances, but all such estimates and assumptions are inherently uncertain and unpredictable. Actual results may differ from those estimates and assumptions, and it is possible that other professionals, applying their own judgment to the same facts and circumstances, could develop and support alternative estimates and assumptions that would result in material changes to our operating results and financial condition. For a further discussion of our critical accounting policies, see our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on February 27, 2009.

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

Our primary market risk relates to changing interest rates. As of June 30, 2009, we had outstanding floating-rate term loan debt of \$555.0 million, of which \$8.8 million is currently due within the next year. Under our credit facilities, we are required to maintain one or more interest rate swap agreements for the aggregate notional amount of at least 33% of the outstanding aggregate principal amount of the term loans. As of June 30, 2009, our swap agreement had a notional amount of \$200.0 million and a fair value liability of approximately \$1.5 million.

A hypothetical interest rate change of 1% on our credit facilities would change our annual interest expense and related cash payment by approximately \$5.6 million. In addition, a hypothetical interest rate change of 1% on our swap agreement would have changed the fair value of the interest swap at

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June 30, 2009 by approximately \$1.5 million. Changes in market interest rates would impact the fair value of our long-term obligations. As of June 30, 2009 we had outstanding borrowings under our credit facilities of \$555.0 million with an approximate fair value of \$516.2 million.

We have foreign currency exposure related to our operations in the United Kingdom as well as other foreign locations. This foreign currency exposure arises primarily from the translation or re-measurement of our foreign subsidiaries' financial statements into U.S. dollars. For example, a substantial portion of our annual sales and operating costs are denominated in pound sterling and we have exposure related to sales and operating costs increasing or decreasing based on changes in currency exchange rates. If the U.S. dollar increases in value against these foreign currencies, the value in U.S. dollars of the assets and liabilities originally recorded in these foreign currencies will decrease. Conversely, if the U.S. dollar decreases in value against these foreign currencies, the value in U.S. dollars of the assets and liabilities originally recorded in these foreign currencies will increase. Thus, increases and decreases in the value of the U.S. dollar relative to these foreign currencies have a direct impact on the value in U.S. dollars of our foreign currency denominated assets and liabilities, even if the value of these items has not changed in their original currency. We attempt to mitigate the impact of this exchange rate risk by utilizing financial instruments, including derivative transactions pursuant to our policies. As such, a 10% change in the U.S. dollar exchange rates in effect as of June 30, 2009, would cause a change in consolidated net assets of approximately \$11.5 million and a change in gross profit of approximately \$3.1 million, primarily due to pound sterling- denominated exposures.

**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

Based on their evaluation as the end of the period covered by this report, 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, based upon an 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*

There were no changes to our internal control over financial reporting that occurred as of the end of the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II**

**Item 1. Legal Proceedings.**

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

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

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

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

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

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

On May 15, 2009, the U.S. District Court of Utah issued a Memorandum Decision And Order Granting In Part And Denying In Part Motions For Partial Summary Judgment (the "District Court Order") finding that the Northwest Compact has no authority to restrict the flow of out of region waste to EnergySolutions' facility in Clive, Utah. The court later concluded that those holdings obviated the need for further proceedings, and entered final judgment in favor of EnergySolutions on June 17, 2009. The defendants in the Declaratory Judgment Action have appealed the District Court Order to the United States Circuit Court of Appeals for the 10<sup>th</sup> Circuit. After issuance of the District Court Order



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the NRC has solicited the views of potential parties but has not yet lifted its order holding the review of our pending import license application in abeyance.

We intend to vigorously prosecute our declaratory judgment action, but we do not believe we will be able to process and dispose of any radioactive materials contemplated by the Italian initiative during fiscal 2009.

**Item 1A. Risk Factors.**

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

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

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

failure to provide adequate financial assurance for decommissioning or closure;

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

local community, political or other opposition;

executive action; and

legislative action.

In addition, if new environmental legislation or regulations are enacted or existing laws or regulations are amended or are interpreted or enforced differently, we or our customers may be required to obtain additional operating permits or approvals. Changes in requirements imposed by our environmental or other permits may lead us to incur additional expenses by requiring us to change or improve our waste management technologies and services to achieve and maintain compliance. We may be unable to meet all potential regulatory changes.

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

We and our customers operate in a politically sensitive environment. The risks associated with radioactive materials and the public perception of those risks can affect our business. Various public interest groups and political representatives frequently oppose the operation of processing and disposal sites for radioactive materials such as our Barnwell, South Carolina, Oak Ridge, Tennessee and Clive, Utah facilities. For example, public interest groups and the governor of Utah have made public statements regarding their desire to limit the source and volume of radioactive materials that we process and dispose at our Clive facility. Representatives in Congress have introduced federal legislation to ban the importation of foreign waste, and public interest groups have argued for a moratorium on disposal of depleted uranium at our Clive, Utah facility. If any efforts to limit our operations at these or any of our other current or future facilities were successful, then our business would suffer.

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

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

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

Our disposal facility in Clive, Utah is a strategic asset and is vital to our business. This facility is the largest privately owned commercial facility for the disposal of LLRW in the United States, and contributed 6.9% and 6.8% of our revenues for the six months ended June 30, 2009 and 2008, respectively. Because of the greater profitability of the Clive facility in comparison with the rest of our business, a loss of revenue from Clive would have a disproportionate impact on our gross profit and gross margin. The Clive facility is subject to the normal hazards of operating any disposal facility, including accidents and natural disasters. In addition, access to the facility is limited, and any interruption in rail or other transportation services to and from the facility will affect our ability to operate the facility. Our Clive facility is highly regulated and subject to extensive licensing and permitting requirements and continuous air and ground water monitoring. Changes in federal, state or local regulations, including changes in the interpretation of those regulations, can affect our ability to operate the facility. Actions by states or the federal government may affect facility capacity, expansion or extension of the Clive facility. The Northwest Compact also has asserted it has authority over our Clive facility and is seeking to restrict our ability to import foreign LLRW for disposal at the facility, and federal legislation has been introduced to prohibit the importation of foreign LLRW waste. Such actions may hinder, delay or stop shipments to the facility, which could seriously impair our ability to execute disposal projects and significantly reduce future revenues. We believe that we have sufficient capacity for more than 30 years of operations based on our estimate of future disposal volumes, our ability to optimize disposal capacity utilization and our assumption that we will obtain a license

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amendment to convert a disposal cell originally intended for 11e(2) waste to Class A LLRW. If we are unable to obtain the license amendment, our projected capacity to dispose of Class A LLRW would be materially reduced. If future disposal volumes increase beyond our expectations or if our other assumptions prove to be incorrect, then the remaining capacity at Clive would be exhausted more quickly than projected.

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

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

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

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

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

uncertainty in timing for receiving government contract awards;

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

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

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

decisions by customers to terminate our contracts;

delays incurred in connection with a project;

seasonal variations in shipments of radioactive materials;

weather conditions that delay work at project sites;

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

staff levels and utilization rates;

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

general economic or political conditions.

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

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

For the six months ended June 30, 2009, we derived 63.8% and 27.2% of our revenues and segment operating income, respectively, and for the six months ended June 30, 2008, we derived 69.7% and 38.9% of our revenues and segment operating income, respectively, from our operations outside of North America. Our business is dependent on the success of our international operations, and we

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expect that our international operations will continue to account for a significant portion of our total revenues. In addition to risks applicable to our business generally, our international operations are subject to a variety of heightened or distinct risks, including:

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

difficulties in staffing and managing foreign operations;

changes in regulatory requirements;

foreign currency fluctuations;

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

acts of war and terrorism;

the ability to finance efficiently our foreign operations;

social, political and economic instability;

increases in taxes;

limitations on the ability to repatriate foreign earnings; and

natural disasters or other crises.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In December 2008, the NDA announced that the current NDA contracts held by RSMC through its subsidiaries, Magnox North Limited and Magnox South Limited, in relation to the Southern Region sites and Northern Region sites will be put out for re-bid in 2011. During the contract year ended March 31, 2009, RSMC recognized revenues of \$1.1 billion from these contracts. We expect the competition for these contracts to be intense, and our failure to win the re-bid of either or both

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contracts would have a material adverse effect on our results of operations. Even if we win the re-bid, the participation of a partner could reduce our profits from these contracts. In addition, any limitations on our ability to import international waste to our Clive facility could reduce one of our competitive advantages in competing for these contracts. See risk factor " We and our customers operate in a politically sensitive environment, and the public perception of nuclear power and radioactive materials can affect our customers and us."

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

One or a few government and commercial customers have in the past and may in the future account for a significant portion of our revenues in any one year or over a period of several consecutive years. For example, the NDA accounts for virtually all of our revenue in the International segment (which is our largest segment based on 2008 revenues). For the six months ended June 30, 2009 and 2008, respectively, 64.0% and 69.3% of our revenues were from contracts funded by the NDA. In addition, from time to time we typically have contracts with various offices within the DOE, including with the Office of Environmental Management, the Office of Civilian Radioactive Waste Management, the National Nuclear Security Administration and the Office of Nuclear Energy. For the six months ended June 30, 2009 and 2008, respectively, 13.8% and 9.0% of our revenues were from contracts funded by the DOE. Because customers generally contract with us for specific projects, we may lose these significant customers from year to year as their projects with us are completed. Our inability to replace this business with other projects could have an adverse effect on our business and results of operations.

***The elimination or any modification of the Price-Anderson Act's indemnification authority could harm our business.***

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

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



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

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

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

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

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

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

a reduction in demand for nuclear generating capacity.

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

***Economic downturns and reductions in government funding could harm our businesses.***

Demand for our services has been, and we expect that demand will continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including economic and industry conditions. The stress experienced by global capital markets that began in the second half of 2007 substantially increased during 2008 and has continued into 2009. Recently, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining real estate market have contributed to increased volatility and diminished expectations for the global economy and expectations of slower global economic growth going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic recession.

During economic downturns, the ability of private and government entities to make expenditures on nuclear services may decline significantly. Economic or political conditions may be unfavorable to our industry and there may be significant fluctuations adversely affecting our industry as a whole. In addition, our operations depend, in part, upon government funding, particularly funding levels at the NDA or DOE. Significant changes in the level of government funding (for example, the annual budget of the NDA or DOE) or specifically mandated levels for different programs that are important to our business could have an unfavorable impact on our business, financial position, results of operations and cash flows. For example, although the Magnox contract funding for the 2008/09 contract year increased over the 2007/08 contract year, the NDA has stated that the Magnox North and Magnox South sites, for which we are currently a prime contractor, may receive reduced funding allocations in the future so that the NDA may address other sites that contain more hazardous materials that pose a greater degree of risk. In addition, if Congress does not pass annual appropriations bills in a timely fashion, it may delay spending on new government contracts.

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

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The current state of the financial markets could also exert pressure on our customers and could limit their ability to secure working capital. This may impact their liquidity and their ability to make timely payments of their invoices to us. The inability of our customers to make timely payments of our invoices may negatively impact our cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As discussed elsewhere in this report, we have entered into an agreement with Exelon to dismantle Exelon's nuclear facility located in Zion, Illinois, which ceased operation in 1998. The NRC has issued an order approving the license transfer of the facility operating licenses and conforming license amendments from Exelon to ZionSolutions subject to the performance of certain conditions. However, because of the current market downturn, the nuclear decommissioning trust fund balance for the Zion Station, a significant portion of which is invested in the stock market, has declined in value. As a result, we intend to defer the completion of this transaction until we reaffirm that there is sufficient value in the decommissioning trust funds to ensure adequate funds for the accelerated decommissioning of the plant. As of June 30, 2009, we have incurred costs of \$13.5 million that have been deferred until the closing of the transaction. We will continue to defer these costs until we close the transaction, at which time we will recognize the costs and related revenues. If we determine that it is not probable that we will close this transaction, we will expense these costs in the period of such determination.

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

***We are subject to liability under environmental laws and regulations.***

We are subject to a variety of environmental, health and safety laws and regulations governing, among other things, discharges to air and water, the handling, storage and disposal of hazardous or radioactive materials and wastes, the remediation of contamination associated with releases of hazardous substances and human health and safety. These laws and regulations and the risk of



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

Various national, state and local environmental laws and regulations, as well as common law, may impose liability for property damage and costs of investigation and clean-up of hazardous or toxic substances on property currently or previously owned by us or arising out of our waste management, environmental remediation or nuclear D&D activities. These laws may impose responsibility and liability without regard to knowledge of or causation of the presence of contaminants. The liability under these laws can be joint and several, meaning liability for the entire cost of clean-up can be imposed upon any responsible party. We have potential liabilities associated with our past radioactive materials management activities and with our current and prior ownership of various properties. The discovery of additional contaminants or the imposition of unforeseen clean-up obligations at these or other sites could have an adverse effect on our results of operations and financial condition.

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

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

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

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

We maintain insurance coverage as part of our overall risk management strategy and due to requirements to maintain specific coverage in our financing agreements and in many of our contracts.

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These policies do not protect us against all liabilities associated with accidents or for unrelated claims. In addition, comparable insurance may not continue to be available to us in the future at acceptable prices, or at all.

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

We are engaged in highly competitive businesses in which most of our government contracts and some of our commercial contracts are awarded through competitive bidding processes. We compete with national and regional firms with nuclear services practices, as well as small or local contractors. Some of our competitors have greater financial and other resources than we do, which can give them a competitive advantage. In addition, even if we are qualified to work on a new government contract, we might not be awarded the contract because of existing government policies designed to protect small businesses and underrepresented minority contractors. Competition also places downward pressure on our contract prices and profit margins. Intense competition is expected to continue for nuclear service contracts, challenging our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges, we could lose market share and experience an overall reduction in our profits. In the event that a competitor is able to obtain the necessary permits, licenses and approvals to operate a new commercial LLRW disposal site, our business could be adversely affected.

For example, Waste Control Specialists LLC, or WCS, filed a license application with the Texas Commission on Environmental Quality in August 2004 for a LLRW disposal facility and announced receipt of a conditional license on January 20, 2009. In order to receive an active license, the conditional license requires WCS to complete several major environmental studies, examples of which include groundwater, air emissions, and seismic stability studies. WCS must also demonstrate that the leachate from the landfill will not reach the Ogallala-Antlers-Gatuna Aquifer. The conditional license states that prior to accepting federal facility waste, WCS must receive an agreement signed by the U.S. Secretary of Energy that it will assume all rights, title and interest in land and buildings for the disposal of federal facility waste. Should the conditional license become active, WCS will be allowed to receive waste from the Texas Compact, which includes the states of Texas and Vermont, and from federal facilities (i.e., DOE). WCS will not be able to receive waste via railcar or receive depleted uranium, and will be required to dispose of commercial waste in specially designed containers in the compact portion of the facility. We cannot predict whether WCS will successfully resolve the contingencies related to the draft LLRW license, or whether the State of Texas will issue a final license to WCS. In addition, WCS recently received a separate license to permanently dispose of 11e(2) materials at its facility.

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

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

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

In some instances, we guarantee a customer that we will complete a project by a scheduled date. For example, in connection with our license stewardship initiative, we guarantee that we will complete the decommissioning of a nuclear power plant that is currently shut down within both a particular time

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frame and budget. We also sometimes guarantee that a project, when completed, will achieve certain performance standards. If we fail to complete the project as scheduled or if the project fails to meet guaranteed performance standards, we may be held responsible for the impact to the customer resulting from any delay or for the cost of further work to achieve the performance standards, generally in the form of contractually agreed-upon penalty provisions. As a result, the project costs could exceed our original estimate, leading to reduced profits or a loss for that project.

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

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

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

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

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

potential disruption of our ongoing business and distraction of management;

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

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

hiring additional management and other critical personnel; and

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

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We may not be able to identify suitable acquisition targets or negotiate attractive terms in the future. In addition, our ability to complete acquisitions is limited by covenants in our credit facilities and our financial resources, including available cash and borrowing capacity. Given the serious decline in our stock price and tight debt markets, we may be unable to make acquisitions. If we are unable to make successful acquisitions, our ability to grow our business could be adversely affected. We made no acquisitions during 2008.

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

Our operations require the services of highly qualified managerial and business development personnel, skilled technology specialists and experts in a wide range of scientific, engineering and health and safety fields. Partly because no new nuclear reactors have commenced construction since the mid-1970s, there have been a limited number of qualified students graduating from universities with specialized nuclear engineering or nuclear science-based degrees. As a result, the nuclear services industry is experiencing a shortage of qualified personnel. We face increasing competition and expense to attract and retain such personnel. Loss of key personnel or failure to attract personnel to expand our operations could have an adverse effect on our ability to operate our business and execute our business strategy.

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

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

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

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



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In June 2006, we acquired Duratek for an aggregate purchase price of \$440.8 million. Goodwill recognized for this acquisition was \$310.5 million. We paid a premium in excess of the fair value of \$216.9 million. We were willing to pay this premium as a result of our identification of significant synergies that we expect to realize through the acquisition. However, if we determine that we are not able to realize these expected synergies and determine that the fair value of the assets acquired is less than the book value of those assets, then we would have to recognize an impairment to goodwill as a current-period expense. Because of the significant amount of goodwill recognized in the Duratek acquisition, an impairment of that goodwill could result in a material expense and could result in a decrease in the market price of our common stock.

Changes in our forecasts or decreases in the value of our common stock could cause book values of certain operating segments to exceed their fair values, which may result in goodwill impairment charges in future periods. We had \$528.3 million of goodwill and \$343.6 million of finite-lived intangible assets, which collectively represented 52.3% of our total assets of \$1.7 billion as of June 30, 2009.

### ***We have substantial debt, which could harm our financial condition, business and growth prospects.***

As of June 30, 2009, the outstanding balance under our credit facilities was \$555.0 million. Our substantial debt could have important consequences to us, including the following:

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

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

we may be unable to renew, replace or repay long-term debt as it becomes due, particularly in light of the tightening of lending standards as a result of the ongoing financial crisis;

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

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

We currently have \$11.9 million letters of credit issued against our \$75.0 million revolving credit facility, which matures on June 7, 2011; a \$555.0 million balance on our first lien term loan facilities, which mature on June 7, 2013 with minimum payments of \$5.9 million in 2009, 2010, 2011 and 2012; and a \$100.0 million synthetic letter of credit facility, which expires on June 7, 2013.

Borrowings under our credit facilities bear interest at variable rates. As of June 30, 2009, the weighted average interest rate under our credit facilities was 2.57%. At this rate and assuming an outstanding balance of \$555.0 million as of June 30, 2009, our annual debt service obligations would be \$20.2 million. Based on the amount of debt outstanding and the interest rate at June 30, 2009, a hypothetical 1% increase in interest rates would increase our annual interest expense by approximately \$5.6 million. If interest rates were to increase significantly, our ability to borrow additional funds may be reduced, our interest expense would significantly increase and the risks related to our substantial debt would intensify.

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

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

incur or guarantee additional debt;

declare or pay dividends to holders of our common stock;



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make investments and acquisitions;

incur or permit to exist liens;

enter into transactions with affiliates;

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

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

make capital expenditures; and

transfer or sell assets.

***The agreements governing our credit facilities contain financial covenants which we may not meet with our future financial results.***

Our credit facilities contain financial covenants requiring us to maintain specified maximum leverage and minimum cash interest coverage ratios. The results of our future operations may not allow us to meet these covenants, or may require that we take action to reduce our debt or to act in a manner contrary to our business objectives.

Our failure to comply with obligations under our credit facilities, including satisfaction of the financial ratios, would result in an event of default under the facilities. A default, if not cured or waived, would prohibit us from obtaining further loans under our credit facilities and permit the lenders thereunder to accelerate payment of their loans and withdraw the letters of credit which support our bonding obligations. If we are not current in our bonding obligations, we may be in breach of our contracts with our customers, which generally require bonding. In addition, we would be unable to bid or be awarded new contracts that required bonding. If our debt is accelerated, we currently would not have funds available to pay the accelerated debt and may not have the ability to refinance the accelerated debt on terms favorable to us or at all particularly in light of the tightening of lending standards as a result of the ongoing financial crisis. If we could not repay or refinance the accelerated debt, we would be insolvent and could seek to file for bankruptcy protection. Any such default, acceleration or insolvency would likely have a material adverse effect on the market value of our common stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are required to post, from time to time, standby letters of credit and surety bonds to support contractual obligations to customers as well as other obligations. These letters of credit and bonds indemnify the customer if we fail to perform our obligations under the contract. For example, in connection with our agreement with Exelon Corporation regarding the decommissioning of its Zion nuclear facility located in Zion, Illinois, we are required to deliver a \$200 million letter of credit to Exelon relating to our present and future obligations. If a letter of credit or bond is required for a particular project and we are unable to obtain it due to insufficient liquidity or other reasons, we will not be able to pursue that project. We have a bonding facility but, as is typically the case, the issuance of bonds under that facility is at the surety's sole discretion. In addition, we have limited capacity under our credit facilities for letters of credit. Moreover, due to events that affect the insurance and bonding and credit markets generally, bonding and letters of credit may be more difficult to obtain in the future or may only be available at significant additional cost. There can be no assurance that letters of credit or bonds will continue to be available to us on reasonable terms. Our inability to obtain adequate letters of credit and bonding and, as a result, to bid on new work could have a material adverse effect on our business, financial condition and results of operations. As of June 30, 2009, we had \$100.0 million in letters of credit which are issued under our synthetic letter of credit facility, \$11.9 million in letters of credit which are issued under the revolving portion of our credit facility and \$0.7 million in surety bonds outstanding.

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

Because we publish earnings guidance, we are subject to a number of risks. Based on the timing of winning key contracts, regulatory decision making and other uncertainties relating to assumptions that management makes in calculating our expected financial results, actual results may vary from the guidance we provide investors. Our stock price may decline following an announcement of disappointing earnings or earnings guidance or if we revise our earnings guidance downward as the estimates and assumptions we make in calculating guidance become more certain. On October 14, 2008, we announced a reduction in our earnings guidance due, among other things, to the current economic downturn. Following that announcement, our stock price declined by 44% on October 14, 2008.

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

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

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

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

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

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

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

institute more comprehensive financial reporting and disclosure compliance functions;

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

enhance our investor relations function; and

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

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

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

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

If material weaknesses in our internal control over financial reporting are identified in the future, we may be unable to provide required financial information in a timely and reliable manner, or otherwise comply with the standards applicable to us as a public company, and our management may not be able to report that our internal control over financial reporting is effective in accordance with Section 404 of the Sarbanes-Oxley Act. There could also be a negative reaction in the markets due to a loss of investor confidence in us and the reliability of our financial statements and, as a result, our business may be harmed and the price of our common stock may decline.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

Our annual meeting of stockholders was held on May 29, 2009. Stockholders elected for the ensuing year all of the director nominees and ratified the selection of Ernst & Young LLP as our independent registered public accounting firm for 2009. The stockholders did not approve a proposed offer to purchase outstanding stock options for cash.



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The voting results were as follows:

	Votes For	Votes Against	Abstain	Broker Non-votes
<b>Management Proposals</b>				
Ratification of the selection of Ernst & Young LLP as the independent registered public accounting firm for 2009	78,222,597	307,724	1,511	
Approval to purchase certain outstanding stock options	32,226,790	43,097,869	16,854	4,607,098

	Votes For	Withheld
<b>Election of Directors</b>		
J. Barnie Beasley, Jr.	76,887,381	3,061,230
Jordan W. Clements	56,436,256	23,512,355
R Steve Creamer	61,223,102	18,725,509
E. Gail de Planque	77,973,860	1,974,751
J.I. "Chip" Everest, II	55,423,270	24,525,341
Robert A. Whitman	76,935,441	3,013,170
Lance L. Hirt	50,411,400	29,537,211
David B. Winder	79,196,966	1,751,645

**Item 6. Exhibits.**

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



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**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 7th day of August, 2009.

ENERGYSOLUTIONS, INC.

By:           /s/ PHILIP O. STRAWBRIDGE          

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

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